

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

ISLAND PACIFIC INC
Form 424B3
July 27, 2004

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-111009

PROSPECTUS SUPPLEMENT NO. 4
Island Pacific, Inc., a Delaware corporation
(formerly known as SVI Solutions, Inc.)
Common Stock

This Prospectus Supplement relates to the resale by the holders of Common Stock.

The prospectus dated February 3, 2004, as supplemented by prospectus supplement no. 1 dated February 13, 2004, prospectus supplement no. 2 dated March 8, 2004 and prospectus supplement no. 3 dated March 18, 2004 (the "Prospectus"), is hereby amended by the information contained in the attached report on Form 8-K filed on June 14, 2004, the attached report on Form 10-K filed on June 29, 2004 and the attached report on Form 8-K filed on July 21, 2004. If the information in the attached reports is inconsistent with any information contained in the Prospectus or any prospectus supplement dated earlier than the date of this Supplement, the Prospectus or any earlier supplement shall be deemed superceded by this Supplement. In all other ways, the Prospectus and any prior supplement shall remain unchanged.

This Prospectus Supplement should be read in conjunction with, and may not be delivered or utilized without, the Prospectus.

This Prospectus Supplement is dated July 27, 2004.

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K
CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): June 1, 2004

Island Pacific, Inc.
(formerly known as SVI Solutions, Inc.)

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of Incorporation)

0-23049

33-0896617

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

(Commission File Number)

(IRS Employer Identification No.)

19800 MacArthur Boulevard, Suite 1200, Irvine, California

92612

(Address of Principal Executive Offices)

(Zip Code)

(949) 476-2212

(Registrant's telephone number, including area code)

(Former Name or Former Address, if Changed Since Last Report)

ITEM 2.

On June 4, 2004, Island Pacific, Inc. ("IPI") acquired Retail Technologies International, Inc. ("RTI") from its shareholders, Michael Tomczak, Jeffrey Boone and Intuit Inc. ("Intuit"), in a merger transaction. On March 12, 2004, IPI, RTI, IPI Merger Sub, Inc. ("Merger Sub") and Michael Tomczak and Jeffrey Boone (the "Shareholders") entered into the initial Agreement of Merger and Plan of Reorganization (the "March 12, 2004 Agreement"), which provided IPI would acquire RTI in a merger transaction in which RTI would merge with and into Merger Sub. The merger consideration contemplated by the March 12, 2004 Agreement was a combination of cash and IPI common stock. The March 12, 2004 Agreement was amended on June 1, 2004 by the Amended and Restated Agreement of Merger and Plan of Reorganization by and between IPI, RTI, Merger Sub, IPI Merger Sub II, Inc. ("Merger Sub II") and the Shareholders attached as Exhibit 2.1 (the "Amended Merger Agreement"). Pursuant to the Amended Merger Agreement the Merger (as defined below) was completed with the following terms: (i) IPI assumed RTI's obligations under those certain promissory notes issued by RTI on December 20, 2002 with an aggregate principal balance of \$2,288,637; (ii) the total consideration paid at the closing of the Merger was Ten Million Dollars (\$10,000,000) paid in shares of IPI Common Stock and newly designated Series B Convertible Preferred Stock ("IPI Series B Stock") and promissory notes; (iii) the Shareholders and Intuit Inc. ("Intuit") are entitled to price protection payable in promissory notes if and to the extent that the average trading price of IPI Common Stock is less than \$0.76 at the time the shares of IPI Common Stock issued in the Merger and issuable upon conversion of the IPI Series B Stock are registered pursuant to the Registration Rights Agreement dated June 1, 2004 between IPI, the Shareholders and Intuit attached as Exhibit 4.1 (the "Registration Rights Agreement"); and (iv) the merger consisted of two steps (the "Merger"), first, Merger Sub merged with and into RTI, Merger Sub's separate corporate existence ceased and RTI continued as the surviving corporation (the "Reverse Merger"), and immediately thereafter, RTI merged with and into Merger Sub II, RTI's separate corporate existence ceased and Merger Sub II continued as the surviving corporation (the "Second-Step Merger").

As a result of the Merger, each of the Shareholders received 1,258,616 shares of IPI Series B Stock and a promissory note payable monthly over two years in the principal amount of \$1,295,458 bearing interest at 6.5% per annum. As a result of the Merger, Intuit, the holder of all of the outstanding shares of RTI's Series A Preferred Stock, received 1,546,733 shares of IPI Common Stock and a promissory note payable monthly over two years in the principal amount of \$530,699.66 bearing interest at 6.5% per annum.

The Shareholders and Intuit were also granted registration rights.

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

Under the Registration Rights Agreement, IPI agreed to register the Common Stock issuable upon conversion of the IPI Series B Stock issued to the Shareholders within 30 days of the automatic conversion of the IPI Series B Stock into Common Stock, which will occur upon IPI filing an amendment to its Certificate of Incorporation with the Delaware Secretary of State increasing the authorized number of shares of Common Stock ("Certificate of Amendment") after securing shareholder approval for the Certificate of Amendment. Under the Registration Rights Agreement, Intuit is entitled to demand registration or to have its shares included on any registration statement filed prior to the filing of the registration statement covering the Shareholders' shares, subject to certain conditions and limitations, or if not previously registered to have its shares included on the registration statement registering the Shareholders' shares. The Shareholders and Intuit are entitled to price protection payments of up to a maximum of \$0.23 per share payable by promissory note, if and to the extent that the average closing price of IPI Common Stock for the 10 days immediately preceding the date the registration statement covering their shares is declared effective by the Securities and Exchange Commission is less than the 10 day average closing price for the 10 days immediately preceding as of June 1, 2004 (\$0.76).

2

Pursuant to the Amended Merger Agreement, The Sage Group, plc as well as certain officers and directors of IPI signed voting agreements that provide they will not dispose of or transfer their shares of IPI's capital stock and that they will vote their shares of IPI's capital stock in favor of the Certificate of Amendment and the Amended Merger Agreement and transactions contemplated therein.

Upon the consummation of the Merger, Michael Tomczak, RTI's former President and Chief Executive Officer, was appointed President and Chief Operating Officer of IPI, and Jeffrey Boone, RTI's former Chief Technology Officer was appointed Chief Technology Officer of IPI. IPI is required to use best efforts to have Mr. Tomczak appointed to IPI's board of directors. IPI also entered into two-year employment agreements and non-competition agreements with both Mr. Tomczak and Mr. Boone.

The IPI Common Stock and the IPI Series B Stock issued in connection with the Merger was issued without registration under the Securities Act of 1933, as amended (the "Securities Act"), under the exemption provided by Section 4(2) of the Securities Act and Regulation D thereunder.

The aggregate consideration paid in the Merger was determined through arms length negotiations between the parties to the Merger.

RTI's financial statements and related pro forma financial statements will be filed on a Form 8-K/A by August 14, 2004.

The foregoing descriptions of the Amended Merger Agreement and any related agreements do not purport to be complete and are qualified in their entirety by the terms and conditions of the Amended Merger Agreement and related agreements attached hereto as exhibits and incorporated herein by reference.

3

EXHIBIT INDEX

Exhibit No.	Description
-----	-----

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

- 2.1 Amended and Restated Agreement of Merger and Plan of Reorganization dated June 1, 2004 by and between Island Pacific, Inc., Retail Technologies International, Inc., IPI Merger Sub, Inc., IPI Merger Sub II, Inc., Michael Tomczak and Jeffrey Boone.
- 2.2 Agreement of Merger dated June 1, 2004 between IPI Merger Sub II, Inc. and Retail Technologies International, Inc.
- 3.1 Certificate of Designation dated June 2, 2004.
- 4.1 Registration Rights Agreement dated June 1, 2004 by and between Island Pacific, Inc., Michael Tomczak, Jeffrey Boone and Intuit Inc.
- 4.2 Form of Voting Agreement
- 10.1 Employment Agreement dated June 1, 2004 by and between Island Pacific, Inc. and Michael Tomczak.
- 10.2 Employment Agreement dated June 1, 2004 by and between Island Pacific, Inc. and Jeffrey Boone.

4

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereto duly authorized.

Island Pacific, Inc.

Date: June 14, 2004

By: /s/ Ran Furman

Name: Ran Furman
Title: Chief Financial Officer

5

=====
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED MARCH 31, 2004

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

[] TRANSACTION 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

ISLAND PACIFIC, INC.

(FORMERLY KNOWN AS 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)

19800 MACARTHUR BLVD, SUITE 1200, IRVINE, CA

92612

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (949) 476-2212

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Name of each exchange on which registered
Common Stock, \$0.0001 Par Value American Stock Exchange

Securities registered under Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) 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 by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (ss. 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

Yes [] No [X]

The aggregate market value of the registrant's voting and non-voting common stock held by non-affiliates, based on the closing sale price of the registrant's common stock on September 30 2003 as reported on the American Stock Exchange, was approximately \$65.5 million. Excludes shares of common stock held by directors, officers and each person who holds 5% or more of the registrant's common stock.

The number of shares outstanding of the registrant's Common Stock was 53,974,532 on June 1, 2004.

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

DOCUMENTS INCORPORATED BY REFERENCE

None.

TABLE OF CONTENTS

PART I

Item 1. Business.....
Item 2. Properties.....
Item 3. Legal Proceedings.....
Item 4. Submission of Matters to a Vote of Security Holders.....

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.....
Item 6. Selected Financial Data.....
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Business Risks.....
Item 7A. Quantitative and Qualitative Disclosures About Market Risk.....
Item 8. Financial Statements and Supplementary Data.....
Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosures.....
Item 9A. Controls and Procedures.....

PART III

Item 10. Directors and Executive Officers of the Registrant.....
Item 11. Executive Compensation.....
Item 12. Security Ownership of Certain Beneficial Owners and Management.....
Item 13. Certain Relationship and Related Transactions.....
Item 14. Principal Accountant Fees and Services.....

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K.....
Signatures.....
Certifications.....

