ISLAND PACIFIC INC
Form 10-Q/A
February 08, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A
(AMENDMENT NO. 2)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2002
OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD
FROM ____________ TO _____________

Commission file number 0-23049

SVI SOLUTIONS, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	33-0896617
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

5607 PALMER WAY, CARLSBAD, CALIFORNIA	92008
(Address of principal executive offices)	(Zip Code)

(877) 784-7978
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date:

Common Stock, $0.0001 Par Value - 30,866,632 shares as of January 31, 2003.

EXPLANATORY NOTE

This quarterly report on Form 10-Q/A is an amendment to the Form 10-Q filed by

the Company on February 14, 2003 for the quarter ended December 31, 2002.

This quarterly report on Form 10-Q/A is being filed to reflect the restatement of the Company's Condensed Consolidated Financial Statements (the "Restatement"). The Restatement reflects the following:

1. Separately present revenues earned from product and services revenues and related cost of revenues,

2. Reclassification of amortization of purchased and capitalized software to cost of revenues, and

3. Recognition of unamortized balance of debt discount and beneficial conversion interest related to convertible note payable as interest expense.

The Company will not file an amended Form 10-K/A for the year ended March 31, 2003 due to the immateriality of adjustments. However, certain disclosures that relate to and appear in Form 10-K/A for the year ended March 31, 2003 have been updated in the restated filings.

THIS REPORT DOES NOT OTHERWISE ATTEMPT TO UPDATE THE INFORMATION PROVIDED HEREIN BEYOND THE ORIGINAL FILING DATE.

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PART I. - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

SVI SOLUTIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

	DECEMBER 3 (unaudi (As resta See Not
ASSETS	
Current assets:	
Cash and cash equivalents	$
Accounts receivable, net	4
Other receivables, including $7 and $31 from related parties, respectively	
Inventories	
Current portion of non-compete agreements	
Prepaid expenses and other current assets	
Total current assets	6
Property and equipment, net	
Purchased and capitalized software, net	15
Goodwill, net	14
Non-compete agreements, net	
Other assets	
Total assets	$ 38
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities:	
Convertible notes due to stockholders	$ 1
Current portion of term loan	7
Accounts payable	2
Accrued expenses	4
Deferred revenue	2
Income tax payable	
Total current liabilities	17
Term loan refinanced in July 2002	

Convertible notes due to stockholders	
Other long-term liabilities	
Total liabilities	17
Commitments and contingencies	
Stockholders' equity:	
Preferred stock, $.0001 par value; 5,000,000 shares authorized; Series A Convertible Preferred, 7.2% cumulative 141,100 shares authorized and outstanding with a stated value of $100 per share, dividends in arrears of $1,015 and $254, respectively	14
Committed common stock, 2,500,000 shares	1
Common stock, $.0001 par value; 100,000,000 shares authorized; 41,541,632 and 38,993,609 shares issued; and 30,841,632 and 28,293,609 shares outstanding	
Additional paid in capital	56
Accumulated deficit	(42
Treasury stock, at cost; shares - 10,700,000	(8
Shares receivable	
Total stockholders' equity	20
Total liabilities and stockholders' equity	$ 38

The accompanying notes are an integral part of these condensed consolidated financia

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SVI SOLUTIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Three Months Ended December 31,	
	2002	2001
	(As restated - See Note 12)	
Revenues:		
Product	$ 4,357	$ 2,625
Services	3,035	3,346
Total revenues	7,392	5,971
Cost of revenues:		
Product	1,204	940
Services	1,739	2,126
Total cost of revenues	2,943	3,066
Gross profit	4,449	2,905
Expenses:		

Product development	650	1,180
Depreciation and amortization	315	888
Selling, general and administrative	2,913	2,695
Total expenses	3,878	4,763
Income (loss) from operations	571	(1,858)
Other income (expense):		
Interest income	--	3
Other income (expense)	6	(1)
Interest expense	(209)	(758)
Gain (loss) on foreign currency transaction	16	(10)
Total other expenses	(187)	(766)
Income (loss) before provision for income taxes	384	(2,624)
Provision for income taxes benefits	--	(39)
Income (loss) before cumulative effect of a change in accounting principle	384	(2,585)
Cumulative effect of changing accounting principle - goodwill valuation under SFAS 142	--	--
Income (loss) from continuing operations	384	(2,585)
Loss from discontinued Australian operations, net of applicable income taxes	--	(385)
Net income (loss)	384	(2,970)
Cumulative preferred dividends	(253)	--
Net income (loss) available to common stockholders	$ 131	$ (2,970)
Basic and diluted income (loss) per share:		
Income (loss) before cumulative effect of a change in accounting principle	$ 0.01	$ (0.07)
Cumulative effect of a change in accounting principle - goodwill valuation under SFAS 142	--	--
Income (loss) from continuing operations	0.01	(0.07)
Loss from discontinued operations	--	(0.01)
Cumulative preferred dividends	(0.01)	--
Net income (loss) available to common stockholders	$ --	$ (0.08)
Weighted-average common shares outstanding:		
Basic	30,395	37,942
Diluted	58,734	37,942

The accompanying notes are an integral part of these condensed consolidated financ

SVI SOLUTIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands and unaudited)

	NINE MONTHS END 2002 (As restated - See Note 12)
Cash flows from operating activities:	
Net loss	$ (4,600)
Adjustments to reconcile net loss to net cash used for operating activities:	
Depreciation and amortization	3,122
Cumulative effect of a change in accounting principle - goodwill valuation under SFAS 142	627
Amortization of debt discount and conversion option	879
Gain on disposal of furniture and equipment	--
Gain on foreign currency transactions	(23)
Stock-based compensation	8
Common stock issued for services rendered	390
Changes in deferred taxes	--
Changes in assets and liabilities net of effects from acquisitions:	
Accounts receivable and other receivables	(2,697)
Inventories	15
Prepaid expenses and other current assets	5
Accounts payable and accrued expenses	1,014
Accrued interest on stockholders' loans, convertible notes and term loan	664
Deferred revenue	(603)
Income taxes payable	(98)
Net cash used for operating activities	(1,297)
Cash flows from investing activities:	
Purchases of furniture and equipment	(39)
Proceeds from disposals of furniture and equipment	--
Capitalized software development costs	(93)
Net cash used for investing activities	(132)
Cash flows from financing activities:	
Proceeds from issuance of common stock	--
Payments on amounts due to stockholders, net	(287)
Payments on term loan	(336)
Proceeds from committed common stock	1,383
Proceeds from short-term loan from related party	120
Payments on short-term loan from related party	(120)
Net cash provided by financing activities	760
Effect of exchange rate changes on cash	19

Net decrease in cash and cash equivalents	(650)
Cash and cash equivalents, beginning of period	1,309
Cash and cash equivalents, end of period	$ 659
Supplemental disclosure of cash flow information:	
Interest paid	$ 408
Supplemental schedule of non-cash investing and financing activities:	
Issued 100,000 shares of common stock for services in connection with an equity financing in December 2000	$ 45
Issued 140,000 shares of common stock to pay for penalty for late effectiveness of the registration statement	$ 60
Received 262,500 shares of common stock related to early termination of a service contract	$ (210)
Issued 1,223,580 and 1,193,837 shares of common stock as payments for bonuses, interest and services rendered in prior periods	$ 657
Issued 1,010,000 shares of common stock to repay in full a stockholder's loan	$ 388

The accompanying notes are an integral part of these condensed consolidated financial stat

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SVI SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 - ORGANIZATION AND BASIS OF PREPARATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles applicable to interim financial statements. Accordingly, they do not include all of the information and notes required for complete financial statements. In the opinion of management, all adjustments necessary to present fairly the financial position, results of operations and cash flows at December 31, 2002 and for all the periods presented have been made.

Certain amounts in the prior period have been reclassified to conform to the presentation for the three and nine months ended December 31, 2002. The financial information included in this quarterly report should be read in conjunction with the consolidated financial statements and related notes thereto in the Company's Form 10-K (as amended) for the year ended March 31, 2002.

The results of operations for the three and nine months ended December 31, 2002 and 2001 are not necessarily indicative of the results to be expected for the full year.

NOTE 2 - DISCONTINUED OPERATIONS

Due to the declining performance of the Company's wholly-owned Australian subsidiary, management decided in the third quarter of fiscal 2002 to sell

certain assets of the Australian subsidiary to the former management of such subsidiary, and then cease Australian operations. Such sale was however subject to the approval of National Australia Bank, the subsidiary's secured lender. The bank did not approve the sale and the subsidiary ceased operations in February 2002. The bank caused a receiver to be appointed in February 2002 to sell substantially all of the assets of the Australian subsidiary and pursue collections on any outstanding receivables. The receiver proceeded to sell substantially all of the assets for $300,000 in May 2002 to an entity affiliated with former management, and is actively pursuing the collection of receivables. If the sale proceeds plus collections on receivables are insufficient to discharge the indebtedness to National Australia Bank, the Company may be called upon to pay the deficiency under its guarantee to the bank. At December 31, 2002, the Company has accrued $187,000 as the maximum amount of our potential exposure. The receiver has also claimed that the Company is obligated to it for inter-company balances of $636,000, but the Company does not believe any amounts are owed to the receiver, who has not as of the date of this report acknowledged the monthly corporate overhead recovery fees and other amounts charged by the Company to the Australian subsidiary offsetting the amount claimed to be due.

The disposal of the Australian subsidiary resulted in a loss of $3.2 million, which was recorded in the fiscal year ended March 31, 2002. Accordingly, the operating results of the Australian subsidiary for the three and nine months ended December 31, 2001 are restated as discontinued operations.

NOTE 3 - INVENTORIES

Inventories consist of finished goods and are stated at the lower of cost or market, on a first-in, first-out basis.

NOTE 4 - TERM LOAN

UNION BANK OF CALIFORNIA, N.A.

The Company's term loan at December 31, 2002 and March 31, 2002 consist of the following (in thousands):

	December 31, 2002	March 31, 2002
Term loan payable to bank	$ 7,233	$ 6,907
Less term loan payable to bank classified as long-term as discussed below	--	6,472
Current portion of term loan	$ 7,233	$ 435

Effective July 15, 2002, the bank further amended the restated term loan agreement. Under this third amendment to the restated agreement, the bank agreed to waive the application of the additional 2% interest rate for late payments of principal and interest, and to waive the $100,000 of the $200,000 as a refinance fee required by the second amendment. The bank also agreed to convert $361,000 in accrued interest and fees to term loan principal, and the Company executed a new term note in total principal amount of $7.2 million. The Company is required

to make a principal payment of $35,000 on October 15, 2002, principal payments of $50,000 on each of November 15, 2002 and December 15, 2002, and consecutive monthly principal payments of $100,000 each on the 15th day of each month thereafter through August 15, 2003. The entire amount of principal and accrued interest is due August 31, 2003. The bank also agreed to eliminate certain financial covenants and to ease others. The Company is not in breach of the financial covenants at December 31, 2002. As of the date of this report, principal and interest payments due as of December 31, 2002 were paid.

On January 2, 2003, the Company issued a warrant to an affiliate of the bank to purchase up to 1.5 million shares of the Company's common stock for $0.01 per share. The warrant is exercisable for shares equal to 1% of the Company's outstanding common stock on January 2, 2003, and will become exercisable for shares equal to an additional 0.5% of the outstanding common stock on the first day each month thereafter, until it is exercisable for the full 4.99% of the outstanding common stock. The warrant will not become exercisable to the extent that the Company has discharged in full its bank indebtedness prior to a various vesting date. As all of the shares become exercisable, it would result in a finance charge of $909,000 which $273,000 has been incurred through February 2003. As all of the shares become exercisable, it would result in a finance charge of $909,000, of which $273,000 has been incurred through February 2003.

NOTE 5 - CONVERTIBLE NOTES DUE TO STOCKHOLDERS

During the quarter ended June 30, 2001, the Company raised gross proceeds of $1.3 million from the sale of the convertible notes and warrants to a limited number of accredited investors related to existing stockholders. The investors received convertible promissory notes for the amount of their investments and warrants to purchase 250 shares of the Company's common stock for each $1,000 borrowed by the Company. The holders of the notes had the option to convert the unpaid principal and interest to common stock at any time at a conversion price of $1.35 per share. The notes matured on August 30, 2001 and earned interest at 12% per annum to be paid at maturity. The interest rate increased to 17% per annum on August 30, 2001 as a result of non-payment on the maturity date.