INTRODUCTORY NOTE

THE ANNUAL REPORT ON FORM 10-K CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933 AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934 AND THE COMPANY INTENDS THAT CERTAIN MATTER DISCUSSED IN THIS REPORT ARE "FORWARD-LOOKING STATEMENTS" INTENDED TO QUALIFY FOR THE SAFE HARBOR FROM LIABILITY ESTABLISHED BY THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. THESE FORWARD-LOOKING STATEMENTS CAN GENERALLY BE IDENTIFIED BY THE CONTEXT OF THE STATEMENT WHICH MAY INCLUDE WORDS SUCH AS THE COMPANY ("ISLAND PACIFIC", "IPI", "WE" OR "US") "BELIEVES", "ANTICIPATES", "EXPECTS", "FORECASTS", "ESTIMATES" OR OTHER WORDS SIMILAR MEANING AND CONTEXT. SIMILARLY, STATEMENTS THAT DESCRIBE FUTURE PLANS, OBJECTIVES, OUTLOOKS, TARGETS, MODELS, OR GOALS ARE ALSO DEEMED FORWARD-LOOKING STATEMENTS. THESE FORWARD-LOOKING STATEMENTS ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE FORECASTED OR ANTICIPATED AS OF THE DATE OF THIS REPORT. CERTAIN OF SUCH RISKS AND UNCERTAINTIES ARE DESCRIBED IN CLOSE PROXIMITY TO SUCH STATEMENTS AND ELSEWHERE IN THIS REPORT, INCLUDING ITEM 7, "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS." STAKEHOLDERS, POTENTIAL INVESTORS AND OTHER READERS ARE URGED TO CONSIDER THESE FACTORS IN EVALUATING THE FORWARD-LOOKING STATEMENTS AND ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON SUCH FORWARD-LOOKING STATEMENTS OR CONSTRUCE SUCH STATEMENTS TO BE A

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

REPRESENTATION BY US THAT OUR OBJECTIVES OR PLANS WILL BE ACHIEVED. THE FORWARD-LOOKING STATEMENTS INCLUDED IN THIS REPORT ARE MADE ONLY AS OF THE DATE OF THIS REPORT, AND WE UNDERTAKE NO OBLIGATION TO PUBLICLY UPDATE SUCH FORWARD-LOOKING STATEMENTS TO REFLECT SUBSEQUENT EVENTS OR CIRCUMSTANCES.

ITEM 1. BUSINESS

GENERAL

We are a provider of software solutions and services to the retail industry. We provide solutions that help retailers understand, create, manage and fulfill consumer demand. The Company is organized in three strategic business units - Retail Management Solutions, Store Solutions and Multi-channel Retail Solutions.

Our solutions and services have been developed specifically to meet the needs of the retail industry. Our solutions help retailers improve the efficiency and effectiveness of their operations and build stronger, longer lasting relationships with their customers.

We market our software solutions through direct and indirect sales channels primarily to retailers who sell to their customers through traditional retail stores, catalogs and/or Internet-enabled storefronts. To date, we have licensed our solutions to more than 200 retailers across a variety of retail sectors.

ISLAND PACIFIC

Historically, retailers have relied upon custom-built systems, often self-developed, to manage business processes and business information with both trading partners and customers. These legacy systems are typically built on 1960s business models and 1970s technology. They are not Internet-enabled, and do not permit collaboration among a retailer's customers, partners, suppliers and other members of the supply/demand chain. Moreover, they reflect the thinking of a seller's market.

Over the past few years, retailers have begun to purchase packaged solutions designed specifically for the retail industry. Most of these systems are very expensive to license, and very expensive, time-consuming and difficult to implement. They have been primarily positioned to the largest companies, who have enormous amounts of managerial, technical and financial resources at their disposal - organizations for which distraction and mistakes are affordable.

These solutions ignore the needs of the small to medium sized retailers, who have many of the same needs and face many of the same challenges as do the larger retailers, but lack the managerial, financial and technological capacity of the larger retailers.

Our solutions serve the small to medium sized market.

All retailers today face the challenge of operating in a very competitive environment, an environment that can be best described as over-stored and over-homogenized -- an environment in which power has shifted from the seller to the buyer.

As retailers expand their businesses to include the Internet, catalog, kiosk and other distribution channels, the complexity of managing inventory and meeting customer demands places tremendous pressure on their business processes and their technology infrastructure.

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

To meet an ever more mobile and demanding consumer's expectations, retailers need to deliver on the customer's terms. This means having the right product, at the right time and in the right place across multi-channel touch points. To do this, retailers need valuable consumer insights, intelligence on external factors that shape consumer response such as how the weather, the economy and changing consumer attitudes will affect future buying patterns. This intelligence, augmented by powerful communications, comprehensive loss prevention, strong forecasting, planning, assortment planning, allocation, event planning, replenishment and merchandising functions are critical to profitably achieve this goal. These represent the content of our product offering.

Small to medium sized retailers need a cost-effective, easily installed, affordable, comprehensive, integrated software infrastructure that spans supplier to consumer and gives the retailer visibility, flexibility and control of all business processes to meet all competitive challenges.

We believe a market opportunity exists to provide these retailers with a software solution that is designed specifically for their needs. This solution should be easy-to-use, leverage a retailer's existing investments in information technology and be sufficiently flexible to meet the specific needs of a broad range of retail sectors, such as fashion, hard-lines, mass merchandise or food and drug.

We have developed and deployed software solutions that enable retailers to manage the entire scope of their operations. These operations include point-of-sale, customer relationship management, vendor relationship management, merchandising, demand chain management, planning, and forecasting.

Key areas, which differentiate our software solutions, include:

- o VALUE - Our integrated and modular architecture helps retailers meet return on investment objectives by allowing them to implement the most critical and valuable applications first. This modular architecture decreases migration path risk for the replacement of legacy systems and increases the probability of an on-time, on-budget implementation project.
- o PROVEN - We are a leading provider of retail infrastructure software and services. We understand the complex needs of retailers and have designed our solutions specifically for the retail industry. We provide certain software products and services infrastructure for retailers with combined revenues of over \$200 billion annually.
- o SCALABLE - Our solutions are engineered to provide scalability to efficiently handle large volumes of transactions and users. Our solutions work in environments that span from one to five thousand stores.
- o INNOVATIVE - Our partnerships and our solutions include some of the most advanced technologies available to retailers.

STRATEGY

Our mission is to provide the small to medium sized retailer all the intelligence, tools and infrastructure necessary to success in a highly competitive environment.

Our mission is to make this information and these tools and infrastructure useable, affordable and reliable for end-use in highly volatile environments.

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

Our mission is to make our products and services easy to acquire, easy to install and easy to live with.

Our mission is to create value for retailers by providing valuable intelligence and innovative technology solutions that help to understand, create, manage, and fulfill consumer demand.

Our strategies are as follows:

3

- o INCREASE OUR MARKET SHARE. We believe we can continue to build and expand our position of leadership within the retail packaged software applications market as the retail industry increasingly turns to packaged software applications as an alternative to expensive in-house and custom developed applications.
- o PROVIDE HIGH LEVELS OF CUSTOMER SATISFACTION. The retail industry is strongly influenced by formal and informal references. We believe we have the opportunity to expand market share by providing high levels of customer satisfaction with our current customers, thereby fostering strong customer references to support sales activities.
- o DELIVER VALUE TO OUR CUSTOMERS. We believe that maximizing our customers' return on investment will help us compete in our market space and increase our market share.
- o BECOME THE PREFERRED APPLICATION AND TECHNOLOGY ARCHITECTURE FOR THE SMALL TO MEDIUM SIZED RETAILERS GLOBALLY. By leveraging our 25 years of success, we believe we are uniquely positioned to become the preferred application and technology architecture provider for retail software and associated services to this market.
- o FULFILL THE MULTI-CHANNEL REQUIREMENTS OF RETAILERS. Through the acquisition of Page Digital, we believe we will be able to address the expanding needs of retailers to cohesively manage their varied channels of distribution.

RECENT DEVELOPMENTS

OPERATIONAL IMPROVEMENTS

In recent periods, we have taken a number of steps designed to improve our balance sheet and operations, including:

- o Purchased complementary businesses, with substantial revenues and earnings potential.
- o Revamped our management team by adding a new President and COO and CTO with longstanding industry experience, as well as a new CFO.
- o Recapitalized our balance sheet, eliminating substantial debt and raising new equity in its place.
- o Improved our IBM-based core products through continuing internal research and development.

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

- o Obtained the rights to distribute complementary products, including a new easy-to-install and easy-to-use, open-architecture software system for very small retailers, which we will introduce in 2004.
- o Established partnerships with several value added resellers to provide a variety of options and product extensions.
- o Improved our distribution capabilities by adding new third party channels, such as IBM and IBM's resellers, and professional service firms such as CGI and LakeWest.

We believe that these actions have positioned us for a return to sustained revenue growth and profitability.

ACQUISITION OF PAGE DIGITAL

As part of our strategy to meet the expanding needs of multi-channel retailers, on January 30, 2004, we acquired Page Digital Incorporated ("Page Digital" through a merger transaction for total consideration of \$7.0 million, consisting of \$2.0 million in cash and 2,500,000 shares of our common shares valued at \$2.00 per share. Page Digital develops multi-channel commerce software solutions and has a suite of direct commerce applications that complete the multi-channel retail distribution and customer service chain for Internet, telephone, brick and mortar, catalog and other direct commerce channels. Our acquisition of Page Digital will continue to enhance our ability to provide our combined customer bases with e-commerce, customer relationship management and catalog management solutions. In connection with the Page Digital acquisition, we added approximately 40 employees. Page Digital had total assets of \$2.1 million as of October 31, 2003 and generated annual revenues of \$5.3 million in the fiscal year ended October 31, 2003.

The legitimization of business to business and business to consumer direct commerce (Internet, brick-and-mortar, catalog, and other) has rapidly created a substantial market for the Page Digital suite of direct commerce applications. According to the United States Department of Commerce, the market for multi-channel direct commerce applications was just \$15 billion in 1999, grew to \$27.3 billion in 2000, grew to \$32.6 billion in 2001, and it is growing at a rate 2.5 times greater than traditional retailing (Source: Internet Retailer, April 2002). The acquisition of Page Digital will enable us to continue to provide our customers with Page Digital's e-commerce, customer relations management, and Catalog Management solutions. We expect to further integrate these solutions into our offerings to enable customers to complete the multi-channel retail distribution and customer service chain. In addition, the acquisition will also allow us to offer Page Digital's customers the IP

4

Merchandising solution, as well as Point of Sale, Loss Prevention, and IP's other alliance solutions.

ACQUISITION OF RTI

Pursuant to an agreement dated June 1, 2004, we acquired Retail Technologies International, Inc. ("RTI") from Michael Tomczak, Jeffrey Boone and Intuit Inc. ("Intuit") in a merger transaction. On March 12, 2004, we, RTI, IPI Merger Sub, Inc., ("Merger Sub") and Michael Tomczak and Jeffrey Boone (the "Shareholders") entered the initial Agreement of Merger and Plan of Reorganization (the "March 12, 2004 Merger Agreement") which provided we would acquire RTI in a merger transaction in which RTI would merge with and into

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

Merger Sub. The merger consideration contemplated by the March 12, 2004 Merger Agreement was a combination of cash and shares of our common stock. The March 12, 2004 Merger Agreement was amended by the Amended and Restated Agreement of Merger and Plan of Reorganization, dated June 1, 2004, by and between us, RTI, Merger Sub, IPI Merger Sub II, Inc. ("Merger Sub II") and the Shareholders (the "Amended Merger Agreement").

Pursuant to the Amended Merger Agreement, the Merger (as defined below) was completed with the following terms: (i) we assumed RTI's obligations under those certain promissory notes issued by RTI on December 20, 2002 with an aggregate principal balance of \$2.3 million; (ii) the total consideration paid at the closing of the Merger was \$10.0 million paid in shares of our common stock and newly designated Series B convertible preferred stock ("Series B Preferred") and promissory notes; (iii) the Shareholders and Intuit are entitled to price protection payable if and to the extent that the average trading price of our common stock is less than \$0.76 at the time the shares of our common stock issued in the Merger and issuable upon conversion of the Series B Preferred are registered pursuant to the registration rights agreement dated June 1, 2004 between us, the Shareholders and Intuit (the "Registration Rights Agreement"); and (iv) the merger consisted of two steps (the "Merger"), first, Merger Sub merged with and into RTI, Merger Sub's separate corporate existence ceased and RTI continued as the surviving corporation (the "Reverse Merger"), immediately thereafter, RTI merged with and into Merger Sub II, RTI's separate corporate existence ceased and Merger Sub II continued as the surviving corporation (the "Second-Step Merger").

As a result of the Merger, each Shareholder received 1,258,616 shares of Series B Preferred and a promissory note payable monthly over two years in the principal amount of \$1,295,000 bearing interest at 6.5% per annum. As a result of the Merger, Intuit, the holder of all of the outstanding shares of RTI's Series A Preferred stock, received 1,546,733 shares of our common stock and a promissory note payable monthly over two years in the principal amount of \$530,700 bearing interest at 6.5% per annum.

The Shareholders and Intuit were also granted registration rights. Under the Registration Rights Agreement, we agreed to register the common stock issuable upon conversion of the Series B Preferred issued to the Shareholders within 30 days of the automatic conversion of the Series B Preferred into common stock. The automatic conversion will occur upon us filing an amendment to our certificate of incorporation with the Delaware Secretary of State increasing the authorized number of shares of our common stock ("Certificate of Amendment") after securing shareholder approval for the Certificate of Amendment. Under the Registration Rights Agreement, Intuit is entitled to demand registration or to have its shares included on any registration statement filed prior the registration statement covering the Shareholders' shares, subject to certain conditions and limitations, or if not previously registered to have its shares included on the registration statement registering the Shareholders' shares. The Shareholders and Intuit are entitled to price protection payments of up to a maximum of \$0.23 per share payable by promissory note, if and to the extent that the average closing price of our common stock for the 10 days immediately preceding the date the registration statement covering their shares is declared effective by the Securities and Exchange Commission, is less than the 10 day average closing price as of June 1, 2004, which was \$0.76.

Pursuant to the Amended Merger Agreement, The Sage Group, plc as well as certain officers and directors signed voting agreements that provide they will not dispose of or transfer their shares of our capital stock and that they will vote their shares of our capital stock in favor of the Certificate of Amendment and the Amended Merger Agreement and transactions contemplated therein.

Upon the consummation of the Merger, Michael Tomczak, RTI's former

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

President and Chief Executive Officer, was appointed our President, Chief Operating Officer and director and Jeffrey Boone, RTI's former Chief Technology Officer, was appointed our Chief Technology Officer. We entered into two-year employment agreements and non-competition agreements with Mr. Tomczak and Mr. Boone.

The combination of Island Pacific, RTI and Page Digital, will enable us to offer a fully integrated solution to mid-tier retailers that will be unique in the marketplace. As a result of this transaction, smaller retailers will now

5

be able to cost-effectively acquire a solution that provides both front and back-end support. The combination instantly expands our products, services offerings and distribution channels.

FINANCIAL INFORMATION ABOUT SEGMENTS AND GEOGRAPHIC AREAS

We currently structure our operations into three strategic business units. The business units are retail management solutions, store solutions and multi-channel retail solutions. Our operations are conducted principally in the United States and the United Kingdom. In addition, we manage long-lived assets by geographic region. The business units are as follows:

- o RETAIL MANAGEMENT SOLUTIONS ("RETAIL MANAGEMENT") - offers a suite of applications, which builds on our long history in retail software design and development. We provide our customers with extremely reliable, widely deployed, comprehensive and fully integrated retail management solutions. Retail Management Solutions includes merchandise management that optimizes workflow and provides the highest level of data integrity. This module supports all operational areas of the supply chain including planning, open-to-buy purchase order management, forecasting, warehouse and store receiving distribution, transfers, price management, performance analysis and physical inventory. In addition, Retail Management Solutions includes a comprehensive set of tools for analysis and planning, replenishment and forecasting, event and promotion management, warehouse, ticketing, financials and sales audit. Through collaborations with strategic partners, Retail Management offers tools for loss prevention, communication with stores and vendors, integration needs, purchase and allocation decisions, analysis of weather impact, control and management of business processes, consumer research, tracking consumer shopping patterns, forecasting and replenishment, and analyzing store people productivity.
- o STORE SOLUTIONS - offers a suite of applications that builds on our long history of providing multi-platform, client server in-store solutions. We market this set of applications under the name "OnePointe," which is a feature-rich application created with the specialty retailer in mind. More than 15 years of development has resulted in a solution with a high degree of fit and value out of the box. Additionally, the software was designed for easy customization, enabling our development team to quickly develop solutions to meet retailers' specific point-of-sale ("POS") and in-store processor (server) requirements.

In connection with our acquisition of RTI, Store Solutions

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

also offers POS application under the name "Retail Pro(R)" which provides a total solution for small to mid-tier retailers worldwide. Today, Retail Pro(R) is used by approximately 9,000 businesses in over 24,000 stores in 63 countries. The product is translated into fourteen languages making it one of the few quality choices for the global retailer. At its core, Retail Pro(R) is a high performance, 32-bit Windows application offering point-of-sale, inventory control and customer relations management. Running on WindowsNT, Windows2000, Windows XP Professional and Windows.Net platforms, Retail Pro(R) combines a fully user-definable graphical interface with support for a variety of input devices (from keyboard to touch screen). Its Retail Business Analytics module includes an embedded Oracle(r) 9i database. Retail Pro(R) is fast and easy to implement. The software has been developed to be very flexible and adaptable to the way a retailer runs its business.

- o MULTI-CHANNEL RETAIL SOLUTIONS ("MULTI-CHANNEL RETAIL") - Page Digital designs its application to specifically address direct commerce business processes, which primarily relate to interactions with the end-user. Having developed its software out of necessity to manage its own former direct commerce operation, Page Digital has been extremely attentive to functionality, usability and scalability. Its software components include applications for customer relations management, order management, call centers, fulfillment, data mining and financial management. Specific activities like partial ship orders, payments with multiple tenders, back

6

order notification, returns processing and continuum marketing represent just a few of the more than 1,000 parameterized direct commerce activities that have been built into its "Synaro"(TM) applications. Page Digital makes these components and its interfacing technology available to customers, systems integrators and independent software developers who may modify them to meet their specific needs. This growing base of inherited functionality continues to improve the market relevance of its products.

For further financial information about our business segments and geographic areas see our Financial Statements section and "Notes to Consolidated Financial Statements for the Year Ended March 31, 2004 - Note 15" thereunder.

PRODUCTS

We develop, partner and sell business intelligence and software solutions that support virtually all of the operational activities of a typical retailer. Our business intelligence is critical to sound strategy and execution. Our software solutions create value by applying innovative technology that helps our customers efficiently and effectively understand, create, manage and fulfill consumer demand. Our products can be deployed individually to meet specific business needs, or as part of a fully integrated, end-to-end solution.

Our solution set consists of the following components:

THE RETAIL MANAGEMENT SOLUTIONS are a combination of collaborations with partner companies and solutions developed internally by us. They are all completely integrated. Our offerings include:

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

- IP GLADIATOR: is a collaborative solution with Wazagua that orchestrates a myriad of processes across retail enterprise to deliver effective loss prevention. To do so, IP Gladiator enables an integrated asset protection workflow spanning exception management, investigation management, case management and civil collection. The salient features of this solution include: (a) availability in ASP or in-house modes, (b) advanced data mining to recognize loss patterns, and (c) POS platform independence.
- IP GLOBAL NETWORK: is an offering that cost-effectively enables retailer collaboration with vendors, including product design collaboration, and facilitates improved communication with stores. This will feature services such as teleconferencing, voice-over-IP, and instant messaging to deliver the collaboration capabilities.
- IP INTEGRATOR: is a common integration platform that seamlessly unifies all IP applications with partner applications as well as enables integrations to 3rd party and legacy applications of a retailer. It leverages an industry proven technology to deliver speed, reliability, maintainability and shorter implementation cycles in addressing integration needs. This solution is jointly developed with Bostech.
- IP BUYER'S WORKMATE: features a suite of integrated modules that enable, automate and enforce best practices leading to sound merchandise purchase and allocation decisions, in compliance with the approved budgets. This suite, along with the range of capabilities provided through IP Consumer Research, IP Weather Impacts, IP Profiling and the IP Core Merchandising suite, enables the retailer to plan and execute consumer-sensitive merchandising, placement, pricing and promotion decisions. The suite consists of:
 - IP DECISION SUPPORT: features an analytical processing tool designed to provide retailers with relevant, timely and detailed business information.
 - IP ASSORTMENT PLANNING: enables retailers to arrive at a well-researched and sound buying decisions - yielding merchandise assortments that meet local consumer demand, minimize inventory investment, accelerate sales, reduce inter-store transfers and reduce markdowns.
 - IP ALLOCATION: enables allocation of purchase order receipts, advanced shipping notices and warehouse back-stock in a manner sensitive to the assortment plan, merchandise performance, and store stocking levels.
- IP BUSINESS PROCESS OPTIMIZATION: is a collaborative retail process management solution offered in partnership with KMG that enables the retailers to improve productivity and reduce inefficiencies through better control and management of business processes. The applications of interest to retailers can range from operational activities such as new store construction and opening, global sourcing, distribution center optimization and promotions management to fiduciary

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

responsibilities and processes such tracking and control of financial reporting.