In July 2002, the Company and the investors agreed to amend the terms of the notes and warrants. The investors agreed to replace the existing notes with new notes having a maturity date of September 30, 2003. The interest rate on the new notes was reduced to 8% per annum, increasing to 13% in the event of a default in payment of principal or interest. The Company is required to pay accrued interest on the new notes calculated from July 19, 2002, in quarterly installments beginning September 30, 2002. In December 2002, the investors agreed to extend the accrued interest payments to September 30, 2003. The investors agreed to reduce accrued interest and late charges on the original notes by $16,000, and to accept payment of the reduced amount in 527,286 shares of the Company's common stock valued at $0.41 per share, which was the average closing price of its shares on the American Stock Exchange for the 10 trading days prior to July 19, 2002. The new notes are convertible at the option of the holders into shares of the Company's common stock valued at $0.60 per share. As of December 31, 2002, the balance of these convertible notes is $1.3 million.

The Company also agreed that the warrants previously issued to certain of the investors to purchase an aggregate of 3,033,085 shares at exercise prices ranging from $0.85 to $1.50, and expiring on various dates between December 2002 and June 2004, would be replaced by new warrants to purchase an aggregate of 1,600,000 shares at $0.60 per share, expiring July 19, 2007. The original warrants were issued in connection with private placement transactions in the

third and fourth quarters of fiscal 2001, and included warrants issued in connection with registration obligations. The replacement warrants are not callable by the Company.

The Company also agreed to file a registration statement for the resale of all shares held by or obtainable by these investors. In December 2002, the investors agreed to amend the terms of the amended notes and warrants to extend the effectiveness of the registration statement to March 17, 2003. In the event such registration statement is not declared effective by the SEC by March 17, 2003, the Company will be obligated to issue five-year penalty warrants for the purchase of 5% of the total number of registrable securities at an exercise price of $0.60 per share. For the first 30 day period after March 17, 2003 after such date in which the registration statement is not effective, the Company will be obligated to issued additional penalty warrants for the purchase of 5% of the total number of registrable securities at an exercise price of $0.60 per share. For each 30 day period after the first 30 day period from March 17, 2003 after such date in which the registration statement is not effective, the Company will be obligated to issue additional penalty warrants for the purchase of 2.5% of the total number of registrable securities at an exercise price of $0.60 per share. As of the date of this report, the registration statement has not been filed.

NOTE 6 - COMMITED COMMON STOCK (AS RESTATED)

In May 2002, Toys "R" Us, Inc. ("Toys"), the Company's major customer, agreed to invest $1.3 million for the purchase of a non-recourse convertible note and a warrant to purchase 2,500,000 shares of common stock. In connection with this transaction, Toys signed a two-year software development and services agreement (the "Development Agreement") that expires in February 2004. The note is non-interest bearing, and the face amount is either convertible into shares of common stock valued at $0.553 per share or payable in cash at the option of the Company, at the end of the term. The note is due May 29, 2009, or if earlier than that date, three years after the completion of the development project contemplated in the Development Agreement. The Company does not have the right to prepay the convertible note before the due date. The face amount of the note is 16% of the $1.3 million purchase price as of May 29, 2002, and increases by 4% of the $1.3 million purchase price on the last day of each succeeding month, until February 28, 2004, when the face amount is the full $1.3 million purchase price. The face amount will cease to increase if Toys terminates the Development Agreement for a reason other than the Company's breach. The face amount will be zero if the Company terminates the Development Agreement due to an uncured breach by Toys of the Development Agreement. As of December 31, 2002, the Company had received proceeds of $1.3 million.

The warrant entitles Toys to purchase up to 2,500,000 of shares of the Company's common stock at $0.553 per share. The warrant is initially vested as to 400,000 shares as of May 29, 2002, and vests at the rate of 100,000 shares per month until February 28, 2004. The warrant will cease to vest if Toys terminates the Development Agreement for a reason other than the Company's breach. The warrant will become entirely non-exercisable if the Company terminates the Development Agreement due to an uncured breach by Toys of the Development Agreement. Toys may elect a "cashless exercise" where a portion of the warrant is surrendered to pay the exercise price. As of December 31, 2002, 1.1 million shares of the warrant are exercisable.

The note conversion price and the warrant exercise price are each subject to a 10% reduction in the event of an uncured breach by the Company of certain covenants to Toys. These covenants do not include financial covenants. Conversion of the note and exercise of the warrant each require 75 days advance notice. The Company also granted Toys certain registration rights for the shares of common stock into which the note is convertible and the warrant is exercisable.

In November 2002, the Board decided that this note will be converted solely for equity and will not be repaid in cash. The note has therefore been classified as equity at December 31, 2002.

In accordance with generally accepted accounting principles, the difference between the conversion price of the note of $0.553 and the Company's stock price on the date of issuance of the notes amounted to $473,000 and was being amortized over the term of the note. A total of $151,000 had been amortized during the period from the date of issuance to the date the note was classified as equity. Upon classifying the note as equity at September 30, 2002, the remaining balance of $322,000 was expensed.

The Company has also allocated the proceeds received from debt or convertible debt with detachable warrants using the relative fair value of the individual elements at the time of issuance. The amount allocated to the warrants was $406,000 and being amortized over the term of the note. A total of $19,000 had been amortized during the period from the date of issuance to the date the note was classified as equity. Upon classifying the note as equity at September 30, 2002, the remaining balance of $386,000 was expensed.

NOTE 7 - CHANGE IN ACCOUNTING PRINCIPLE

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets," which is effective for fiscal years beginning after December 15, 2001. SFAS 142 prohibits the amortization of goodwill and intangible assets with indefinite useful lives but requires that these assets be reviewed for impairment at least annually or on an interim basis if an event occurs or circumstances change that could indicate that their value has diminished or been impaired. Other intangible assets will continue to be amortized over their estimated useful lives. In addition, the standard includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill.

Effective April 1, 2002, the Company adopted SFAS 142 and ceased amortization of goodwill recorded in business combinations prior to June 30, 2001. The Company recorded amortization expenses of $1.7 million on goodwill during the nine months ended December 31, 2001. The Company currently estimates that application of the non-amortization provisions of SFAS 142 will reduce amortization expense and decrease net loss by approximately $2.2 million in fiscal 2003. The Company evaluates the remaining useful lives of these intangibles on an annual basis to determine whether events or circumstances warrant a revision to the remaining period of amortization.

Pursuant to SFAS 142, the Company completed the transitional analysis of goodwill impairment as of April 1, 2002 and recorded an impairment of $627,000 as a cumulative effect of a change in accounting principle in the quarter ended June 30, 2002. The Company also evaluated the remaining useful lives of its intangibles in the quarter ended June 30, 2002 and no adjustments have been made to the useful lives of its intangible assets.

NOTE 8 - EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per common share are calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per common shares ("diluted EPS") reflect the potential dilutive effect, determined by the treasury method, of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. For the quarter ended December 31, 2002, the diluted EPS calculation included common shares equivalent of 4,861,327 from outstanding options and warrant, 18,894,000 from Series A Preferred stock and 4,583,333 from convertible notes. The following potential common shares have been excluded from the computation of diluted net loss per share for the three months ended December 31, 2001 and six months ended December 31, 2002 and 2001 because the effect would have been anti-dilutive:

	December 31	
	2002	
Outstanding options under the Company's stock option plans	4,835,367	
Outstanding options granted outside the Company's stock option plans	5,054,312	
Warrants issued in conjunction with private placements	4,232,000	
Warrants issued for services rendered	804,002	
Convertible notes due to stockholders	2,083,333	
Committed common stock	2,500,000	
Series A Convertible Preferred Stock	18,894,000	
Total	38,403,014	1

NOTE 9 - BUSINESS SEGMENTS AND GEOGRAPHIC DATA (AS RESTATED)

The Company is a leading provider of multi-channel application software technology and associated services for the retail industry including enterprise, direct-to-consumer and in-store solutions and related training products and professional and support services. The Company also develops and distributes PC courseware and skills assessment products. Up to March 31, 2002, the Company considered its business to consist of one reportable operating segment. Effective April 1, 2002, the Company reorganized its operations into three business units that have separate management teams and reporting infrastructures. Each unit is evaluated primarily based on total revenues and operating income excluding depreciation and amortization. Identifiable assets are also managed by business units. The units are as follows:

- ISLAND PACIFIC - provides Retail Enterprise Solutions and associated professional services for multi-channel retailers in the specialty, mass merchandising and department store markets.
- SVI STORE SOLUTIONS - offers retailers multi-platform, client server In-Store Solutions providing all point-of-sale and in-store processor functions.
- SVI TRAINING PRODUCTS, INC. - develops and distributes PC Courseware and skills assessment products for both desktop and retail applications.

A summary of the revenues and operating income (loss) attributable to each of these business units and identifiable assets is as follows (in thousands):

	Quarter ended December 31, 2002	Nine Decem
	(As restated)	
Revenues:		
Island Pacific	$ 6,382	$
SVI Store Solutions	735	
SVI Training Products, Inc.	275	
Consolidated revenues	$ 7,392	$
Operating income (loss):		
Island Pacific	$ 989	$
SVI Store Solutions	235	
SVI Training Products, Inc.	(13)	
Other (see below)	(640)	
Consolidated operating income (loss)	$ 571	$
Depreciation:		
Island Pacific	$ 50	$
SVI Store Solutions	12	
Other	22	
Consolidated depreciation	$ 84	$
Other operating loss:		
Depreciation	$ (22)	$
Administrative costs and other non-allocated expenses	(618)	
Consolidated other operating loss	$ (640)	$

	Decem
	(
Identifiable assets:	
Island Pacific	$
SVI Store Solutions	
Other	
Total	$
Goodwill:	
Island Pacific	$
SVI Store Solutions	
Other	
Total	$

Operating income (loss) in Island Pacific, SVI Store Solutions and SVI Training Products, Inc. includes direct expenses for software licenses, maintenance services, programming and consulting services, sales and marketing expenses, product development expenses, and direct general, administrative and selling expenses. The "Other" caption includes non-allocated costs and other expenses that are not directly identified with a particular business unit and which management does not consider in evaluating the operating income of the business unit.

The Company currently operates in the United States and the United Kingdom. Prior to February 2002, the Company also had operations in Australia. The following is a summary of local operations by geographic area (in thousands):

	Three Months Ended December 31,		Nine Months December
	2002	2001	2002
Revenues:			
United States	$ 6,473	$ 5,466	$ 14,885
United Kingdom	919	505	2,033
Australia (discontinued operations)	--	571	--
Total revenues	$ 7,392	$ 6,542	$ 16,918

	December 31, 2002
Long-lived Assets:	
United States	$ 32,594
United Kingdom	28
Total long-lived assets	$ 32,622

For the three months ended December 31, 2002 and 2001, revenues from one customer, Toys "R" Us, Inc., accounted for 30% and 44% of total revenues, respectively. For the nine months ended December 31, 2002 and 2001, revenues to one customer, Toys "R" Us, Inc., accounted for 31% and 47% of total revenues, respectively.

NOTE 10 - RECENT ACCOUNTING PRONOUNCEMENTS

In July 2002, the FASB issued Statement of Financial Accounting Standards No. 146 ("SFAS 146"), "Accounting for Costs Associated with Exit or Disposal Activities". SFAS 146 replaces current accounting literature and requires the recognition of costs associated with exit or disposal activities when they are incurred rather than at the date of commitment to an exit or disposal plan. The provisions of the SFAS 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The Company does not expect adoption of SFAS No. 146 to have a significant effect on its results of operations or financial condition.

In October 2002, the FASB issued Statement of Financial Accounting Standards No. 147 ("SFAS 147"), "Acquisition of certain Financial Institutions". SFAS 147 removes the requirement in SFAS 72 and Interpretation 9 thereto, to recognize and amortize any excess of the fair value of liabilities assumed over the fair value of tangible and identifiable intangible assets acquired as an unidentifiable intangible asset. This statement requires that those transactions be accounted for in accordance with SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". In addition, this statement amends SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets, to include certain financial institution related intangibles. This statement is not likely to have any impact on the Company's financial statements.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148 ("SFAS 148"), "Accounting for Stock-Based Compensation-Transition and Disclosure". This Statement amends SFAS 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim

financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transition guidance and annual disclosure provisions of SFAS 148 are effective for fiscal years ending after December 15, 2002, with earlier application permitted in certain circumstances. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. SFAS 148 is not expected to have a material impact on the Company's financial statements.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

The Company's former Chief Executive Officer, Thomas A. Dorosewicz, filed in April, 2002 a demand with the California Labor Commissioner for $256,250 in severance benefits allegedly due under a disputed employment agreement, plus attorney's fees and costs. Mr. Dorosewicz's demand was later increased to $283,893.53. On June 18, 2002, the Company filed an action against Mr. Dorosewicz, Michelle Dorosewicz, and an entity affiliated with him in the San Diego Superior Court, Case No. GIC790833, alleging fraud and other causes of action relating to transactions Mr. Dorosewicz caused the Company to enter into with his affiliates and related parties without proper board approval. On July 31, 2002, Mr. Dorosewicz filed cross-complaints in that action alleging breach of statutory duty, breach of contract, fraud and other causes of action relating his employment with the Company and other transactions he entered into with the Company. These matters are still pending and the parties have agreed to resolve all claims in binding arbitration.