7

- o IP FORECASTING AND REPLENISHMENT: is a collaborative offering of a full feature forecasting and replenishment solution to address the needs of retailers seeking a higher end solution in this area.
- o IP STORE PEOPLE PRODUCTIVITY: application helps retailers analyze the productivity of stores, people and items, and transaction level sales productivity.

At the foundation of our application suite are the integrated modules that comprise our core-merchandising solution. They are as follows:

1. Merchandising Management

- o The Island Pacific Merchandising module is a comprehensive solution for management of core retail processes, which optimizes workflow and provides the highest level of data integrity.
- o This module supports all operational areas of the supply chain: Planning, Open-To-Buy, Purchase Order Management, Forecasting, Warehouse and Store Receiving, Distribution, Transfers, Price Management, Performance Analysis, and Physical Inventory.

2. The Eye(TM) Analysis and Planning

- o The Eye(TM), our datamart is a comprehensive analysis and planning tool that provides answers to retailers' merchandising questions. The specific "who, what, where, when and why" are defined in a multi-dimensional format. The Eye is completely integrated to IP Core Merchandising.
- o This application enables retailers to develop completely user-defined inquiries and reports. The capacity of The Eye to store, manipulate, and present information is limited only by a retailer's imagination.

3. Replenishment and Forecasting

- o The Island Pacific Replenishment module is a tool that ensures retailers will have the right merchandise in the right stores at the right time by dynamically forecasting accurate merchandise need, reducing lost sales, increasing stock turn, and reducing cost of sales.

4. Promotions and Events

- o The Island Pacific Event and Promotion Management

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

tool enables retailers to manage, plan and track all promotional and event related activities including price management, in-store display, deal, and media related promotions. The promotions addressed through this module can include non-price promotions as well. The analysis includes actual to plan comparisons prior to, during and after the event.

5. Warehouse

- o The Island Pacific Warehouse module provides enhanced control and visibility of product movement through the warehouse. Item, quantity and bin integrity is ensured through directed put away, task confirmation, RF procedures, automated cycle counts and carton control.

6. Ticketing

- o The Island Pacific Ticketing module supports both merchandise and warehouse location identification utilizing multiple printers and bar codes. User-configured tickets may include desired product characteristics, including but not limited to retail price, compare at pricing, item, style, color and size information.

7. Financials

- o The Island Pacific Financials module incorporates a General Ledger that is synchronized with the Merchandising Stock Ledger.

8

- o This module also includes a robust Accounts Payable application, which supports 3-way automated matching of invoices, receipts, and purchase orders that streamline workflow to optimize operations.

8. Sales Audit

- o This module is an integrated conduit between Point-of-Sale applications and the Island Pacific Host System, which manages the upload- and download-processes. The upload process manages all transactional information that occurs at the store such as Sales, Customer Returns, Physical Inventory, Transfers, Acknowledgements, Purchase Order Drop Ship Receipts, Layaway, and Special Order. The Download process manages all Store pricing including Price Look Up, Promotional pricing, Deal pricing, Event pricing, Price Changes, Markdowns, On Order to Stores, In-transit, Current Inventory, Company definitions (Hierarchy, Constants, Vendors, Stores)
- o This application is flexible relative to POS

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

requirements, while featuring full integration to IP POS product, OnePointe.

THE STORE SOLUTIONS offers applications under the names "OnePointe," and "Retail Pro(R)."

"OnePointe" is a complete application providing all point-of-sale and in-store processor (server) features along with multi-channel capability (peer-to-peer) for traditional "brick and mortar" retail operations. The features are as follows:

- o POS Terminal is a robust, easy to use system. Some of key features are transaction processing, merchandise recording, handling tendering, handling exceptions and administrative functions
- o In-Store Processor houses the back-office functions and allows central management of the store and POS system. This is a full-featured, easy-to-use application. Functions supported by the system include modifiable parameters, reports, store operations, back office operations and maintenance functions.
- o For Multi-Channel capability, "OnePointe" utilizes advanced communications technology that provides connectivity between different retail touch points in real time, allowing any device on the network, via LAN, WAN, internet or intranet, the ability to access another at any time.

Retail Pro(R) is a leading point-of-sale and inventory management software used by specialty retailers worldwide. The following is brief description of some of the functionality of Retail Pro(R):

POINT OF SALE

CASH DRAWER AND RECEIPT FUNCTIONS	Data is captured for analysis and inventory is updated in real time. Drives all required hardware at point of sale.
INTEGRATED CREDIT CARD PROCESSING	Supports authorization and processing of all major payment types including credit, debit and gift cards.
CUSTOMER DATA	Customer name and address information is entered at point of sale where buying history can be viewed. Purchase history can aid in controlling merchandise returns and discounts.
LAYAWAYS AND SPECIAL ORDERS	Layaways are tracked and special orders can be created for out-of-stock merchandise or custom item.
ITEM QUANTITY AND PRICE LOOKUP	Retail Pro(R) allows an instant view of whether an item is in stock at any location and of correct price.
POS SUMMARY REPORTS	Daily x/z out report provides summary of each day's activity for each clerk and store and reconciles the cash drawer.
INVENTORY CONTROL	

STOCK ON HAND, IN TRANSIT, ON ORDER	Inventory information can be sorted in variety of ways and viewed in a matrix based on user-defined filters. This information can be viewed either in a

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

report or while generating a purchase order or other activity.

PURCHASE ORDERS,
RECEIVING AND TICKETING

Purchase orders can be created and are integrated with data from the inventory files. Merchandise may be received against the purchase order and returns can be generated. Bar codes for the merchandise can be generated based on receiving information.

9

PRICING AND MARKDOWNS

Retail Pro(R) displays margin % by item number to aid in determining price. Alternate pricing levels can be set up for employees, preferred customers and wholesale accounts.

MULTI-STORE DISTRIBUTION
AND TRANSFERS

Retail Pro(R) will automatically inform all the sending and receiving stores as part of the daily polling process. By comparing days of supply the system can recommend transfers to optimize sales.

PRE-SET AND USER DEFINED
REPORTS

Retail Pro(R) comes with a variety of pre-designed reports for any store or group of stores and a built-in report designer. Retail Pro(R) also allows for a retailer to set preferences as to how it will view reports.

PHYSICAL INVENTORY

Physical inventories can be taken with a portable terminal or PDA to promote accuracy and speed.

CUSTOMER FUNCTIONS

CUSTOMER LISTS AND
MAILINGS

Information by customer such as total amount spent, time since last visit, size, birthday, etc. can be sorted and viewed. In a multi-store operation, names can be distributed to all stores so each customer can be recognized

PREFERRED CUSTOMER
PRICING

Retail Pro(R) allows pricing to be based on a customers level. It can also plan for a predetermined markdown schedule for preferred customers.

GIFT REGISTRY

The system will keep track of a list of items that someone would like other people to buy for them and keep track of those items already purchased.

The MULTI-CHANNEL RETAIL SOLUTIONS offered through our SYNARO(R) products were designed for plug-and-play use to allow companies to rapidly capitalize on direct commerce opportunities, both through the Internet as well as through call centers and catalogs that augment Web-based components or as a complete integrated solution. The table below provides a brief description of the associated benefits of each of SYNARO(R) products.

SYNARO (R) PRODUCT DESCRIPTIONS

PRODUCT

DESCRIPTION

INTEGRATOR

A powerful middleware processor that seamlessly integrates disparate front- and back-end business systems to allow for the creation of best-of-breed solutions. Integrator is

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

specially tuned to provide real-time integration for high volume and high performance requirements. SYNARO(R) components are tightly integrated out-of-the-box for rapid deployment of best practice functionality.

ERM	A platform to manage communications between a company and its customers across all mediums, which utilizes segmentation, list management, campaign management and forecasting functions that can be applied to both interactive and traditional channels. ERM provides a graphical user interface that allows our customers to configure screens and keystrokes to accommodate their specific requirements. It includes features such as multi-channel order entry, e-mail management and response, closed loop workflow and real-time communications with customers to name a few.
WEBSTORE	A real-time, online front-end for manufacturers, retailers, wholesalers, direct marketers and other businesses who seek to facilitate sales transactions over the Internet. WebStore comes with preset templates, a shopping cart metaphor, SSL security, search engine and databases for configuring the site to handle product information, special selling situations, etc. It is compatible with multiple web servers such as BEA's WebLogic, IBM's WebSphere, and Sun's iPlanet.
ORDER MANAGEMENT	A multi-faceted component application, which ensures proper accounting for orders e.g. back order, customer hold, hold until complete, date sensitive orders, continuity orders, etc.; exceptions are brought to management's attention; and orders can be processed and verified from any Web application. It includes a comprehensive Call Center capability including Computer Telephony Integration and customer relations management.
ORDER FULFILLMENT	A comprehensive application that monitors and controls all fulfillment parameters including specifications, replenishment orders, continuity programs, drop ship orders, ship complete orders, gift orders, backorders and shipping and handling orders.
MARKETING	Controls offer and promotion set-up, which includes customer list segmentation, campaign management including targeted e-mail capability, item selection and placement and pricing. Targeted marketing promotions and offers provide the opportunity to improve margins and accelerate return on investment.
PRODUCT MANAGEMENT	Controls inventory management issues such as item type and attributes. Multiple item types such as configured, kits, gift certificates, serialized, drop ship, special order, and club membership allow for significant flexibility.
WAREHOUSE MANAGEMENT	Provides pick ticket processing, cycle count physical inventory, bin location control, cross docking and location maintenance.
WORK FLOW MANAGEMENT	Provides for closed loop issues management and future chain of events processing of marketing campaigns.

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

DATA ANALYSIS A report writer and query tool for mining, visualizing and analyzing data that supports Business Objects, Crystal Reports, FOCUS and any ORACLE SQL-compliant DB.

FORECASTING The Oracle-based Forecasting application allows for flexible inventory and merchandise forecasting that enables direct commerce companies to increase turns and reduce back orders.

FINANCIALS A product suite that includes all financial components necessary to run a business, including real-time or batch credit card processing, accounts receivable and accounts payable management and general ledger operations.

Our PROFESSIONAL SERVICES provide our customers with expert retail business consulting, project management, implementation, application training, technical and documentation services. This product offering ensures that our customers' technology selection and implementation projects are planned and implemented timely and effectively. We also provide development services to customize our applications to meet specific requirements of our customers and ongoing support and maintenance services.