On August 30, 2002, Cord Camera Centers, Inc., an Ohio corporation ("Cord Camera"), filed a lawsuit against one of the Company's subsidiaries, SVI Retail, Inc. ("SVI Retail"), as the successor to Island Pacific Systems Corporation ("Island Pacific"), in the United States District Court for the Southern District of Ohio, Eastern Division (Case No. C2 02 859). The lawsuit claims damages in excess of $1.5 million, plus punitive damages of $250,000, against SVI Retail based upon alleged fraud, negligent misrepresentation, breach of express warranties, and breach of contract. These claims pertain to a certain License Agreement dated December, 1999, as amended, between Cord Camera and Island Pacific for the use of certain software products, a certain Services

Agreement between the parties for consulting, training and product support for the software products, and a POS Software Support Agreement between the parties for maintenance and support services for a certain software product. The Company cannot at this time predict the merits of this case because it is in its preliminary stage and discovery has not yet commenced. However, SVI Retail intends to vigorously defend the action and possibly file one or more counter-claims.

NOTE 12 - RESTATEMENT

Subsequent to the issuance of our condensed consolidated financial statements for the three and nine months ended December 31, 2002, our management determined that:

* The revenues and cost of revenues should be presented separately as product and services revenues and corresponding cost of revenues,

* The amortization of purchased and capitalized software should be reported as cost of revenues, and

* The unamortized balance of debt discount and beneficial conversion charge relating to a convertible note should be expensed as interest expense instead of being taken to equity.

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As a result, the condensed consolidated financial statements for the three and nine months ended December 31, 2002 have been restated from the amounts previously reported. A summary of the significant effects of the restatement is as follows:

	As Previously Reported	Restatement Adjustments
At December 31, 2002:		
Additional paid-in capital	$ 55,855	$ 708
Accumulated deficit	(41,664)	(708)
For the three-month period ended December 31, 2002:		
Cost of revenues	$ 2,218	$ 725
Gross profit	5,174	(725)
Depreciation and amortization	1,040	(725)
Total expenses	4,603	(725)
For the nine-month period ended December 31, 2002:		
Cost of revenues	$ 5,997	$ 2,176
Gross profit	10,921	(2,176)
Depreciation and amortization	3,122	(2,176)
Total expenses	13,381	(2,176)
Interest expense	(894)	(708)
Net loss	(3,892)	(708)
Net loss available to common stockholders	(4,653)	(708)
Basic and diluted EPS	(0.13)	(0.03)
Basic and diluted EPS available to common stockholders	(0.16)	(0.03)

Adjustments to the financial statements for the three and nine-month periods ended December 31, 2002 are as follows:

1. Additional paid-in capital, accumulated deficit and interest expense were revised to recognize $708,000 amortization of debt discount and beneficial conversion interest as interest expense.

2. Cost of revenues and depreciation and amortization expense were revised to report amortization of purchased and capitalized software in the amounts of $725,000 and $2,176,000 in the three and nine-month periods ended December 31, 2002, respectively.

Statements of operations for the three and nine-month periods ended December 31, 2001 were restated to report amortization of purchased and capitalized software in the amounts of $714,000 and $2,153,000 in the three and nine-month periods ended December 31, 2001, respectively, as cost of revenues, previously reported as depreciation and amortization expense.

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ITEM 2. - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

THIS REPORT CONTAINS FORWARD-LOOKING STATEMENTS ABOUT SVI SOLUTIONS, INC. ("WE" OR "US"). THESE STATEMENTS RELATE TO FUTURE EVENTS OR OUR FUTURE FINANCIAL PERFORMANCE. IN SOME CASES, YOU CAN IDENTIFY FORWARD-LOOKING STATEMENTS BY TERMINOLOGY SUCH AS THE WORDS MAY, WILL, SHOULD, EXPECT, PLAN, ANTICIPATE, BELIEVE, ESTIMATE, PREDICT, POTENTIAL OR CONTINUE, OR THE NEGATIVES OF SUCH WORDS OR OTHER COMPARABLE TERMINOLOGY. THESE STATEMENTS ARE ONLY PREDICTIONS. ACTUAL EVENTS OR RESULTS MAY DIFFER MATERIALLY.

ALTHOUGH WE BELIEVE THAT THE EXPECTATIONS REFLECTED IN THE FORWARD-LOOKING STATEMENTS ARE REASONABLE, WE CANNOT GUARANTEE FUTURE RESULTS, LEVELS OF ACTIVITY, PERFORMANCE OR ACHIEVEMENTS. MOREOVER, NEITHER WE, NOR ANY OTHER PERSON, ASSUMES RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THE FORWARD-LOOKING STATEMENTS. WE ARE UNDER NO OBLIGATION TO UPDATE ANY OF THE FORWARD-LOOKING STATEMENTS AFTER THE FILING OF THIS REPORT TO CONFORM SUCH STATEMENTS TO ACTUAL RESULTS OR TO CHANGES IN OUR EXPECTATIONS.

THE FOLLOWING DISCUSSION SHOULD BE READ IN CONJUNCTION WITH OUR CONSOLIDATED FINANCIAL STATEMENTS AND THE RELATED NOTES AND OTHER FINANCIAL INFORMATION APPEARING ELSEWHERE IN THIS FORM 10-Q/A. READERS ARE ALSO URGED TO CAREFULLY REVIEW AND CONSIDER THE VARIOUS DISCLOSURES MADE BY US WHICH ATTEMPT TO ADVISE INTERESTED PARTIES OF THE FACTORS WHICH AFFECT OUR BUSINESS, INCLUDING WITHOUT LIMITATION THE DISCLOSURES MADE UNDER THE CAPTION "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS," AND THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES INCLUDED IN OUR ANNUAL REPORT FILED ON FORM 10-K (AS AMENDED) FOR THE YEAR ENDED MARCH 31, 2002, AND THE DISCLOSURES UNDER THE HEADING "RISK FACTORS" IN THE FORM 10-K, AS WELL AS OTHER REPORTS AND FILINGS MADE WITH THE SECURITIES AND EXCHANGE COMMISSION.

OVERVIEW

We are an independent provider of multi-channel application software technology and associated services for the retail industry including enterprise, direct-to-consumer and store solutions and related training products and professional and support services. Our applications and services represent a full suite of offerings that provide retailers with a complete end-to-end business solutions. We also develop and distribute PC courseware and skills assessment products for both desktop and retail applications.

Our operations are conducted principally in the United States and the United Kingdom.

Up to March 31, 2002, we considered our business to consist of one reportable operating segment. Effective April 1, 2002, we reorganized our operations into three business units with separate management teams and reporting infrastructures. Each unit is evaluated primarily based on total revenues and operating income. Identifiable assets are also managed by business units. The units are as follows:

- ISLAND PACIFIC - provides Retail Enterprise Solutions and associated professional services for multi-channel retailers in the specialty, mass merchandising and department store markets.
- SVI STORE SOLUTIONS - offers retailers multi-platform, client server In-Store Solutions providing all point-of-sale and in-store processor functions.
- SVI TRAINING PRODUCTS, INC. - develops and distributes PC Courseware and skills assessment products for both desktop and retail applications.

We currently derive the majority of our revenues from three sources: the initial sale of application software licenses or license revenues, professional service and support services or maintenance services. Application software license fees are dependent upon the sales volume of our customers, the number of users of the application(s), and/or the number of locations in which the customer plans to install and utilize the application(s). As the customer grows in sales volume, adds additional users and/or adds additional locations, we charge additional license fees. Professional services relate to implementation of our software, training of customer personnel and modifications or customization work. Support, maintenance and software updates are a source of recurring revenues and are generally based on a percentage of the software license revenues and are charged on an annual basis pursuant to renewable maintenance contracts. We typically charge for professional services including consulting, implementation and project management services on an hourly basis. Our sales cycles for new license sales historically ranged from three to twelve months, but new license sales were limited during the past two fiscal years and sales cycles are now difficult to estimate. Our long sales cycles have in the past caused our revenues to fluctuate significantly from period to period.

RESTATEMENT OF QUARTERLY INFORMATION

As discussed in the notes to condensed consolidated financial statements, we restated our December 31, 2002 financial statements to:

1. Separately present revenues earned from product and services and related cost of revenues,

2. Report amortization of purchased and capitalized software as cost of revenues, and

3. Recognize unamortized balance of debt discount and beneficial conversion interest related to a convertible note payable as interest expense.

These changes had no impact on the net cash flows from operations.

RECENT DEVELOPMENTS

In October 2002, we appointed Steven Beck, a retail industry expert, to the position of President of Island Pacific. Mr. Beck's vision for Island Pacific is to become the dominant provider of "Thoughtware" to the retail industry. Mr. Beck's goals are to develop high quality, high value products and services to the retail industry; using breakthrough technologies and processes, and to provide these products and their associated services in partnership with major consulting organizations and other best of breed solution providers. These products and services will be offered at the most appropriate cost to small and mid-size retailers. Our goal is to expand alternatives to retailers, matching innovative solutions to emerging industry complexities so retailers will realize ongoing successes. We will make available to retailers at affordable prices a "dashboard" of decision makers, the best minds in the industry, yielding a range of velocity management alternatives for review and actions that span merchandising and marketing activities from conception to consumption.

In January 2003, we appointed Harvey Braun, a well-known and highly-respected retail industry veteran, to the position of Chief Executive Officer of Island Pacific. Together with Mr. Beck, Mr. Braun will lead Island Pacific through the next evolution of product and service offerings to meet the ever-changing needs of retailers worldwide.

We are strengthening our product offerings through strategic relationships with Planalytics, KMG Solutions, VisionCompass Inc., Raymark, Inc., Wazagua LLC, ANT USA, Inc. and IT Resources Inc.

Under a partnership agreement with Planalytics Inc., Island Pacific will market Impact LR, an internet-based application that measures the specific effects of future weather on consumer demand by product, location and time. Using Impact LR, our customers can plan the timing of in-season markdowns, as well as the season-to-season flow of merchandise into their stores with maximum effectiveness.

Under a marketing license agreement with KMG Solutions, Island Pacific will integrate, market and support Traxion(TM) process management solutions. Traxion's business process management solution consists of three modules. Traxion ProcessEngine(TM) is the real-time process management platform that retailers use to actively manage and support their organizations' unique business processes. Traxion ProcessModeler(TM), includes simulation functions such as same-time comparison of process variations and the use of actual cost data to produce process-based financial estimates. Traxion OrganizationModeler(TM) simplifies the creation of sophisticated models including inter-company workgroups, payroll information, and roles.

Island Pacific will market VisionCompass(TM) collaborative enterprise management software, which uniquely combines the best of performance management, business intelligence, resource planning, and collaboration capabilities into one straightforward, web-based application. The system enables decision makers and teams to develop specific business goals, work on them together, and measure their collective results objectively. The highly flexible system is easily customizable to fit each organization's unique needs and leads directly to improved quality and visibility of key indicators throughout the enterprise.

Under an OEM agreement with Raymark, Inc., Island Pacific will integrate, market and support Xpert Store point-of-sale ("POS") software solution under the Island

Pacific brand. Raymark's full-featured POS solution streamlines the checkout process in order to increase sales associate efficiency and augment customer satisfaction. The software supports multi-channel, multi-language, multi-currency and multi-taxation requirements.

Under a agreement with Wazagua LLC, Island Pacific will exclusively offer to retailers worldwide Wazagua's products and services including web-based Loss Prevention Case Management Package, ASP Data Hosting and POS Exception Reporting. WAZAGUA(TM) ASP Hosted Suite of Modules automates data management for the Loss Prevention, Operations, Human Resources, Safety & Risk Management community. These ASP-hosted productivity tools allow retailers to capture the power of the internet. Retailers can create efficiencies, manage and share information, make better use of their staff, eliminate redundant data entry - and work from virtually any point in the world.

Under terms of a reseller agreement, Island Pacific will market, sell, install, interface to, and support ANT USA's products including Buyer's Toolbox(tm), a leading suite of merchandise and assortment planning software that has been successfully implemented by over 140 retailers worldwide. The software will extend Island Pacific's assortment and planning capabilities by providing a solid planning methodology accessed through an easy-to-use interface, in a cost-effective offering.

A marketing license agreement with IT Resources Inc. allows Island Pacific to market, sell, install, support and integrate IT Resources' Buyer's WorkMate(r) Suite, an innovative decision support software platform developed for merchandising organizations. The software will bring mobility and other timesaving benefits to the buying process.

We issued a total of $1.25 million in convertible notes to a limited number of accredited investors related to ICM Asset Management, Inc. of Spokane, Washington, a significant beneficial owner of our common stock in fiscal 2001. In July 2002, we amended the convertible notes to extend the maturity date to September 30, 2003 and we replaced the warrants issued to these investors. See "Liquidity and Capital Resources -- Indebtedness -- ICM Asset Management, Inc." below.

In July 2002, we negotiated an extension of our senior bank lending facility to August 31, 2003. See "Liquidity and Capital Resources -- Indebtedness -- Union Bank" below.

In May 2002, we entered into a new two-year software development and services agreement with our largest customer, Toys "R" Us, Inc. ("Toys"). Toys also agreed to invest $1.3 million for the purchase of a non-recourse convertible note and a warrant to purchase up to 2,500,000 common shares. For a further details, see "Liquidity and Capital Resources - Indebtedness -- Toys "R" Us" below.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, based on

historical experience, and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect significant judgments and estimates used in the preparation of our consolidated financial statements:

- REVENUE RECOGNITION. Our revenue recognition policy is significant because our revenue is a key component of our results of operations. In addition, our revenue recognition determines the timing of certain expenses such as commissions and royalties. We follow specific and detailed guidelines in measuring revenue; however, certain judgments affect the application of our revenue policy.

  We license software under non-cancelable agreements and provide related services, including consulting, training, customization of software and customer support. We recognize revenue in accordance with Statement of Position 97-2 (SOP 97-2), Software Revenue Recognition, as amended and interpreted by Statement of Position 98-9, Modification of SOP 97-2, Software Revenue Recognition, with respect to certain transactions, as well as Technical Practice Aids issued from time to time by the American Institute of Certified Public Accountants. We adopted Staff Accounting Bulletin No. 101 (SAB 101), Revenue Recognition in Financial Statements, during the first quarter of 2000. SAB 101 provides further interpretive guidance for public companies on the recognition, presentation, and disclosure of revenue in financial statements. The adoption of SAB 101 did not have a material impact on our licensing or revenue recognition practices.

  Software license revenue, including third party license revenues or partner products, is generally recognized when a license agreement has been signed, the software product has been delivered, there are no uncertainties surrounding product acceptance, the fees are fixed and determinable, and collection is considered probable. If a software license contains an undelivered element, the fair value of the undelivered element is deferred and the revenue recognized once the element is delivered. We can establish vendor specific objective evidence ("VSOE") for all elements and not just undelivered elements. The undeliverable elements are primarily training, consulting and maintenance services. VSOE of fair value for training and consulting services is based upon hourly rates charged when those services are sold separately. VSOE of fair value for maintenance is the price the customer will be required to pay when it is sold separately (that is, the renewal rate). In addition, if a software license contains contingencies, such as specific customer acceptance criteria, right or return or a cancellation right, the software revenue is recognized upon the later of customer acceptance or the expiration of the acceptance period or cancellation right. Typically, payments for our software licenses are due in installments within twelve months from the date of delivery. Where software license agreements call for payment terms of twelve months or more from the date of delivery, revenue is recognized as payments become due and all other conditions for revenue recognition have been satisfied. Deferred revenue consists of prepaid maintenance support revenues, prepaid services revenue and deferred licenses.

Consulting services are separately priced, are generally available from a number of suppliers, and are not essential to the functionality of our software products. Consulting services, which include project management, system planning, design and implementation, customer configurations, and training are billed on both an hourly basis and under fixed price contracts. Consulting services revenue billed on an hourly basis is recognized as the work is performed. Under most fixed price contracts, consulting services revenue is recognized using the percentage of completion method of accounting by relating hours incurred to date to total estimated hours at completion. In instances where our fixed price contracts require the achievement of certain milestones, the milestones are agreed with the customer and revenues are recognized only when the milestones are delivered and accepted by the customer.

Customization of software is billed on both an hourly basis and under fixed price contracts. Customization services billed on an hourly basis are recognized as the work is performed. Under most fixed price contracts, customization services revenue is recognized using the percentage of completion method of accounting by relating hours incurred to date to total estimated hours at completion. In instances where our fixed price contracts require the achievement of certain milestones, the milestones are agreed with the customer and revenues are recognized only when the milestones are delivered and accepted by the customer.

Customer support services include post contract support and the rights to unspecified upgrades and enhancements. Maintenance revenues from ongoing customer support services are billed on a monthly basis and recorded as revenue in the applicable month, or on an annual basis with the revenue being deferred and recognized ratably over the maintenance period. If an arrangement includes multiple elements, the fees are allocated to the various elements based upon vendor-specific objective evidence of fair value.

o ACCOUNTS RECEIVABLE. We typically extend credit to our customers. Software licenses are generally due in installments within twelve months from the date of delivery. Billings for customer support and consulting services performed on a time and material basis are due upon receipt. From time to time software and consulting services are provided under fixed price contracts where the revenue is only recognized and the payments are only due upon customer acceptance and the achievement of certain milestones. Management estimates the probability of collection of the receivable balances and provides an allowance for doubtful accounts based upon an evaluation of the customer's ability to pay and general economic conditions.

o VALUATION OF LONG-LIVED AND INTANGIBLE ASSETS AND GOODWILL. For fiscal 2003, we have adopted SFAS No. 142 resulting in a change in the way we value long-term intangible assets and goodwill. We were required to perform an initial transitional analysis of goodwill impairment. We concluded this analysis in July 2002 and recorded an impairment of $0.6 million as a cumulative effect of a change in accounting principle. We will no longer amortize goodwill, but will instead test goodwill for impairment on an annual basis or more frequently if

certain events occur. Goodwill is to be measured for impairment by reporting units, which currently consist of our operating segments. At each impairment test for a business unit, we are required to compare the carrying value of the business unit to the fair value of the business unit. If the fair value exceeds the carrying value, goodwill will not be considered impaired. If the fair value is less than the carrying value, we will perform a second test comparing the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. The difference if any between the carrying amount of that goodwill and the implied fair value will be recognized as an impairment loss, and the carrying amount of the associated goodwill will be reduced to its implied fair value. These tests require us to make estimates and assumptions concerning prices for similar assets and liabilities, if available, or estimates and assumptions for other appropriate valuation techniques.

For our intangible assets with finite lives, including our capitalized software and non-compete agreements, we assess impairment at least annually or whenever events and circumstances suggest the carrying value of an asset may not be recoverable based on the net future cash flows expected to be generated from the asset on an undiscounted basis. When we determine that the carrying value of intangibles with finite lives may not be recoverable, we measure any impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model.

THREE MONTHS ENDED DECEMBER 31, 2002 COMPARED TO THREE MONTHS ENDED DECEMBER 31, 2001

REVENUES

Product revenues increased $1.8 million, or 69%, to $4.4 million in the quarter ended December 31, 2002 from $2.6 million in the quarter ended December 31, 2001, primarily due to a $1.7 million increase in software license revenues. Services revenues decreased by $0.3 million, or 9% to $3.0 million in the quarter ended December 31, 2002 from $3.3 million in the quarter ended December 31, 2001 primarily due to a $0.6 million decrease from Toys R Us., Inc. "(Toys"), offset by an increase of $0.3 million in non-Toys services revenue. Toys had been a major customer since fiscal 2000 and in May 2000, we entered into a new development agreement for the provision of development services through February 2004. We expect that the overall level of services to be performed for Toys in fiscal 2003 will be substantially less than fiscal 2002. The loss of Toys will have a significant impact on future revenues as we attempt to replace those revenues with revenues generated from new customers. Total revenues increased $1.4 million, or 23%, to $7.4 million in the quarter ended December 31, 2002 from $6.0 million in the quarter ended December 31, 2001 due to the above factors. Excluding Toys revenues of $2.2 million and $2.9 million in the quarters ended December 31, 2002 and December 31, 2001, respectively, total revenues were $5.2 million for the quarter ended December 31, 2002 compared to $3.1 million in the quarter ended December 31, 2001, September 30, 2001, a 68% increase.

COST OF REVENUES/GROSS PROFIT

Cost of revenues decreased by $0.2 million, or 6%, to $2.9 million in the quarter ended December 31, 2002 from $3.1 million in the quarter ended December 31, 2001. Cost of product revenues increased $0.3 million, or 33%, to $1.2 million in the quarter ended December 31, 2002 from $0.9 million in the quarter ended December 31, 2001. Cost of services revenue decreased $0.4 million, or 19%, to $1.7 million in the quarter ended December 31, 2002 from $2.1 million in the quarter ended December 31, 2001. Total gross profit increased $1.5 million,

or 52%, to $4.4 million in the quarter ended December 31, 2002 from $2.9 million in the quarter ended December 31, 2001. Total gross margin was 59% and 48% for the quarter ended December 31, 2002 and December 31, 2001, respectively. Gross margin on products was 73% and 62% for the quarters ended December 31, 2002 and December 31, 2001, respectively, while gross margin on services was 43% and 36% for the quarters ended December 31, 2002 and December 31, 2001, respectively. Amortization of capitalized software included in cost of product revenues remained at $0.7 million in the quarter ended December 31, 2002 and the quarter ended December 31, 2001. The increase in gross margin for product revenues is due primarily a $1.0 million increase in license revenues in the quarter ended December 31, 2001 compared to the quarter ended December 31, 2001, while amortization of capitalized software remained the same during both quarters. The increase in gross margin on services was due an in increase in non-Toys service revenues which generally carry higher margins.

PRODUCT DEVELOPMENT EXPENSE

Product development expense decreased by $0.5 million, or 42%, to $0.7 million in the quarter ended December 31, 2002 from $1.2 million in the quarter ended December 31, 2001. As we are close to the completion of the new version 2.0 of our Retail Enterprise Solutions, product development efforts, especially from outsourced programming services, are decreased. The version 2.0 is scheduled to be released in the next quarter.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization decreased by $0.6 million, or 67%, to $0.3 million in the quarter ended December 31, 2002 from $0.9 million in the quarter ended December 31, 2001, as a result of our ceasing to amortize goodwill upon adoption of SFAS No. 142.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased by $0.2 million, or 7%, to $2.9 million in the three months ended December 31, 2002 from $2.7 million in the three months ended December 31, 2001. The increase was primarily related to an increase in sales related commissions.

INCOME (LOSS) FROM OPERATIONS

Income (loss) from operations, which included depreciation and amortization expense, increased by $2.5 million to $0.6 million for the quarter ended December 31, 2002, compared to a loss from operations of $1.9 million for the quarter ended December 31, 2001.

INTEREST EXPENSE

Interest expense decreased by $0.6 million, or 75%, to $0.2 million in the quarter ended December 31, 2002 from $0.8 million in the quarter ended December 31, 2001. The decrease is primarily due to a $0.4 million decrease in interest expense on the note due to Softline Limited, which was repaid in January 2002 in connection with the integrated series of recapitalization transactions with Softline.

NINE MONTHS ENDED DECEMBER 31, 2002 COMPARED TO NINE MONTHS ENDED DECEMBER 31,

2001

REVENUES

Product revenues increased $1.3 million, or 16%, to $9.3 million in the nine months ended December 31, 2002 from $8.0 million in the nine months ended December 31, 2001, primarily due to a $1.1 million increase in software license revenues and $0.2 million increase in maintenance revenues. Services revenues decreased by $5.8 million, or 43% to $7.6 million in the nine months ended December 31, 2002 from $13.4 million in the nine months ended December 31, 2001 primarily due to a $5.7 million decrease from Toys R Us., Inc. "(Toys"). Toys had been a major customer since fiscal 2000 and in May 2000, we entered into a new development agreement for the provision of development services through February 2004. We expect that the overall level of services to be performed for Toys in fiscal 2003 will be substantially less than fiscal 2002. The loss of Toys will have a significant impact on future revenues as we attempt to replace those revenues with revenues generated from new customers. Total revenues increased $4.5 million, or 21%, to $16.9 million in the nine months ended December 31, 2002 from $21.4 million in the nine months ended December 31, 2001 due to the above factors. Excluding Toys revenues of $5.3 million and $11.0 million in the nine months ended December 31, 2002 and December 31, 2001, respectively, total revenues were $11.6 million for the nine months ended December 31, 2002 compared to $10.4 million in the nine months ended December 31, 2001, a 12% increase.