We market our applications and services through an experienced professional direct sales force in the United States and in the United Kingdom. We believe our knowledge of the complete needs of multi-channel retailers enables us to help our customers identify the optimal systems for their particular businesses. The customer relationships we develop build recurring support, maintenance and professional service revenues and position us to continuously recommend changes and upgrades to existing systems.

Our executive offices are located at 19800 MacArthur Boulevard, Suite 1200, Irvine, California 92612, telephone number (949) 476-2212.

MARKETS AND CUSTOMERS

Our software is installed in over 200 retailers. With the acquisition of Page Digital in January 2004 and Retail Technologies, Inc. in June 2004, our software is installed in over 9,000 retailers worldwide. Our applications are used by the full spectrum of retailers including specialty goods sellers, mass merchants and department stores. Most of our U.S. customers are in the Tier 1 to Tier 3 retail market sectors.

A sample of some of our active customers is listed below:

Nike	Limited Brands	American Eagle Outfitters	D
Phillips-Van Heusen	Signet (UK)	Shoefayre (UK)	P
Timberland	Vodafone (UK)	Academy Sports	M
IBM	Lands' End	Hershey Foods	M
A&E Television Network	Turner Broadcasting	Betsey Johnson	T
IKEA	Play it Again Sports	Patagonia	S
SafeCo Field	The Body Shop	Staples Center	G
Swarovsky	Louis Vuitton Fashion Group		

MARKETING AND SALES

We sell our applications and services primarily through a direct sales force that operates in the United States and the United Kingdom. Sales efforts involve comprehensive consultations with current and potential customers prior to completion of the sales process. Our Sales Executives, Retail Application

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

Consultants (who operate as part of the sales force) and Marketing and Technology Management associates use their collective knowledge of the needs of multi-channel retailers to help our customers identify the optimal solutions for their individual businesses.

11

We maintain a comprehensive web site describing our applications, services and company. We regularly engage in cooperative marketing programs with our strategic alliance partners. We annually host a Users Conference in which hundreds of our customers attend to network and to share experiences and ideas regarding their business practices and implementation of our, and our partners' technology. This Users Conference also provides us with the opportunity to meet with many of our customers on a concentrated basis to provide training and insight into new developments and to gather valuable market requirements information.

We are aggressively focusing on our Product Marketing and Product Management functions to better understand the needs of our markets in advance of required implementation, and to translate those needs into new applications, enhancements to existing applications and related services. These functions are also responsible for managing the process of market need identification through product or service launch and deployment. It is the goal of these functions to position Island Pacific optimally with customers and prospects in our target market.

We distribute our Retail Pro(R) products in North America, South America, Europe, Asia, Australia, and Africa via a network of value-added resellers (VARs). In general, each VAR is responsible for a particular geographical region. Currently, RTI has 27 VARs in North America, 7 in South America, 19 in Europe and the Middle East, 11 in Asia, 2 in Australia/New Zealand and 1 in Africa. These resellers are trained and certified on Retail Pro(R) and provide users with technical expertise, and a localized and translated product.

COMPETITION

The markets for our application technology and services are highly competitive, subject to rapid change and sensitive to new product introductions or enhancements and marketing efforts by industry participants. We expect competition to increase in the future as open systems architecture becomes more common and as more companies compete in the emerging electronic commerce market.

The largest of our competitors offering end-to-end retail solutions is JDA Software Group, Inc. Other suppliers offer one or more of the components of our solutions. In addition, new competitors may enter our markets and offer merchandise management systems that target the retail industry. For enterprise solutions, our competitors include Retek Inc., SAP AG, nsb Retail Systems PLC, Essentus, Inc., GERS, Inc., Marketmax, Inc., Micro Strategies Incorporated and Evant, Inc., formerly NONSTOP Solutions. For Store Solutions, our competitors include Datavantage, Inc., CRS Business Computers, NSB Retail Systems PLC, Triversity, ICL, NCR and IBM. Our Direct applications compete with Smith Gardner & Associates, Inc., and CommercialWare, Inc. Our primary competitors in the multi-channel retail market include Ecometry, CommercialWare and Sigma-Micro. RTI's primary competitors include Celerant Technology Corp., 360 Commerce, CRS Business Computers, NSB Retail Systems PLC, Micro Strategies Incorporated, Retek, Inc. and JDA Software Group, Inc. Our professional services offerings compete with the professional service groups of our competitors, major consulting firms associated or formerly associated with the "Big 4" accounting firms, as well as locally based service providers in many of the territories in which we do business. Our strategic partners, including IBM, NCR and Fujitsu,

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

represent potential competitors as well.

We believe the principal competitive factors in the retail solutions industry are price, application features, performance, retail application expertise, availability of expert professional services, quality, reliability, reputation, timely introduction of new offerings, effective distribution networks, customer service, and quality of end-user interface. We believe we currently compete favorably with respect to these factors. In particular, we believe that our competitive advantages include:

- o Proven, single version technology, reducing implementation costs and risks and providing continued forward migration for our customers.
- o Extensive retail application experience for all elements of the customer's business, including Professional Services, Development, Customer Support, Sales and Marketing/Technology Management.
- o Ability to provide expert Professional Services.
- o Large and loyal customer base.
- o Hardware platform independent Store Solution (POS) application.
- o Breadth of our application technology suite including our multi-channel retailing capabilities.
- o Our corporate culture focusing on the customer.

Many of our current and potential competitors are more established, benefit from greater name recognition, have greater financial, technical, production and/or marketing resources, and have larger distribution networks, any or all of which could give them a competitive advantage over us. Moreover, our current financial condition has placed us at a competitive disadvantage to many of our larger competitors, as we are required to provide assurance to

12

customers that we have the financial ability to support the products we sell. We believe strongly that we provide and will continue to provide excellent support to our customers, as demonstrated by the continuing upgrade purchases by our top-tier established customer base.

PROPRIETARY RIGHTS

Our success and ability to compete depend in part on our ability to develop and maintain the proprietary aspects of our technologies. We rely on a combination of copyright, trade secret and trademark laws, and nondisclosure and other contractual provisions, to protect our various proprietary applications and technologies. We seek to protect our source code, documentation and other written materials under copyright and trade secret laws. We license our software under license agreements that impose restrictions on the ability of the customer to use and copy the software. These safeguards may not prevent competitors from imitating our applications and services or from independently developing competing applications and services, especially in foreign countries where legal protections of intellectual property may not be as strong or consistent as in the United States.

We hold no patents. Consequently, others may develop, market and sell applications substantially equivalent to our applications, or utilize technologies similar to those used by us, so long as they do not directly copy our applications or otherwise infringe our intellectual property rights.

We integrate widely-available platform technology from third parties for certain of our applications. These third-party licenses generally require us

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

to pay royalties and fulfill confidentiality obligations. Any termination of, or significant disruption in, our ability to license these products could cause delays in the releases of our software until equivalent technology can be obtained and integrated into our applications. These delays, if they occur, could have a material adverse effect on our business, operating results and financial condition.

Intellectual property rights are often the subject of large-scale litigation in the software and Internet industries. 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. We cannot guarantee the success of any litigation we might bring to protect our proprietary rights.

Although we believe that our application technology does not infringe on any third-party's patents or proprietary rights, we cannot be certain that we will not 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, defending or bringing claims related to our intellectual property rights may require our management to redirect our human and monetary resources to address these claims. In addition, these actions could cause 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.

Our application Retail Pro(R) is licensed from a third party. On December 6, 2002, RTI sold certain intellectual property for \$7,500,000 to the third party. In connection with the sale, RTI also sold certain property and equipment for proceeds of \$44,000 and 1,445,000 shares of series A preferred stock at \$0.346 per share, for \$500,000 respectively. RTI recognized a total gain of \$7.5 million on the sale of the intellectual property and property and equipment due to the tangible assets being fully depreciated as of the date of sale. The third party also entered into employment agreements with several of RTI's employees and a covenant not-to-compete with one of the original stockholders. Under a license agreement, the third party granted back to RTI the right to sell various products and licenses. Under the terms of the license agreement, RTI is obligated to pay royalties equal to 75% of the sales made to certain customers. The terms of the license agreement vary depending on the product with the minimum term being approximately three years. Any termination of, or disruption in this license could have a material adverse affect on RTI's business.

EMPLOYEES

As of June 4, 2004, following the acquisition of RTI, we had a total of 224 employees, 208 of which were based in the United States. Of the total, 14% were engaged in sales and marketing, 45% were engaged in application technology development projects, 24% were engaged in professional services, and 17% were in general and administrative. We believe our relations with our employees overall are good. We have never had a work stoppage and none of our employees are subject to a collective bargaining agreement.

We file registration statements, periodic and current reports, proxy statements and other materials with the Securities and Exchange Commission. You may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

1-800-SEC-0330. The SEC maintains a web site at WWW.SEC.GOV that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC, including our filings.

Our Internet address is WWW.ISLANDPACIFIC.COM. We make available, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and any amendments to those reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 through our website, as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. The contents of our website are not incorporated into, or otherwise to be regarded as a part of, this Annual Report on Form 10-K.

13

ITEM 2. PROPERTIES

Our principal corporate headquarters consists of 26,521 square feet in a building located in Irvine, California. The corporate headquarters is also used for certain of our sales, marketing, consulting, customer support, training and product development functions. This facility is occupied under a lease that expires on June 30, 2005. The current monthly rent is \$56,000. We also occupy premises in the United Kingdom located at The Old Building, Mill House Lane, Wendens Ambo, Essex, England. The lease for this office building expires June 30, 2008. Annual rent is \$72,000 (payable quarterly) plus common area maintenance charges and real estate taxes. We also lease 44,505 square-foot office space in Englewood, Colorado for our Page Digital subsidiary. This lease commenced on January 1, 2004 and expires on December 31, 2013 with a five-year renewal option. The monthly rent is \$71,000. We assumed this lease in connection with the acquisition of Page Digital. Prior to our assumption, the lease was entered between CAH Investments, LLC ("CAH"), which is wholly owned by the spouse of Lawrence Page, Page Digital's former president and our current Executive Vice President - Special Projects and director, and Southfield Crestone, LLC. We also lease an office that consists of 12,717 square feet of rentable space in a building located in Folsom, California for our RTI subsidiary. This lease expires in January 2006 and has a monthly rent of \$22,000.