COST OF REVENUES/GROSS PROFIT

Cost of revenues decreased $3.2 million, or 28%, to $8.2 million in the nine months ended December 31, 2002 from $11.4 million in the nine months ended December 31, 2001. Cost of product revenues increased $0.2 million, or 6%, to $3.6 million in the nine months ended December 31, 2002 from $3.4 million in the nine months ended December 31, 2001. Cost of services revenue decreased $3.4 million, or 43%, to $4.6 million in the nine months ended December 31, 2002 from $8.0 million in the nine months ended December 31, 2001. Total gross profit

decreased $1.3 million, or 13%, to $8.7 million in the nine months ended December 31, 2002 from $10.0 million in the nine months ended December 31, 2001. Total gross margin was 51% and 47% for the nine months ended December 31, 2002 and December 31, 2001, respectively. Gross margin on products was 61% and 58% for the nine months ended December 31, 2002 and December 31, 2001, respectively, while gross margin on services was 39% and 40% for the nine months ended December 31, 2002 and December 31, 2001, respectively. Amortization of capitalized software included in cost of product revenues remained at $2.2 million in the nine months ended December 31, 2002 and the quarter ended December 31, 2001. The increase in gross margin for product revenues is due primarily a $1.3 million increase in license revenues in the nine months ended December 31, 2002 compared to the nine months ended December 31, 2001, while amortization of capitalized software remained the same during both quarters. The increase in gross margin on services was due to Toys service revenues, which typically carry lower margin than non-Toys service revenue, as a percentage of total service revenues decreasing to 69% in the nine months ended December 31, 2002 compared to 82% in the nine months ended December 31, 2001.

PRODUCT DEVELOPMENT EXPENSE

Product development expense was $2.9 million in the nine months ended December 31, 2002 and 2001, respectively. We focus on the on-going enhancement of our

existing products and research for new value-added products. The new version 2.0 of our Retail Enterprise Solutions will be released in the fourth quarter of the current fiscal year.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization decreased by $1.9 million, or 68%, to $0.9 million in the nine months ended December 31, 2002 from $2.8 million in the nine months ended December 31, 2001, as a result of our ceasing to amortize goodwill upon adoption of SFAS No. 142.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses decreased by $3.0 million, or 29%, to $7.4 million in the nine months ended December 31, 2002 from $10.4 million in the nine months ended December 31, 2001. The decrease was primarily related to the 20% reduction of non-essential personnel in the third quarter of fiscal 2002 and improved management of expenditures.

LOSS FROM OPERATIONS

Loss from operations, which included depreciation and amortization expense, was $2.5 million for the nine months ended December 31, 2002, compared to a loss from operations of $6.1 million for the nine months ended December 31, 2001.

INTEREST EXPENSE

Interest expense decreased by $1.2 million, or 43%, to $1.6 million in the nine months ended December 31, 2002 from $2.8 million in the nine months ended December 31, 2001. Interest expense in the 2001 period included $1.2 million interest expense on the note due Softline Limited. Our obligations related to this note were released by Softline effective January 1, 2002 in connection with the integrated series of recapitalization transactions with Softline.

CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

Pursuant to SFAS 142, we completed the transitional analysis of goodwill impairment as of April 1, 2002 and recorded an impairment of $0.6 million as the cumulative effect of a change in accounting principle in the quarter ended June 30, 2002. We also evaluated the remaining useful lives of our intangibles in the quarter ended June 30, 2002 and no adjustments have been made to the useful lives of our intangible assets.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS

During the nine months ended December 31, 2002, we financed our operations using cash on hand, internally generated cash, proceeds from the sale of a convertible note to Toys "R" Us, Inc. and loans from an entity affiliated with Donald S. Radcliffe, one of our directors. At December 31, 2002 and March 31, 2002, we had cash of $0.7 million and $1.3 million, respectively.

Operating activities used cash of $1.3 million and $0.7 million in the nine months ended December 31, 2002 and 2001, respectively. Cash used for operating

activities in the nine months ended December 31, 2002 resulted from $4.6 million of net losses and $2.7 million increase in accounts receivable; offset in part by $3.1 million of depreciation and amortization, $0.9 million of amortization of debt discount and conversion option, $0.6 million of goodwill impairment, $1.0 million increase in accounts payable and accrued expenses and $0.7 million increase in accrued interest on notes payable.

Investing activities used cash of $0.1 million and $0.2 million in the nine months ended December 31, 2002 and 2001, respectively. Cash used for investing activities in the current quarter was primarily for capitalization of software development costs.

Financing activities provided cash of $0.8 million and $0.2 million in the nine months ended December 31, 2002 and 2001, respectively. The 2002 financing activities included $1.4 million of proceeds from a convertible note issued to Toys "R" Us, Inc.; offset in part by $0.3 million payments on a stockholder loan and $0.3 million payments on term loan.

Accounts receivable increased to $4.7 million at December 31, 2002 from $1.9 million at March 31, 2002. The increase was due to increase in revenues and invoicing semi-annual maintenance contracts in the quarter ended December 31, 2002.

Accounts payable increased to $2.2 million at December 31, 2002 from $1.5 million at March 31, 2002.

Deferred revenue decreased to $2.9 million at December 31, 2002 from $3.5 million at March 31, 2002. The decrease was primarily due to decreases in prepaid modification and services revenues of $1.5 million from our major customer, Toys `R' Us, Inc., and $0.5 million from other customers; offset in part by $1.4 million increase in prepaid support services revenue.

We believe that our cash and cash equivalent and funds generated from operations will provide adequate liquidity to meet our normal operating requirements for at least the next twelve months. Our future capital requirements depend on many factors, including our application development, sales and marketing activities. In addition, we have incurred losses for the last three fiscal years and we had a negative working capital at December 31, 2002. In the next twelve months, we anticipate raising additional capital through public or private equity or debt financings. In the long-term, we anticipate that cash from operations will be sufficient to provide liquidity for our normal operating requirements. As such, we do not know whether additional financing will be available when needed, or available on terms acceptable to us. We may raise capital through public or private equity or debt financings. If we are unable to raise the needed funds, we may be forced to curtail some or all of our activities and we may not be able to grow.

INDEBTEDNESS

UNION BANK

Effective July 15, 2002, the bank further amended the restated term loan agreement. Under this third amendment to the restated agreement, the bank agreed to waive the application of the additional 2% interest rate for late payments of principal and interest, and to waive the additional $100,000 refinance fee required by the second amendment. The bank also agreed to convert $361,000 in accrued interest and fees to term loan principal, and we executed a new term note in total principal amount of $7.2 million. We were required to make a principal payment of $35,000 on October 15, 2002, principal payments of $50,000 on each of November 15, 2002 and December 15, 2002, and consecutive monthly principal payments of $100,000 each on the 15th day of each month thereafter through August 15, 2003. The entire amount of principal and accrued interest is

due August 31, 2003. The bank also agreed to eliminate certain financial covenants and to ease others. We are not in breach of the financial covenants in the quarter ended December 31, 2002. As of the date of this report, principal and interest payments due as of December 31, 2002 were paid.

On January 2, 2003, we issued a warrant to an affiliate of the bank to purchase up to 1.5 million shares of our common stock for $0.01 per share. The warrant is exercisable for shares equal to 1% of our outstanding common stock on January 2, 2003, and will become exercisable for shares equal to an additional 0.5% of the outstanding common stock on the first day each month thereafter, until it is exercisable for the full 4.99% of the outstanding common stock. The warrant will not become exercisable to the extent that we have discharged in full its bank indebtedness prior to a vesting date. As of the date of this report, 463,000 shares of the warrant are exercisable. As all of the shares become exercisable, it would result in a finance charge of $909,000, of which $273,000 has been incurred through February 2003.

NATIONAL AUSTRALIA BANK LIMITED

Due to the declining performance of our Australian subsidiary, we decided in the third quarter of fiscal 2002 to sell certain assets of the Australian subsidiary to the former management of such subsidiary, and then cease Australian operations. Such sale was however subject to the approval of National Australia Bank, the subsidiary's secured lender. The bank did not approve the sale and the subsidiary ceased operations in February 2002. The bank caused a receiver to be appointed in February 2002 to sell substantially all of the assets of the Australian subsidiary and pursue collections on any outstanding receivables. The receiver proceeded to sell substantially all of the assets for $300,000 in May 2002 to the entity affiliated with former management, and is actively pursuing the collection of receivables. If the sale proceeds plus collections on receivables are insufficient to discharge the indebtedness to National Australia Bank, we may be called upon to pay the deficiency under our guarantee to the bank. At December 31, 2002, we have accrued $187,000 as the maximum amount of our potential exposure. The receiver has also claimed that we are obligated to it for inter-company balances of $636,000, but we do not believe any amounts are owed to the receiver, who has not as of the date of this report acknowledged the monthly corporate overhead recovery fees and other amounts charged by us to the Australian subsidiary offsetting the amount claimed to be due.

ICM ASSET MANAGEMENT, INC.

In May and June 2001, we issued a total of $1.25 million in convertible notes to a limited number of accredited investors related to ICM Asset Management, Inc. The notes were originally due August 30, 2001, and required interest at the rate of 12% per annum to be paid until maturity, with the interest rate increasing to 17% after maturity. Any portion of the unpaid amount of principal and interest was convertible at any time by the investors into common shares valued at $1.35 per share. We also agreed to issue to the investors three-year warrants to purchase 250 common shares for each $1,000 in notes purchased, at an exercise price of $1.50 per share.

In July 2002, we agreed to amend the terms of the notes and warrants issued to the investors related to ICM. The investors agreed to replace the existing notes with new notes having a maturity date of September 30, 2003. The interest rate on the new notes was reduced to 8% per annum, increasing to 13% in the event of a default in payment of principal or interest. We are required to pay accrued interest on the new notes calculated from July 19, 2002, in quarterly

installments beginning September 30, 2002. In December 2002, the investors agreed to extend the accrued interest payments to September 30, 2003. The investors agreed to reduce accrued interest and late charges on the original notes by $16,000 and accept payment of the reduced amount with 527,286 shares of our common stock valued at $0.41 per share, which was the average closing price of our shares on the American Stock Exchange for the 10 trading days prior to July 19, 2002. The new notes are convertible at the option of the holders into shares of our common stock valued at $0.60 per share. We do not have a right to prepay the notes. As of the date of this report, the balance of these convertible notes is $1.3 million.

We also agreed that the warrants previously issued to the investors to purchase an aggregate of 3,033,085 shares at exercise prices ranging from $0.85 to $1.50, and expiring on various dates between December 2002 and June 2004, would be replaced by new warrants to purchase an aggregate of 1,600,000 shares at $0.60 per share, expiring July 19, 2007. The replacement warrants are not callable by us.

We also agreed to file a registration statement for the resale of all shares held by or obtainable by these investors. In the event such registration statement is not declared effective by the SEC by March 17, 2003, we will be obligated to issue five-year penalty warrants for the purchase of 5% of the total number of registrable securities at an exercise price of $0.60 per share. For the first 30 day period after March 17, 2003 after such date in which the registration statement is not effective, the Company will be obligated to issued

additional penalty warrants for the purchase of 5% of the total number of registrable securities at an exercise price of $0.60 per share. For each 30 day period after the first 30 day period from March 17, 2003 after such date in which the registration statement is not effective, the Company will be obligated to issue additional penalty warrants for the purchase of 2.5% of the total number of registrable securities at an exercise price of $0.60 per share. As of the date of this report, the registration statement was not filed.

FINANCING
TOYS "R" US, INC.

In May 2002, Toys "R" Us, Inc. ("Toys"), our major customer, agreed to invest $1.3 million for the purchase of a non-recourse convertible note and a warrant to purchase 2,500,000 common shares. The note is non-interest bearing, and the face amount is either convertible into shares of our stock valued at $0.553 per share or payable in cash at our option, at the end of the term. The note is due May 29, 2009, or if earlier than that date, three years after the completion of the development project contemplated in the development agreement between us and Toys entered into at the same time. We do not have the right to prepay the convertible note before the due date. The face amount of the note is 16% of the $1.3 million purchase price as of May 29, 2002, and increases by 4% of the $1.3 million purchase price on the last day of each succeeding month, until February 28, 2004, when the face amount is the full $1.3 million purchase price. The face amount will cease to increase if Toys terminates its development agreement with us for a reason other than our breach. The face amount will be zero if we terminate the development agreement due to an uncured breach by Toys of the development agreement. As of January 31, 2003, we had received proceeds of $1.3 million from this note.

The warrant entitles Toys to purchase up to 2,500,000 of our common shares at $0.553 per share. The warrant is initially vested as to 400,000 shares as of May

29, 2002, and vests at the rate of 100,000 shares per month until February 28, 2004. The warrant will cease to vest if Toys terminates its development agreement with us for a reason other than our breach. The warrant will become entirely non-exercisable if we terminate the development agreement due to an uncured breach by Toys of the development agreement. Toys may elect a "cashless exercise" where a portion of the warrant is surrendered to pay the exercise price. As of January 31, 2003, 1.2 million shares of the warrant are exercisable.

The note conversion price and the warrant exercise price are each subject to a 10% reduction in the event of an uncured breach by us of certain covenants to Toys. These covenants do not include financial covenants. Conversion of the note and exercise of the warrant each require 75 days advance notice to us. As a result, under the rules of the SEC, Toys will not be considered the beneficial owner of the common shares into which the note is convertible and the warrant is exercisable until 15 days after it has given notice of conversion or exercise, and then only to the extent of such noticed conversion or exercise. We also granted Toys certain registration rights for the common shares into which the note is convertible and the warrant is exercisable, including the right to demand registration on Form S-3 if such form is available to us, and the right to include shares into which the note is convertible and the warrant is exercisable in other registration statements we propose to file.