ITEM 3. LEGAL PROCEEDINGS

In April of 2002, our former CEO, Thomas Dorosewicz, filed 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 \$283,894. On June 18, 2002, we filed an action against Mr. Dorosewicz, Michelle Dorosewicz and an entity affiliated with him in 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 related to his employment with the Company and other transactions he entered into with the Company. The parties agreed to resolve all claims in binding arbitration. The dispute was heard by an arbitrator the week of October 3, 2003. The arbitrator issued an award on November 7, 2003, resolving most of the disputed issues in favor of the Company as follows: (a) the Company was awarded a refund of rental payments amounting to \$66,951; (b) the excessive equipment leasing financing charges by Mr. Dorosewicz were recast substantially reducing the Company's unpaid balance; (c) Mr. Dorosewicz was ordered to repay attorneys' fees reimbursement he had previously been provided by the Company; (d) Mr. Dorosewicz was denied severance benefits; (e) Mr. Dorosewicz's claims with respect to options were denied; and (f) Mr. Dorosewicz was awarded his unpaid bonus in the amount of \$56,719. The net amount

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

awarded to Mr. Dorozewicz was \$85,339, which was paid in January 2004.

The sale of our Australian subsidiary in the third quarter of fiscal 2002 was 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, we may be called upon to pay the deficiency under our guarantee to the bank. We have accrued \$187,000 as 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.

On May 15, 2002, an employee who was out on disability/worker's compensation leave, Debora Hintz, filed a claim with the California Labor Commissioner seeking \$41,000 in alleged unpaid commissions. In or about December of 2002, Ms. Hintz filed a discrimination claim against us with the Department of Fair Employment and Housing, alleging harassment and sexual orientation discrimination. We had responded appropriately to both the wage claim and the discrimination allegations, which we believed lack merit based on present information. On December 1, 2003, the Department of Fair Housing and Employment closed the case on the basis of no probable cause to prove violation of statute, and gave notice of right to sue. In January 2004, we terminated Ms Hintz's employment with us and, as a result, her medical insurance was terminated. On February 12, 2004, Ms. Hintz filed a petition for violation of Labor Code Section 132(a) before the Workers' Compensation Appeals Board of the State of California.

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, 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

14

million, plus punitive damages of \$250,000, against SVI Retail for alleged fraud, negligent misrepresentation, breach of express warranties and breach of contract. These claims pertain to the following agreements between Cord Camera and Island Pacific: (i) a License Agreement, dated December 1999, as amended, for the use of certain software products, (ii) a Services Agreement for consulting, training and product support for the software products and (iii) a POS Software Support Agreement for the maintenance and support services for a certain software product. We settled this case on September 30, 2003. The terms of the settlement agreement are subject to a confidentiality covenant.

In mid-2002, we were the subject of an adverse judgment entered in favor of Randall's Family Golf Centers, ("Randall") in the approximate sum of \$61,000. The judgment was entered as a default judgment, and is based on allegations that we received a preferential transfer of funds within 90 days of the filing by Randall of a chapter 11 case in the United States Bankruptcy Court for the Southern District of New York. We settled this matter by an agreement to pay \$12,500 to Randall.

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

On November 22, 2002, UDC Homes, Inc. and UDC Corporation now known as Shea Homes, Inc. served Sabica Ventures, Inc. ("Sabica"), our wholly owned subsidiary and then our Island Pacific division (now are retail management solutions division) with a cross-complaint for indemnity on behalf of an entity identified in the summons as Pacific Cabinets. We filed a notice of motion and motion to quash service of summons on the grounds that we have never done business as Pacific Cabinets and have no other known relation to the construction project that is the subject of the cross-complaint and underlying complaint. A hearing on our motion to quash occurred on May 22, 2003 and was subsequently denied.

On April 2, 2004, we filed a federal court action in the Southern District of California against 5R Online, Inc. ("5R"), John Frabasile, Randy Pagnotta, and Terry Buckley for fraud, breach of fiduciary duty, breach of contract, and unfair business practice arising from their evaluation of, recommendation for, and ultimately engagement in a development arrangement between IPI and 5R. Pursuant to the development agreement entered into in June 2003 upon reliance of the representations of the individual defendants that product development was progressing, we paid \$640,000 in development payments but received no product. Responsive pleadings will be served shortly, and the parties are exploring a business solution to the dispute. For fiscal year ended March 31, 2004, we have expensed payments of \$640,000 and shown as other expense.

Except as set forth above, we are not involved in any material legal proceedings, other than ordinary routine litigation proceedings incidental to our business, none of which are expected to have a material adverse effect on our financial position or results of operations. However, litigation is subject to inherent uncertainties, and an adverse result in existing or other matters may arise from time to time which may harm our business.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during fourth quarter of fiscal year ended March 31, 2004.

PART II

ITEM 5. MARKET FOR COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is traded on the American Stock Exchange since July 8, 1998 under the symbol "IPI". Up until July 16, 2003, our common stock was traded under the symbol "SVI". The following table indicates the high and low sales prices for our shares for each quarterly period for each of our two most recent fiscal years.

YEAR ENDING MARCH 31, 2004	HIGH	LOW
First Quarter	\$ 2.65	\$ 0.88
Second Quarter	\$ 3.65	\$ 2.10
Third Quarter	\$ 2.38	\$ 1.77
Fourth Quarter	\$ 2.93	\$ 0.84
YEAR ENDED MARCH 31, 2003	HIGH	LOW
First Quarter	\$ 0.66	\$ 0.30
Second Quarter	\$ 1.30	\$ 0.21
Third Quarter	\$ 1.25	\$ 0.40
Fourth Quarter	\$ 1.17	\$ 0.55

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

As of June 1, 2004, the last reported sale price on the American Stock Exchange for our common stock was \$0.77. On this date, there were approximately 204 holders of record of our common stock. That number does not include beneficial owners of common stock whose shares are held in the name of banks, brokers, nominees or other fiduciaries.

We have never declared any dividends on our common stock. We are required to pay dividends on our Series A Convertible Preferred Stock in preference and priority to dividends on our common stock. We currently intend to retain any future earnings to discharge indebtedness and finance the growth and development of the business. We, therefore, do not anticipate paying any cash dividends on our common stock in the foreseeable future. Any future determination to pay cash dividends on our common stock when we are permitted to do so will be at the discretion of the board of directors and will be dependent upon the future financial condition, results of operations, capital requirements, general business conditions and other factors that the board of directors may deem relevant.

During the quarter ended March 31, 2004, we issued the following securities without registration under the Securities Act of 1933:

- o 239,739 shares of common stock upon conversion of a convertible note initially issued to Union Bank of California pursuant to a Loan Discount Payout agreement, valued at \$500,000.
- o 9% Debentures to Omicron Master Trust and Midsummer Investment, Ltd. convertible into our common stock at a conversion price of \$1.32 per share, for aggregate proceeds of \$3.0 million. These debentures were accompanied by five-year warrants to purchase up to 1,043,479 shares of our common stock at an exercise price of \$1.15 per share and warrants to purchase up to 8,500,000 shares of our common stock at an exercise price of \$5.00 per share with an expiration date of the earlier of the six-month anniversary of the effective date of a registration statement or September 15, 2005.
- o warrants to an investor relations consulting firm to purchase up to an aggregate of 103,000 shares of our common stock at exercise prices ranging from \$1.50 to \$1.75 per share.

The foregoing securities were offered and sold without registration under the Securities Act to sophisticated investors who had access to all information, which would have been in a registration statement, in reliance upon the exemption provided by Section 4(2) under the Securities Act and Regulation D thereunder, and an appropriate legend was placed on the shares.

Information concerning securities authorized for issuance under our equity compensation plans is included below under Item 12 under the heading "Security Ownership of Certain Beneficial Owners and Management."

16

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with our consolidated financial statements and related notes and with "Management's Discussion and Analysis of Financial Condition and Results of Operations." The selected consolidated financial data presented below under the captions "Statement of Operations Data" and "Balance Sheet Data" for, and as of the end of, each of our last five fiscal years are derived from our consolidated

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

financial statements. The consolidated financial statements as of March 31, 2004, 2003, and 2002 and the independent auditors' report thereon, are included elsewhere in this report.

	YEAR ENDED MARCH 31,		
	2004	2003	2002
	(in thousands except for per s		
STATEMENT OF OPERATIONS DATA:			
Net sales	\$ 21,739	\$ 22,296	\$ 26,715
Cost of sales	5,252	8,045	11,003
Gross profit	16,487	14,251	15,712
Application development expenses	1,043	4,643	4,203
Depreciation and amortization	3,896	4,148	6,723
Selling, general and administrative expenses	14,798	8,072	12,036
Impairment of intangible assets	--	--	--
Impairment of note receivable received in connection with the sale of IBIS Systems Limited	--	--	--
Total expenses	19,737	16,863	22,962
Loss from operations	(3,250)	(2,612)	(7,250)
Other income (expense):			
Interest income	20	1	7
Other income (expense)	(647)	24	(56)
Interest expense	(937)	(1,088)	(3,018)
Total other expense	(1,564)	(1,063)	(3,067)
Loss before provision (benefit) for income taxes	(4,814)	(3,675)	(10,317)
Provision (benefit) for income taxes	(586)	11	2
Loss before extraordinary item and change in accounting principle	(4,228)	(3,686)	(10,319)
Extraordinary item - Gain on debt forgiveness	--	1,476	--
Cumulative effect of changing accounting principle			
- Goodwill valuation under SFAS No. 142	--	(627)	--
Loss from continuing operations	(4,228)	(2,837)	(10,319)
Income (loss) from discontinued operations	--	119	(4,339)
Net loss	(4,228)	(2,718)	(14,658)
Cumulative preferred dividends	(1,024)	(1,015)	(254)
Net loss available to common stockholders	\$ (5,252)	\$ (3,733)	\$ (14,912)

	YEAR ENDED MARCH		
	2004	2003	2002
			(in thousands)
Basic and diluted earnings (loss) per share:			
Loss before extraordinary item and change in accounting principle	\$ (0.10)	\$ (0.12)	\$ (0.29)
Extraordinary item - gain on debt forgiveness	--	0.05	--
Loss from change in accounting principle	--	(0.02)	--
Loss from continuing operations	(0.10)	(0.09)	(0.29)
Income (loss) from discontinued operations	--	--	(0.12)
Cumulative preferred dividends	(0.03)	(0.04)	(0.01)
Net loss available to common stockholders	\$ (0.13)	\$ (0.13)	\$ (0.42)
Weighted average common shares:			
Basic	41,450	29,599	35,698
Diluted	41,450	29,599	35,698
BALANCE SHEET DATA:			
Working capital	\$ 802	\$ (4,056)	\$ (5,337)
Total assets	\$ 51,762	\$ 37,637	\$ 40,005
Long-term obligations	\$ 2,319	\$ 2,807	\$ 8,013
Stockholders' equity	\$ 42,200	\$ 23,842	\$ 21,952

(1) Except for the year ended March 31, 2004, certain reclassifications are reflected in the above data since the filing of such annual reports on forms 10K and 10K/A. Such reclassifications did not result in changes in net income (loss), net income (loss) per share or stockholders' equity.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

We are a provider of software solutions and services to the retail industry. We provide solutions that help retailers understand, create, manage and fulfill consumer demand. We derive the majority of our revenues from the sale of application software licenses and the provision of related professional and support 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. We typically charge for support, maintenance and software updates 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.