In November 2002, the Board decided that this note will be converted solely for equity and will not be repaid in cash. The note has therefore been classified as equity.

CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual obligations, including purchase commitments at December 31, 2002, and the effect such obligations are expected to have on our liquidity and cash flow in future periods.

Contractual Cash Obligations	For the fiscal years ending March 31, 2003	2004	2005	2
			(in thousands)	
Operating leases	$ 293	$ 864	$ 816	$
Capital leases	$ 73	$ 18		
Term loans	$ 631	$ 7,076		
Convertible notes due stockholders	$ --	$ 1,370		
Payables and accrued expenses aged over 90 days	$ 2,868			
Total contractual cash obligations	$ 3,865	$ 9,328	$ 816	$

Other Commercial Commitments	For the fiscal years ending March 31, 2003	2004	2005	2
			(in thousands)	

Guarantees	$ 187
Total commercial commitments	$ 187

CASH POSITION AND NEED FOR CAPITAL

As a result of our indebtedness and net losses for the past three years, we have experienced strains on our cash resources. In order to manage our cash resources, we reduced expenses and discontinued our Australian operations. We have also extended payment terms with many of our trade creditors wherever possible, and we have focused our collection efforts on our accounts receivable. We had a negative working capital of $11.1 million and $5.3 million at December 31, 2002 and March 31, 2002, respectively.

Other than cash on hand, we have no unused sources of liquid assets.

Management has been actively engaged in attempts to resolve our liquidity problems. We negotiated extensions of the maturity of our major indebtedness to the second quarter of fiscal 2004, and as a result, we believe we will have sufficient cash to remain in compliance with our debt obligations, and meet our critical operating obligations, for the next twelve months. We are nonetheless actively seeking a private equity placement to help discharge aged payables, pursue growth initiatives and prepay bank indebtedness. We have no binding commitments for funding at this time. Financing may not be available on terms and conditions acceptable to us, or at all.

RECENT ACCOUNTING PRONOUNCEMENTS

A number of new pronouncements have been issued for future implementation as discussed in the footnotes to our interim financial statements (see Note 10). As discussed in the notes to the interim financial statements, the implementation of some of these new pronouncements is expected to have a material effect on our financial position or results of operations.

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BUSINESS RISKS

Investors should carefully consider the following risk factors and all other information contained in our Form 10-K (as amended) for the year ended March 31, 2002 and Form 10-Q/A for the quarter ended December 31, 2002. Investing in our common stock involves a high degree of risk. In addition to those described below, risks and uncertainties that are not presently known to us or that we currently believe are immaterial may also impair our business operations. If any of the following risks occur, our business could be harmed, the price of our common stock could decline and our investors may lose all or part of their investment. See the note regarding forward-looking statements included at the beginning of Item II - Management's Discussion And Analysis of Financial Condition and Results of Operations in this Form 10-Q/A.

WE HAVE INCURRED LOSSES FOR THE LAST THREE FISCAL YEARS AND IN THE CURRENT PERIOD. WE MAY NOT ACHIEVE PROFITABILITY IN FUTURE PERIODS.

We incurred losses of $4.6 million in the first nine months ended December 31, 2002 and $14.7 million, $28.9 million and $4.1 million in the fiscal years ended March 31, 2002, 2001 and 2000, respectively. The losses in the past two years

have generally been due to difficulties completing sales for new application software licenses, the resulting change in sales mix toward lower margin services, and debt service expenses. We will need to generate additional revenue to achieve profitability in future periods. Failure to achieve profitability, or maintain profitability if achieved, may have a material adverse effect on our business and stock price.

WE HAVE NEGATIVE WORKING CAPITAL, AND WE HAVE EXTENDED PAYMENT TERMS WITH A NUMBER OF OUR SUPPLIERS.

At December 31, 2002 and March 31, 2002, we had negative working capital of $11.1 million and $5.3 million, respectively. We have had difficulty meeting operating expenses. We have at times deferred payroll for our executive officers, and borrowed from related parties to meet payroll obligations. We have extended payment terms with our trade creditors wherever possible.

As a result of extended payment arrangements with suppliers, we may be unable to secure products and services necessary to continue operations at current levels from these suppliers. In that event, we will have to obtain these products and services from other parties, which could result in adverse consequences to our business, operations and financial condition.

OUR REVENUES HAVE DECLINED. WE EXPERIENCED A SUBSTANTIAL DECREASE IN APPLICATION SOFTWARE LICENSE SALES. OUR GROWTH AND PROFITABILITY IS DEPENDENT ON THE SALE OF HIGHER MARGIN LICENSES.

Our revenues decreased by 21% in the first nine months ended December 31, 2002 compared to the first nine months ended December 31, 2001. We experienced a substantial decrease in application license software revenues in the past two years. We must improve new application license sales to become profitable. We have taken steps to refocus our sales strategy on core historic competencies, but our typically long sales cycles make it difficult to evaluate whether and when sales will improve. We cannot be sure that the decline in revenues has not been due to factors, which might continue to negatively affect revenues.

OUR OPERATING RESULTS HAVE FLUCTUATED SIGNIFICANTLY IN THE PAST, AND THEY MAY CONTINUE TO DO SO IN THE FUTURE, WHICH COULD ADVERSELY AFFECT OUR STOCK PRICE.

Our quarterly operating results have fluctuated significantly in the past and may fluctuate in the future as a result of several factors, many of which are outside of our control. If revenue declines in a quarter, our operating results will be adversely affected because many of our expenses are relatively fixed. In particular, sales and marketing, application development and general and administrative expenses do not change significantly with variations in revenue in a quarter. It is likely that in some future quarter our revenues or operating results will be below the expectations of public market analysts or investors. If that happens, our stock price will likely decline.

OUR REVENUE MAY VARY FROM PERIOD TO PERIOD, WHICH MAKES IT DIFFICULT TO PREDICT FUTURE RESULTS.

Factors outside our control that could cause our revenue to fluctuate significantly from period to period include:

- o the size and timing of individual orders, particularly with respect to our larger customers;

- general health of the retail industry and the overall economy;
- technological changes in platforms supporting our software products; and
- market acceptance of new applications and related services.

In particular, we usually deliver our software applications when contracts are signed, so order backlog at the beginning of any quarter may represent only a portion of that quarter's expected revenues. As a result, application license revenues in any quarter are substantially dependent on orders booked and delivered in that quarter, and this makes it difficult for us to accurately predict revenues. We have experienced, and we expect to continue to experience, quarters or periods where individual application license or services orders are significantly larger than our typical application license or service orders. Because of the nature of our offerings, we may get one or more large orders in one quarter from a customer and then no orders the next quarter.

OUR EXPENSES MAY VARY FROM PERIOD TO PERIOD, WHICH COULD AFFECT QUARTERLY RESULTS.

If we incur additional expenses in a quarter in which we do not experience increased revenue, our results of operations would be adversely affected and we may incur losses for that quarter. Factors that could cause our expenses to fluctuate from period to period include:

- the extent of marketing and sales efforts necessary to promote and sell our applications and services;
- the timing and extent of our development efforts; and
- the timing of personnel hiring.

IT IS DIFFICULT TO EVALUATE OUR PERFORMANCE BASED ON PERIOD TO PERIOD COMPARISONS OF OUR RESULTS.

Many factors which can cause revenues and expenses to vary make meaningful period to period comparisons of our results difficult. We do not believe period to period comparisons of our financial performance are necessarily meaningful, and you cannot rely on them as an indication of our future performance.

OUR DEBT COULD ADVERSELY AFFECT US.

As of January 31, 2003, our debt is as follows:

- A $7.3 million term loan from Union Bank due August 31, 2003. The term loan is secured by substantially all of our assets and 10,700,000 shares of our treasury stock.
- $1.3 million in convertible notes to entities related to ICM Asset Management due September 30, 2003.

Our indebtedness could impact us in a number of ways:

- We have to dedicate a portion of cash flow from operations to principal and interest payments on the debt, which reduces funds available for other purposes.
- We may not have sufficient funds to pay monthly principal and interest payments, which could lead to a default.
- The existing debt makes it difficult for us to obtain additional financing for working capital or other purposes.
- The debt detracts from our ability to successfully withstand downturns in our business or in the economy.
- If we default on our Union Bank indebtedness, the bank could take control of the substantial majority of our assets.

These factors generally place us at a disadvantage to our less leveraged

competitors. Any or all of these factors could cause our stock price to decline.

During the past three fiscal years, we renegotiated on several occasions our agreements with Union Bank after we were unable to make payments required under these agreements. Union Bank may not be willing to renegotiate our indebtedness in the future if we are unable to make required payments. We will likely need outside sources of capital to pay our Union Bank obligations upon maturity.

OUR BANK LOAN IMPOSES RESTRICTIONS ON US AND ON OUR ABILITY TO TAKE IMPORTANT ACTIONS. THESE RESTRICTIONS MAY AFFECT OUR ABILITY TO SUCCESSFULLY OPERATE OUR BUSINESS.

We are restricted by the terms of our outstanding Union Bank loan agreement from taking various actions, such as incurring additional indebtedness, paying dividends, paying subordinated obligations, entering into transactions with affiliates, merging with other entities and selling all or substantially all of our assets. These restrictions could also limit our ability to obtain future financing, make needed capital expenditures, withstand a future downturn in our business or the economy in general, or otherwise conduct our business. We may also be prevented from taking advantage of business opportunities that arise because of the limitations imposed on us by the restrictive covenants under the Union Bank loan. A breach of any of these provisions could result in a default under the loan agreement, and upon a default, Union Bank could declare all indebtedness immediately due and payable. If we were unable to pay those amounts, Union Bank could take control of the substantial majority of our assets.

WE HAVE RELIED ON CAPITAL CONTRIBUTED BY RELATED PARTIES, AND SUCH CAPITAL MAY NOT BE AVAILABLE IN THE FUTURE.

Our cash from operations has not been sufficient to meet our operational needs, and we have relied on capital from related parties. A company affiliated with Donald S. Radcliffe, one of our directors, made short-term loans to us in fiscal 2002 and in the first six months of fiscal 2003 to meet payroll when cash on hand was not sufficient. Softline Limited ("Softline") loaned us $10 million to make a required principal payment on our Union Bank term loan in July 2000. A subsidiary of Softline loaned us an additional $600,000 in November 2000 to meet working capital needs. This loan was repaid in February 2001, in part with $400,000 we borrowed from Barry M. Schechter, our Chairman and CEO. We borrowed an additional $164,000 from Mr. Schechter in March 2001 for operational needs related to our Australian subsidiary.

We may not be able to obtain capital from related parties in the future. Neither Softline, Mr. Schechter, Mr. Radcliffe nor any other officers, directors, stockholders or related parties are under any obligation to continue to provide cash to meet our future liquidity needs.

WE NEED TO RAISE CAPITAL TO REPAY DEBT AND GROW OUR BUSINESS. OBTAINING THIS CAPITAL COULD IMPAIR THE VALUE OF YOUR INVESTMENT.

We need to raise capital to discharge our aged payables and grow our business. We will also likely need to raise capital to pay our Union Bank obligations upon maturity in August 2003. We may also need to raise further capital to:

- support unanticipated capital requirements;
- take advantage of acquisition or expansion opportunities;
- continue our current development efforts;

- develop new applications or services; or
- address working capital needs.

Our future capital requirements depend on many factors including our application development, sales and marketing activities. We do not know whether additional financing will be available when needed, or available on terms acceptable to us. If we cannot raise needed funds for the above purposes on acceptable terms, we may be forced to curtail some or all of the above activities and we may not be able to grow our business or respond to competitive pressures or unanticipated developments.

We may raise capital through public or private equity offerings or debt financings. To the extent we raise additional capital by issuing equity securities, our stockholders may experience substantial dilution and the new equity securities may have greater rights, preferences or privileges than our existing common stock.

WE HAVE A SINGLE CUSTOMER REPRESENTING A SIGNIFICANT AMOUNT OF OUR BUSINESS.

Toys "R" Us, Inc. ("Toys") accounted for 31% and 47% of our revenues for the nine months ended December 31, 2002 and 2001, respectively. While we have a development agreement with this customer, Toys has the right to terminate the agreement without cause with limited advance notice. A reduction, delay or cancellation of orders from Toys would significantly reduce our revenues and force us to substantially curtail operations. We cannot provide any assurances that Toys or any of our current customers will continue at current or historical levels or that we will be able to obtain orders from new customers.

WE ARE DEPENDENT ON THE RETAIL INDUSTRY, AND IF ECONOMIC CONDITIONS IN THE RETAIL INDUSTRY DECLINE, OUR REVENUES MAY DECLINE. RETAIL SALES MAY BE SLOWING.

Our future growth is critically dependent on increased sales to the retail industry. We derive the substantial majority of our revenues from the licensing of software applications and the performance of related professional and consulting services to the retail industry. Demand for our applications and services could decline in the event of consolidation, instability or downturns in the retail industry. This decline would likely cause reduced sales and could impair our ability to collect accounts receivable. The result would be reduced earnings and weakened financial condition, each or both of which would likely cause our stock price to decline.

The success of our customers is directly linked to economic conditions in the retail industry, which in turn are subject to intense competitive pressures and are affected by overall economic conditions. In addition, the retail industry may be consolidating, and it is uncertain how consolidation will affect the industry. The retail industry as a whole is currently experiencing increased competition and weakening economic conditions that could negatively impact the industry and our customers' ability to pay for our products and services. Such consolidation and weakening economic conditions have in the past, and may in the future, negatively impact our revenues, reduce the demand for our products and may negatively impact our business, operating results and financial condition. Weakening economic conditions and the September 11, 2001 terrorist attacks have adversely impacted sales of our software applications, and we believe mid-tier specialty retailers may be reluctant during the current economic slowdown to make the substantial infrastructure investment that generally accompanies the implementation of our software applications.

THERE MAY BE AN INCREASE IN CUSTOMER BANKRUPTCIES DUE TO WEAK ECONOMIC CONDITIONS.

We have in the past and may in the future be impacted by customer bankruptcies. During weak economic conditions, such as those currently being experienced in many geographic regions around the world, there is an increased risk that certain of our customers will file bankruptcy. When our customers file bankruptcy, we may be required to forego collection of pre-petition amounts owed, and to repay amounts remitted to us during the 90-day preference period preceding the filing. Accounts receivable balances related to pre-petition amounts may in certain of these instances be large due to extended payment terms for software license fees, and significant billings for consulting and implementation services on large projects. The bankruptcy laws, as well as the specific circumstances of each bankruptcy, may severely limit our ability to collect pre-petition amounts, and may force us to disgorge payments made during the 90-day preference period. We also face risk from international customers which file for bankruptcy protection in foreign jurisdictions, in that the application of foreign bankruptcy laws may be less certain or harder to predict. Although we believe that we have sufficient reserves to cover anticipated customer bankruptcies, there can be no assurance that such reserves will be adequate, and if they are not adequate, our business, operating results and financial condition would be adversely affected.

WE MAY NOT BE ABLE TO MAINTAIN OR IMPROVE OUR COMPETITIVE POSITION BECAUSE OF THE INTENSE COMPETITION IN THE RETAIL SOFTWARE INDUSTRY.

We conduct business in an industry characterized by intense competition. Most of our competitors are very large companies with an international presence. We must also compete with smaller companies, which have been able to develop strong local or regional customer bases. Many of our competitors and potential competitors are more established, benefit from greater name recognition and have significantly greater resources than us. Our competitors may also have lower cost structures and better access to the capital markets than us. As a result, our competitors may be able to respond more quickly than we can to new or emerging technologies and changes in customer requirements. Our competitors may:

- introduce new technologies that render our existing or future products obsolete, unmarketable or less competitive;
- make strategic acquisitions or establish cooperative relationships among themselves or with other solution providers, which would increase the ability of their products to address the needs of our customers; and
- establish or strengthen cooperative relationships with our current or future strategic partners, which would limit our ability to compete through these channels.

We could be forced to reduce prices and suffer reduced margins and market share due to increased competition from providers of offerings similar to, or competitive with, our applications, or from service providers that provide services similar to our services. Competition could also render our technology obsolete.

OUR PROPRIETARY RIGHTS OFFER ONLY LIMITED PROTECTION AND OUR COMPETITORS MAY DEVELOP APPLICATIONS SUBSTANTIALLY SIMILAR TO OUR APPLICATIONS AND USE SIMILAR TECHNOLOGIES, WHICH MAY RESULT IN THE LOSS OF CUSTOMERS. WE MAY HAVE TO BRING COSTLY LITIGATION TO PROTECT OUR PROPRIETARY RIGHTS.

Our success and competitive position is dependent in part upon our ability to develop and maintain the proprietary aspects of our intellectual property. Our intellectual property includes our trademarks, trade secrets, copyrights and other proprietary information. Our efforts to protect our intellectual property may not be successful. Effective copyright and trade secret protection may be unavailable or limited in some foreign countries. We hold no patents. Consequently, others may develop, market and sell applications substantially equivalent to ours or utilize technologies similar to those used by us, so long as they do not directly copy our applications or otherwise infringe upon our intellectual property rights.

We may find it necessary to bring claims or litigation against third parties for infringement of our proprietary rights or to protect our trade secrets. These actions would likely be costly and divert management resources. These actions could also result in counterclaims challenging the validity of our proprietary rights or alleging infringement on our part. The ultimate outcome of any litigation will be difficult to predict.

WE MAY RECEIVE CLAIMS THAT OUR APPLICATIONS MAY INFRINGE ON THE PROPRIETARY RIGHTS OF THIRD PARTIES, WHICH MAY EXPOSE US TO LITIGATION.

We may become involved in litigation involving patents or proprietary rights. Patent and proprietary rights litigation entails substantial legal and other costs, and we do not know if we will have the necessary financial resources to defend or prosecute our rights in connection with any such litigation. Responding to and defending claims related to our intellectual property rights, even ones without merit, can be time consuming and expensive and can divert management's attention from other business matters. In addition, these actions could cause application delivery delays or require us to enter into royalty or license agreements. Royalty or license agreements, if required, may not be available on terms acceptable to us, if they are available at all. Any or all of these outcomes could have a material adverse effect on our business, operating results and financial condition.

DEVELOPMENT AND MARKETING OF OUR OFFERINGS DEPEND ON STRATEGIC RELATIONSHIPS WITH OTHER COMPANIES. OUR EXISTING STRATEGIC RELATIONSHIPS MAY NOT ENDURE AND MAY NOT DELIVER THE INTENDED BENEFITS, AND WE MAY NOT BE ABLE TO ENTER INTO FUTURE STRATEGIC RELATIONSHIPS.

Since we do not possess all of the technical and marketing resources necessary to develop and market our offerings to their target markets, our business strategy substantially depends on our strategic relationships. While some of these relationships are governed by contracts, most are non-exclusive and all may be terminated on short notice by either party. If these relationships terminate or fail to deliver the intended benefits, our development and marketing efforts will be impaired and our revenues may decline.

We may not be able to enter into new strategic relationships, which could put us at a disadvantage to those of our competitors, which do successfully exploit strategic relationships.

OUR PRIMARY COMPUTER AND TELECOMMUNICATIONS SYSTEMS ARE IN A LIMITED NUMBER OF GEOGRAPHIC LOCATIONS, WHICH MAKES THEM MORE VULNERABLE TO DAMAGE OR INTERRUPTION. THIS DAMAGE OR INTERRUPTION COULD HARM OUR BUSINESS.

Substantially all of our primary computer and telecommunications systems are located in two geographic areas. These systems are vulnerable to damage or interruption from fire, earthquake, water damage, sabotage, flood, power loss, technical or telecommunications failure or break-ins. Our business interruption insurance may not adequately compensate us for our lost business and will not compensate us for any liability we incur due to our inability to provide

services to our customers. Although we have implemented network security measures, our systems are vulnerable to computer viruses, physical or electronic break-ins and similar disruptions. These disruptions could lead to interruptions, delays, loss of data or the inability to service our customers. Any of these occurrences could impair our ability to serve our customers and harm our business.

IF PRODUCT LIABILITY LAWSUITS ARE SUCCESSFULLY BROUGHT AGAINST US, WE MAY INCUR SUBSTANTIAL LIABILITIES AND MAY BE REQUIRED TO LIMIT COMMERCIALIZATION OF OUR APPLICATIONS.

Our business exposes us to product liability risks. Any product liability or other claims brought against us, if successful and of sufficient magnitude, could negatively affect our financial performance and cause our stock price to decline.

Our applications are highly complex and sophisticated and they may occasionally contain design defects or software errors that could be difficult to detect and correct. In addition, implementation of our applications may involve customer-specific customization by us or third parties, and may involve integration with systems developed by third parties. These aspects of our business create additional opportunities for errors and defects in our applications and services. Problems in the initial release may be discovered only after the application has been implemented and used over time with different computer systems and in a variety of other applications and environments. Our applications have in the past contained errors that were discovered after they were sold. Our customers have also occasionally experienced difficulties integrating our applications with other hardware or software in their enterprise.

We are not currently aware of any defects in our applications that might give rise to future lawsuits. However, errors or integration problems may be discovered in the future. Such defects, errors or difficulties could result in loss of sales, delays in or elimination of market acceptance, damage to our brand or to our reputation, returns, increased costs and diversion of development resources, redesigns and increased warranty and servicing costs. In addition, third-party products, upon which our applications are dependent, may contain defects, which could reduce or undermine entirely the performance of our applications.

Our customers typically use our applications to perform mission-critical functions. As a result, the defects and problems discussed above could result in significant financial or other damage to our customers. Although our sales agreements with our customers typically contain provisions designed to limit our exposure to potential product liability claims, we do not know if these limitations of liability are enforceable or would otherwise protect us from liability for damages to a customer resulting from a defect in one of our applications or the performance of our services. Our product liability insurance may not cover all claims brought against us.

SOFTLINE LIMITED HAS THE RIGHT TO ACQUIRE A CONTROLLING PERCENTAGE OF OUR COMMON STOCK, SO WE MAY BE EFFECTIVELY CONTROLLED BY SOFTLINE AND OUR OTHER STOCKHOLDERS ARE UNABLE TO AFFECT THE OUTCOME OF STOCKHOLDER VOTING.

Softline Limited beneficially owns 57.0% of our outstanding common stock, including shares Softline has the right to acquire upon conversion of its Series A Convertible Preferred Stock. Ivan M. Epstein, Softline's Chief Executive

Officer, and Robert P. Wilkie, Softline's Chief Financial Officer, serve on our board of directors. If Softline converts its Series A Preferred Stock, it may have effective control over all matters affecting us, including:

- the election of all of our directors;
- the allocation of business opportunities that may be suitable for Softline and us;
- any determinations with respect to mergers or other business combinations involving us;
- the acquisition or disposition of assets or businesses by us;
- debt and equity financing, including future issuance of our common stock or other securities;
- amendments to our charter documents;
- the payment of dividends on our common stock; and
- determinations with respect to our tax returns.

OUR BUSINESS MAY BE DISADVANTAGED OR HARMED IF SOFTLINE'S INTERESTS RECEIVE PRIORITY OVER OUR INTERESTS.

Conflicts of interest have and will continue to arise between Softline and us in a number of areas relating to our past and ongoing relationships. Conflicts may not be resolved in a manner that is favorable to us, and such conflicts may result in harmful consequences to our business or prospects.

SOFTLINE'S INFLUENCE ON OUR COMPANY COULD MAKE IT DIFFICULT FOR ANOTHER COMPANY TO ACQUIRE US, WHICH COULD DEPRESS OUR STOCK PRICE.

Softline's potential voting control could discourage others from initiating any potential merger, takeover or other change of control transaction that may otherwise be beneficial to our business or our stockholders. As a result, Softline's control could reduce the price that investors may be willing to pay in the future for shares of our stock, or could prevent any party from attempting to acquire us at any price.

OUR STOCK PRICE HAS BEEN HIGHLY VOLATILE.

The market price of our common stock has been, and is likely to continue to be, volatile. When we or our competitors announce new customer orders or services, change pricing policies, experience quarterly fluctuations in operating results, announce strategic relationships or acquisitions, change earnings estimates, experience government regulatory actions or suffer from generally adverse economic conditions, our stock price could be affected. Some of the volatility in our stock price may be unrelated to our performance. Recently, companies similar to ours have experienced extreme price fluctuations, often for reasons unrelated to their performance.

WE HAVE NEVER PAID A DIVIDEND ON OUR COMMON STOCK AND WE DO NOT INTEND TO PAY DIVIDENDS IN THE FORESEEABLE FUTURE.

We have not previously paid any cash or other dividend on our common stock. We anticipate that we will use our earnings and cash flow for repayment of indebtedness, to support our operations, and for future growth, and we do not have any plans to pay dividends in the foreseeable future. Our agreement with Union Bank prohibits us from paying dividends, and Softline is entitled to dividends on its Series A Convertible Preferred Stock in preference and priority to common stockholders. Future equity financing(s) may further restrict our ability to pay dividends.

THE TERMS OF OUR PREFERRED STOCK MAY REDUCE THE VALUE OF YOUR COMMON STOCK.