In recent periods, we have maintained relatively flat period over period revenues and suffered operating and net losses, largely attributable to

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

general economic and competitive conditions. However, as economic conditions have improved, we have begun to experience an increase in revenues and profitability. In this regard, we have taken a number of steps designed to improve our balance sheet and operations, including:

- o Acquired two complementary companies with substantial revenues and earnings potential;
- o Revamped our management team by adding a new President and COO and CTO, as well as a new CFO;
- o Recapitalized our balance sheet, eliminating substantial debt and raising new equity in its place;
- o Improved our IBM-based core products through continuing internal research and development;
- o Obtained the rights to distribute complementary products, including a new easy-to-install and easy-to-use, open-architecture software system for very small retailers, which we will introduce in 2004;
- o Established partnerships with several value added resellers to provide a variety of options and product extensions;
- o Improved our distribution capabilities by adding new third party channels, such as IBM and IBM's resellers, and professional service firms, such as CGI and LakeWest.

18

We believe that these actions have positioned us to achieve sustained revenue growth and profitability.

RECENT ACQUISITIONS

ACQUISITION OF PAGE DIGITAL

On January 30, 2004, we acquired Page Digital, a developer of multi-channel commerce software, through a merger transaction for total consideration of \$7.0 million, consisting of \$2.0 million in cash and 2,500,000 shares of our common shares valued at \$2.00 per share. The acquisition was accounted for as a purchase, and accordingly, the operating results of Page Digital have been included in our consolidated financial statements from the date of acquisition. In connection with the Page Digital acquisition, we added approximately 40 employees and recorded \$6.1 million of goodwill, \$1.4 million in software technology, \$904,000 in customer relationships and \$285,000 in trademark. For pro forma operating results, see "Notes to Consolidated Financial Statements - Note 2" in the Financial Statements section.

The legitimization of business to business and business to consumer direct commerce (Internet, brick-and-mortar, catalog, and other) has rapidly created a substantial market for the Page Digital suite of direct commerce applications. According to the United States Department of Commerce, the market for multi-channel direct commerce applications was just \$15 billion in 1999, grew to \$27.3 billion in 2000, grew to \$32.6 billion in 2001, and it is growing at a rate 2.5 times greater than traditional retailing (Source: Internet Retailer, April 2002). The acquisition of Page Digital will enable us to continue to provide our customers with Page Digital's e-commerce, customer relations management, and Catalog Management solutions. We expect to further integrate these solutions into our offerings to enable customers to complete the multi-channel retail distribution and customer service chain. In addition, the acquisition will also allow us to offer Page Digital's customers the IP Merchandising solution, as well as Point of Sale, Loss Prevention, and IP's other alliance solutions.

ACQUISITION OF RTI

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

Pursuant to an agreement dated June 1, 2004, we acquired RTI from Michael Tomczak, Jeffrey Boone and Intuit in a merger transaction. On March 12, 2004, we, RTI, Merger Sub and the Shareholders entered the March 12, 2004 Merger Agreement which provided we would acquire RTI in a merger transaction in which RTI would merge with and into Merger Sub. The merger consideration contemplated by the March 12, 2004 Merger Agreement was a combination of cash and shares of our common stock. The March 12, 2004 Merger Agreement was amended by the Amended Merger Agreement dated June 1, 2004.

Pursuant to the Amended Merger Agreement, the Merger was completed with the following terms: (i) we assumed RTI's obligations under those certain promissory notes issued by RTI on December 20, 2002 with an aggregate principal balance of \$2.3 million; (ii) the total consideration paid at the closing of the Merger was \$10.0 million paid in shares of our common stock and newly designated Series B Preferred and promissory notes; (iii) the Shareholders and Intuit are entitled to price protection payable if and to the extent that the average trading price of our common stock is less than \$0.76 at the time the shares of our common stock issued in the Merger and issuable upon conversion of the Series B Preferred are registered pursuant to the Registration Rights Agreement dated June 1, 2004 between us, the Shareholders and Intuit; and (iv) the merger consisted of two steps (the "Merger"), first, Merger Sub merged with and into RTI, Merger Sub's separate corporate existence ceased and RTI continued as the surviving corporation (the "Reverse Merger"), immediately thereafter, RTI merged with and into Merger Sub II, RTI's separate corporate existence ceased and Merger Sub II continued as the surviving corporation (the "Second-Step Merger").

As a result of the Merger, each Shareholder received 1,258,616 shares of Series B Preferred and a promissory note payable monthly over two years in the principal amount of \$1,295,000 bearing interest at 6.5% per annum. As a result of the Merger, Intuit, the holder of all of the outstanding shares of RTI's Series A Preferred stock, received 1,546,733 shares of our common stock and a promissory note payable monthly over two years in the principal amount of \$530,700 bearing interest at 6.5% per annum.

The Shareholders and Intuit were also granted registration rights. Under the Registration Rights Agreement, we agreed to register the common stock issuable upon conversion of the Series B Preferred issued to the Shareholders within 30 days of the automatic conversion of the Series B Preferred into common stock. The automatic conversion will occur upon us filing the Certificate of Amendment with the Delaware Secretary of State increasing the authorized number of shares of our common stock after securing shareholder approval for the Certificate of Amendment. Under the Registration Rights Agreement, Intuit is entitled to demand registration or to have its shares included on any registration statement filed prior the registration statement covering the

19

Shareholders' shares, subject to certain conditions and limitations, or if not previously registered to have its shares included on the registration statement registering the Shareholders' shares. The Shareholders and Intuit are entitled to price protection payments of up to a maximum of \$0.23 per share payable by promissory note, if and to the extent that the average closing price of our common stock for the 10 days immediately preceding the date the registration statement covering their shares is declared effective by the Securities and Exchange Commission, is less than the 10 day average closing price as of June 1, 2004, which was \$0.76.

Pursuant to the Amended Merger Agreement, The Sage Group, plc as well as certain officers and directors signed voting agreements that provide they will not dispose of or transfer their shares of our capital stock and that they

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

will vote their shares of our capital stock in favor of the Certificate of Amendment and the Amended Merger Agreement and transactions contemplated therein.

Upon the consummation of the Merger, Michael Tomczak, RTI's former President and Chief Executive Officer, was appointed our President, Chief Operating Officer and director and Jeffrey Boone, RTI's former Chief Technology Officer, was appointed our Chief Technology Officer. We entered into two-year employment agreements and non-competition agreements with Mr. Tomczak and Mr. Boone.

The combination of Island Pacific, RTI and Page Digital, will enable us to offer a fully integrated solution to mid-tier retailers that will be unique in the marketplace. As a result of this transaction, smaller retailers will now be able to cost-effectively acquire a solution that provides both front and back-end support. The combination instantly expands our products, services offerings and distribution channels.

DISCONTINUED OPERATIONS

Effective April 1, 2003, we sold our subsidiary, SVI Training Products ("Training Products") to its president and our former director, Arthur Klitofsky, for the sale price of \$180,000 plus earn-out payments equal to 20% of the total gross revenues of the Training Products unit in each of its next two fiscal years, if the revenues in each of those years exceed certain targets. We received a promissory note for the amount of \$180,000 and the earn-out payments, if any, will be made in quarterly installments following each fiscal year, bearing an annual interest rate of 5%. The sale of Training Products resulted in a loss of \$129,000, net of estimated income taxes, which was accrued as of March 31, 2003. Training Product's \$248,000 of operating results are shown as discontinued operations, net of the loss on sale of the Training Products unit at March 31, 2003. In April 2004, we agreed to defer the payments due in January 2004 and April 2004 until April 2008. The balance of the note receivable was \$153,000 as of June 22, 2004.

Due to the declining performance of our Australian subsidiary, we sold certain assets of the Australian subsidiary to its former management and ceased Australian operations in February 2002. However, the sale was subject to the approval of National Australia Bank, the subsidiary's secured lender. The bank did not approve the sale and caused a receiver to be appointed in April 2002 to sell substantially all of the assets of the Australian subsidiary and pursue collections on any outstanding receivables. The receiver sold 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 our potential exposure but could be subject to further liability.

The disposal of our Australian subsidiary resulted in a loss of \$3.2 million. The operating results of the Australian subsidiary are shown on our financial statements as discontinued operations at March 31, 2002.

RESULTS OF OPERATIONS

Results of operations for the fiscal year ended March 31, 2004 ("Fiscal 2004") reflect continued weakness in new license sales of our application software suites. As a result of our net losses, we experienced significant strains on our cash resources throughout the Fiscal 2004. We have taken a number of affirmative steps to address our operating situation and liquidity problems, and to position us for improved results of operations.

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

- o On June 4, 2004, we completed the acquisition of RTI, a provider of management systems for retailers. See "Recent Transactions - Acquisition of RTI" above.
- o Upon completion of RTI's acquisition, Michael Tomczak, RTI's CEO and President, was appointed our President, Chief Operating Officer and director and Jeffrey Boone, RTI's CTO, was appointed our Chief Technology Officer. Mr. Tomczak replaced Steve Beck, who was serving as our president and Mr.

20

Page, who was serving as our COO and CTO. Mr. Beck served as our President from April 2003 to June 2004 and our COO from April 2003 to February 2004. Mr. Page served as our CTO from January 2004 to June 2004 and as our COO from February 2004 to June 2004.