We are authorized to issue up to 5,000,000 shares of preferred stock in one or more series. We issued 141,000 shares of Series A Convertible Preferred Stock to Softline in May 2002. Our board of directors may determine the terms of subsequent series of preferred stock without further action by our stockholders. If we issue additional preferred stock, it could affect your rights or reduce the value of your common stock. In particular, specific rights granted to future holders of preferred stock could be used to restrict our ability to merge with or sell our assets to a third party. These terms may include voting rights, preferences as to dividends and liquidation, conversion and redemption rights, and sinking fund provisions. We are actively seeking capital, and some of the arrangements we are considering may involve the issuance of preferred stock.

FAILURE TO COMPLY WITH THE AMERICAN STOCK EXCHANGE'S LISTING STANDARDS COULD RESULT IN OUR DELISTING FROM THAT EXCHANGE AND LIMIT THE ABILITY TO SELL ANY OF OUR COMMON STOCK.

Our stock is currently traded on the American Stock Exchange. The Exchange has published certain guidelines it uses in determining whether a security warrants continued listing. These guidelines include financial, market capitalization and other criteria, and as a result of our financial condition or other factors, the Exchange could in the future determine that our stock does not merit continued listing. If our stock were delisted from the American Stock Exchange, the ability of our stockholders to sell our common stock could become limited, and we would lose the advantage of some state and federal securities regulations imposing lower regulatory burdens on exchange-traded issuers.

DELAWARE LAW AND SOME PROVISIONS OF OUR CHARTER AND BYLAWS MAY ADVERSELY AFFECT THE PRICE OF YOUR STOCK.

Special meetings of our stockholders may be called only by the Chairman of the Board, the Chief Executive Officer or the Board of Directors. Stockholders have no right to call a meeting and may not act by written consent. Stockholders must also comply with advance notice provisions in our bylaws in order to nominate directors or propose matters for stockholder action. These provisions of our charter documents, as well as certain provisions of Delaware law, could delay or make more difficult certain types of transactions involving a change in control of the company or our management. Delaware law also contains provisions that could delay or make more difficult change in control transactions. As a result, the price of our common stock may be adversely affected.

SHARES ISSUED UPON THE EXERCISE OF OPTIONS AND WARRANTS COULD DILUTE YOUR STOCK HOLDINGS AND ADVERSELY AFFECT OUR STOCK PRICE.

We have issued options and warrants to acquire common stock to our employees and certain other persons at various prices, some of which are or may in the future be below the market price of our stock. If exercised in the money, these options and warrants will cause immediate and possibly substantial dilution to our stockholders. We currently have all of the outstanding options and warrants for 3,104,569 shares at prices above the recent market price of $1.08 per share, and if the current market price increases, these options and warrants could have a dilutive effect on stockholders if exercised. Our existing stock option plan currently has approximately 1,766,465 shares available for issuance. Future options issued under the plan may have further dilutive effects.

Sales of shares pursuant to exercisable options and warrants could lead to subsequent sales of the shares in the public market, and could depress the market price of our stock by creating an excess in supply of shares for sale. Issuance of these shares and sale of these shares in the public market could also impair our ability to raise capital by selling equity securities.

ITEM 3. - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact our consolidated financial position, results of operations or cash flows. We are exposed to market risks, which include changes in interest rates, changes in foreign currency exchange rate as measured against the U.S. dollar and changes in the value of stock of a publicly traded company, which secures a promissory note we hold.

INTEREST RATE RISK

Our exposure to market risk for changes in interest rates relates to our revolving credit borrowings and variable rate term loans, which totaled $7.3 million at January 31, 2003. Based on this balance, a change in one percent in the interest rate would cause a change in interest expense of approximately $73,000 or $0.01 per basic and diluted share, on an annual basis.

These instruments were not entered into for trading purposes and carry interest at a pre-agreed upon percentage point spread from the bank's prime interest rate. Our objective in maintaining these variable rate borrowings is the flexibility obtained regarding early repayment without penalties and lower overall cost as compared with fixed-rate borrowings.

FOREIGN CURRENCY EXCHANGE RATE RISK

We conduct business in various foreign currencies, primarily in Europe. Revenues are typically denominated in the local foreign currency, which creates exposures to changes in exchange rates. These changes in the foreign currency exchange rates as measured against the U.S. dollar may positively or negatively affect our revenues, gross margins and retained earnings. We attempt to minimize currency exposure risk through decentralized sales, development, marketing and support operations, in which substantially all costs are local-currency based. There can be no assurance that such an approach will be successful, especially in the event of a significant and sudden decline in the value of the foreign currency. We do not hedge against foreign currency risk. Approximately 12% and 18% of our total revenues were denominated in currencies other than the U.S. dollar for the nine months ended December 31, 2002 and 2001, respectively.

EQUITY PRICE RISK

We have no direct equity investments.

ITEM 4 - CONTROLS AND PROCEDURES

VALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company's Chief Operating Officer and Chief Financial Officer believe the Company's disclosure controls and procedures, as defined in Securities Exchange Act Rules 13a-14 and 15d-14, are effective. This conclusion was reached after an evaluation of these controls and procedures as of December 31, 2002.

CHANGES IN INTERNAL CONTROLS

We are not aware of any significant changes in the Company's internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses, or in other factors that could significantly affect these

controls after December 31, 2002.

PART II. - OTHER INFORMATION

ITEM 1. - LEGAL PROCEEDINGS

In the Form 10K that we filed for the year ended March 31, 2002, we reported that our former Chief Executive Officer, Thomas A. Dorosewicz, filed in April, 2002 a demand with the California Labor Commissioner for $256,250 in severance benefits allegedly due under a disputed employment agreement, plus attorney's fees and costs. Mr. Dorosewicz's demand was later increased to $283,893.53. On June 18, 2002, we filed an action against Mr. Dorosewicz, Michelle Dorosewicz, and an entity affiliated with him in the San Diego Superior Court, Case No. GIC790833, alleging fraud and other causes of action relating to transactions Mr. Dorosewicz caused us to enter into with his affiliates and related parties without proper board approval. On July 31, 2002, Mr. Dorosewicz filed cross-complaints in that action alleging breach of statutory duty, breach of contract, fraud and other causes of action relating his employment with the Company and other transactions he entered into with the Company. These matters are still pending and the parties have agreed to resolve all claims in binding arbitrations.

On August 30, 2002, Cord Camera Centers, Inc., an Ohio corporation ("Cord Camera"), filed a lawsuit against one of our subsidiaries, SVI Retail, Inc. ("SVI Retail"), as the successor to Island Pacific Systems Corporation ("Island Pacific"), in the United States District Court for the Southern District of Ohio, Eastern Division (Case No. C2 02 859). The lawsuit claims damages in excess of $1.5 million, plus punitive damages of $250,000, against SVI Retail based upon alleged fraud, negligent misrepresentation, breach of express warranties, and breach of contract. These claims pertain to a certain License Agreement dated December, 1999, as amended, between Cord Camera and Island Pacific for the use of certain software products, a certain Services Agreement between the parties for consulting, training and product support for the software products, and a POS Software Support Agreement between the parties for maintenance and support services for a certain software product. We cannot at this time predict the merits of this case because it is in its preliminary stage and discovery has not yet commenced. However, SVI Retail intends to vigorously defend the action and possibly file one or more counter-claims.

Due to the declining performance of our Australian subsidiary, we decided in the third quarter of fiscal 2002 to sell certain assets of our Australian subsidiary to the former management of such subsidiary, and then cease Australian operations. Such sale was however subject to the approval of National Australia Bank, the subsidiary's secured lender. The bank did not approve the sale and the subsidiary ceased operations in February 2002. The bank caused a receiver to be appointed in February 2002 to sell substantially all of the assets of the Australian subsidiary and pursue collections on any outstanding receivables. The receiver proceeded to sell substantially all of the assets for $300,000 in May 2002 to the entity affiliated with former management, and is actively pursuing the collection of receivables. If the sale proceeds plus collections on receivables are insufficient to discharge the indebtedness to National Australia Bank, we may be called upon to pay the deficiency under our guarantee to the bank. We have accrued $187,000 as the maximum amount of our potential exposure. The receiver has also claimed that we are obligated to it for inter-company balances of $636,000, but we do not believe any amounts are owed to the receiver, who has not as of the date of this report acknowledged the monthly corporate overhead recovery fees and other amounts charged by us to the

Australian subsidiary offsetting the amount claimed to be due.

Except as set forth above, we are not involved in any material pending legal proceedings, other than ordinary routine litigation incidental to our business.

ITEM 2. - CHANGES IN SECURITIES AND USE OF PROCEEDS

During the quarter ended December 31, 2002, we issued:

- an aggregate of 595,200 shares of common stock to Softline Limited, our majority stockholder, as payments for $390,000 past due loan refinancing fees and payables.

- 1,010,000 shares of common stock to a stockholder as repayment of a loan with the outstanding balance of $388,000. This loan was acquired in connection with the acquisition of Island Pacific.

- 100,000 shares of common stock to an employee as bonus payment of $25,000 earned in the current fiscal year.

- 60,000 shares of common stock to our attorney as payment for $30,000 legal services provided in prior periods.

- 50,000 shares of common stock as payment for $8,000 consulting fee incurred in current quarter.

The foregoing securities were offered and sold without registration pursuant to Section 4(2) of the Securities Act of 1933 to sophisticated investors who had access to all information which would be pertinent to their investment decisions.

ITEM 6. - EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

2.1 Business Sale Agreement dated May 3, 2002 among the receivers and managers of the assets of SVI Retail (Pty) Limited and QQQ Systems PTY Limited, incorporated by reference to exhibit 2.3 to the Company's Form 10-K for the fiscal year ended March 31, 2002.

3.1 Certificate of Designation, incorporated by reference to exhibit 4.1 of the Company's Form 8-K filed May 16, 2002.

10.1 Second Amendment to Amended and Restated Term Loan Agreement between the Company and Union Bank of California, N.A. dated as of May 21, 2001, incorporated by reference to exhibit 10.5 to the Company's Form 10-K for the fiscal year ended March 31, 2002.

10.2 Third Amendment to Amended and Restated Term Loan Agreement between the Company and Union Bank of California, N.A. dated as of July 15, 2002, incorporated by reference to exhibit 10.6 to the Company's Form 10-K for the fiscal year ended March 31, 2002.

10.3 Fourth Amendment to Amended and Restated Term Loan Agreement between the Company and Union Bank of California, N.A. dated as of November 15, 2002.

10.4 Warrant in favor of UNIONBANCAL EQUITIES, Inc. dated January 2, 2003.

10.5 Amendment Agreement to between the Company, Koyah Leverage Partners, Koyah Partners, L.P., Raven Partners, L.P., Nigel Davey, and Brian Cathcart dated July 15, 2002, incorporated by reference to exhibit 10.11 to the Company's Form 10-K for the fiscal year ended March 31, 2002.

10.6 First Amendment to Amendment Agreement between the Company, Koyah Leverag Partners, Koyah Partners, L.P., Raven Partners, L.P., Nigel Davey, and Brian Cathcart dated December 5, 2002.

10.7 Summary of loan transactions between the Company and World Wide Business Centres, incorporated by reference to exhibit 10.12 to the Company's Form 10-K for the fiscal year ended March 31, 2002.

10.8 Purchase Agreement between the Company and Toys "R" Us, Inc. dated May 29, 2002, incorporated by reference to exhibit 10.14 to the Company's Form 10-K for the fiscal year ended March 31, 2002.

10.9 Convertible Note in favor of Toys "R" Us, Inc. dated May 29, 2002, incorporated by reference to exhibit 10.15 to the Company's Form 10-K for the fiscal year ended March 31, 2002.

10.10 Warrant in favor of Toys "R" Us, Inc. dated May 29, 2002, incorporated by reference to exhibit 10.16 to the Company's Form 10-K for the fiscal year ended March 31, 2002.

10.11 Development Agreement between the Company and Toys "R" Us, Inc. dated May 29, 2002, incorporated by reference to exhibit 10.17 to the Company's Form 10-K for the fiscal year ended March 31, 2002. Portions of this exhibit (indicated by asterisks) have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934.

31.1 Rules 13a-14 and 15d-14 certification from Principal Executive Officer.

31.2 Rules 13a-14 and 15d-14 certification from Principal Financial and Accounting Officer

32.1 Section 1350 Certification of Principal Executive Officer.

32.2 Section 1350 Certification of Principal Financial and Accounting Officer.

(b) REPORTS ON FORM 8-K

None

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly cause this report to be signed on its behalf by the undersigned thereunto duly authorized.

SVI Holdings, Inc.
Registrant

/S/ Corinne Bertrand

Date: January 25, 2005

Corinne Bertrand
Chief Financial Officer
Signing on behalf of the registrant