- o Effective January 30, 2004, we completed the acquisition of Page Digital, a provider of direct commerce solutions to retailers. See "Recent Transactions - Acquisition of Page Digital" above.
- o In February 2004, Michael Silverman was appointed to the position of Chairman of the Board of Directors. Mr. Silverman has been on our board of directors since January 2001. He founded Advanced Remote Communication Solutions, Inc. (formerly known as Boatracs, Inc.) in 1990. He served as its Chairman until May 2002, and as Chief Executive Officer and President until October 1997, and again from November 1999 to May 2002. Mr. Silverman replaced Harvey Braun who was serving as Chief Executive Officer and Chairman of the board. Mr. Braun was our Chief Executive Officer from January 2003 through May 2004 and our Chairman of the board from July 2004 to February 2004.
- o In January 2004, David Joseph, Page Digital's Senior Vice President of Sales, was appointed our Senior Vice President of Sales. Mr. Joseph has over 20 years of sales and marketing experience in the software industry.
- o In July 2003, our Board of Directors appointed Ran Furman to the position of Chief Financial Officer.
- o We completed a number of debt and equity financing transactions. See "Liquidity and Capital Resources - Financing Transactions" below.

21

The following table sets forth, for the periods indicated, the relative percentages that certain income and expense items bear to net sales for the fiscal years ended March 31, 2004, 2003 and 2002 (in thousands):

	YEAR ENDED MARCH
-----	-----
2004	2003
-----	-----

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

	AMOUNT	PERCENTAGE OF REVENUE	AMOUNT	PERCENTAGE OF REVENUE
	-----	-----	-----	-----
Net sales	\$ 21,739	100%	\$ 22,296	
Cost of sales	5,252	24%	8,045	
	-----	-----	-----	-----
Gross profit	16,487	76%	14,251	
Application development expense	1,043	5%	4,643	
Depreciation and amortization	3,896	18%	4,148	
Selling, general and administration expenses	14,798	68%	8,072	
Impairment of intangible assets	--	--	--	
Impairment of note receivable received in connection with the sale of IBIS Systems Limited	--	--	--	
	-----	-----	-----	-----
Total expenses	19,737	91%	16,863	
	-----	-----	-----	-----
Loss from operations	(3,250)	(15)%	(2,612)	
Other income (expense)				
Interest income	20	--%	1	
Other income (expense)	(647)	--%	24	
Interest expense	(937)	(4)%	(1,088)	
	-----	-----	-----	-----
Total other expense	(1,564)	(4)%	(1,063)	
	-----	-----	-----	-----
Loss before provision (benefit) for income taxes	(4,814)	(19)%	(3,675)	
Provision (benefit) for income taxes	(586)	(2)%	11	
	-----	-----	-----	-----
Loss before extraordinary item and change in accounting principle	(4,228)	(17)%	(3,686)	
Extraordinary item - gain on debt forgiveness	--		1,476	
Cumulative effect of changing accounting principle - Goodwill valuation under SFAS No. 142	--		(627)	
	-----	-----	-----	-----
Loss from continuing operations	(4,228)		(2,837)	
Income (loss) from discontinued operations, net of taxes	--		119	
	-----	-----	-----	-----
Net loss	(4,228)		(2,718)	
Cumulative preferred dividends	(1,024)		(1,015)	
	-----	-----	-----	-----
Net loss available to common stockholders	\$ (5,252)		\$ (3,733)	
	=====		=====	

FISCAL YEAR ENDED MARCH 31, 2004 COMPARED TO FISCAL YEAR ENDED MARCH 31, 2003

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

NET SALES

Net sales was \$21.7 million and \$22.3 million in the fiscal years ended March 31, 2004 and 2003, respectively. Net sales included \$1.5 million and \$7.5 million in fiscal 2004 and 2003, respectively, from Toys R Us, Inc. ("Toys"). Net sales in fiscal 2004 also included a one-time sale of software technology rights of \$3.9 million. Excluding Toys and the one-time software license sale, net sales increased \$1.5 million, or 10%, to \$16.3 million in the fiscal year ended March 31, 2004 from \$14.8 in the fiscal year ended March 31, 2003. The increase is mainly due to an increase in sales on partner products.

Fiscal 2004 and 2003 were challenging years for the sale of new application licenses. The slow down in the U.S. and world economies combined with the fear of future terrorist attacks and the ongoing hostilities in the world caused the retail industry to be more cautious with their investment in information systems and deliberately evaluating solutions, which resulted in

22

decreases in sales and in extended sales cycles. In addition, our financial condition may have interfered with our ability to sell new application software licenses, as implementation of our applications generally requires extensive future services and support, and some potential customers have expressed concern about our financial ability to provide these ongoing services. We believe strongly that we provide and will continue to provide excellent support to our customers, as demonstrated by the continuing upgrade purchases by our top-tier established customer base. Significant sales growth may however depend in part on our ability to improve our financial condition.

COST OF SALES/GROSS PROFIT

Cost of sales decreased \$2.7 million, or 35%, to \$5.3 million in the fiscal year ended March 31, 2004 from \$8.0 million in the fiscal year ended March 31, 2003. Gross profit as a percentage of net sales increased to 76% in fiscal 2004 from 64% in fiscal 2003. The increase in gross profit margin was due to a decrease in modification and professional services sales, which have low margins. Modification and professional services sales represented 20% and 45%, respectively, of total net sales during fiscal 2004 and 2003.

Cost of sales for fiscal 2004 and 2003 included \$0.4 million and \$2.4 million, respectively, in costs associated with the development or modification of modules for Toys, including the use of higher cost outsource development services (subcontractors) for certain components of the overall project. These costs are neither capitalized nor included in application technology development expenses, but we consider them to be part of our overall application technology development program.

APPLICATION DEVELOPMENT EXPENSE

Application development expense decreased by \$3.6 million, or 78%, to \$1.0 million in fiscal year ended March 31, 2004 from \$4.6 million in the fiscal year ended March 31, 2003. The decrease in application development expense is primarily due to capitalization of \$3.1 million development costs on our new modules and products which have reached technological feasibility.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased by \$6.7 million, or 83%, to \$14.8 million compared to \$8.1 million in the fiscal year ended March 31, 2003 due to the following:

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

- o \$4.8 million increase in sales and administrative expenses as we focused on developing our sales organization, increasing marketing efforts and building infrastructure in the current year,
- o \$0.3 million operating expenses for Page Digital which was acquired on January 31, 2004,
- o \$0.7 million increase in bad debt expense resulted from a write-off of an account receivable due to the termination of Toys agreement,
- o \$0.5 million accounting and legal costs for acquisitions of Page Digital and RTI and
- o \$0.4 million increase in audit, accounting and legal fees relating to financing activities during fiscal 2003 and 2004.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization decreased by \$0.2 million, or 5%, to \$3.9 million in the fiscal year ended March 31, 2004 from \$4.1 million in the fiscal year ended March 31, 2003. The decrease is mainly due to a decrease in amortization of purchased software as it became fully amortized.

OTHER EXPENSE

Other expense included a write-off of development payments totaling \$0.6 million paid to a software development company. For further discussion, see Item 3 under heading "Legal Proceedings".

INTEREST EXPENSE

Interest expense decreased by \$0.2 million, or 18%, to \$0.9 million in the fiscal year ended March 31, 2004 from \$1.1 million in the fiscal year ended March 31, 2003. The decrease is due to \$0.5 million decrease in interest expense due to 72% decrease in average balance of interest-bearing loans as compared to prior year; offset in part by \$0.3 million increase in amortization of debt discounts on convertible debts.

23

PROVISION FOR INCOME TAXES

Provision for income taxes produced an income of \$0.6 million in the fiscal year ended March 31, 2004. The income tax refund of \$0.6 million in the fiscal 2004 resulted from amending prior years' income tax returns to carry back net operating losses incurred in the past two years.

EXTRAORDINARY ITEM - GAIN ON DEBT FORGIVENESS

On March 31, 2003, we entered into a Discounted Loan Payoff Agreement with Union Bank of California (the "Bank"), our senior lender. Under this agreement, we paid the Bank \$2.8 million acquired from the sale of 9% convertible debentures to certain investors. We also issued to the Bank 1 million shares of our common stock and a \$500,000 one-year unsecured, non-interest bearing convertible note payable in either cash or stock, at our option. The cash payment, shares and convertible note were accepted by the Bank in full satisfaction of our debt to the Bank. The Bank also canceled the warrant to purchase 1.5 million shares of our common stock and returned all collateral held, including 10.7 million shares of our common stock pledged as security. In connection with the settlement of the debt to the Bank, we reported an extra-ordinary gain of \$1.5 million.

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

The cumulative effect of accounting change in the fiscal year end March 31, 2003 was a non-cash, net-of-tax transitional goodwill impairment charge of \$0.6 million which relates to the adoption of SFAS No. 142.

CUMULATIVE PREFERRED DIVIDEND

Cumulative dividends on the outstanding Series A convertible preferred stock attributable to the fiscal years ended March 31, 2004 and 2003 were \$1.0 million. During fiscal 2004, a dividend of \$.04 million on Series A convertible preferred stock was declared and paid by issuing 500,000 shares of our common stock.

FISCAL YEAR ENDED MARCH 31, 2003 COMPARED TO FISCAL YEAR ENDED MARCH 31, 2002

NET SALES

Net sales decreased by \$4.4 million, or 16%, to \$22.3 million in the fiscal year ended March 31, 2003 from \$26.7 million in the fiscal year ended March 31, 2002. Net sales included \$7.5 million and \$13.4 million in fiscal 2003 and 2002, respectively, from Toys. Excluding Toys, net sales increased \$1.5 million, or 11%, to \$14.8 million in the fiscal year ended March 31, 2003 from \$13.3 million in the fiscal year ended March 31, 2002.

COST OF SALES/GROSS PROFIT

Cost of sales decreased \$3.0 million, or 27%, to \$8.0 million in the fiscal year ended March 31, 2003 from \$11.0 million in the fiscal year ended March 31, 2002. Gross profit as a percentage of net sales increased to 64% in fiscal 2003 from 59% in fiscal 2002. The increase in gross profit margin was due to an increase in software license sales, which have high margin, combined with a decrease in modification and professional services sales, which have lower margins. During fiscal 2003, software license sales represented 25% of net sales and related services represented 45% of net sales, compared to 17% and 57%, respectively, of net sales during fiscal 2002.

Cost of sales for fiscal 2003 and 2002 included \$2.4 million and \$3.6 million, respectively, in costs associated with the development or modification of modules for Toys, including the use of higher cost outsource development services (subcontractors) for certain components of the overall project. These costs are neither capitalized nor included in application technology development expenses, but we consider them to be part of our overall application technology development program.

APPLICATION DEVELOPMENT EXPENSE

Application development expense increased by \$0.4 million, or 10%, to \$4.6 million in fiscal year ended March 31, 2003 from \$4.2 million in the fiscal year ended March 31, 2002. The increase in application development expense is primarily due to the ongoing enhancement of our suites of applications.

24

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses decreased by \$3.9 million, or 33%, to \$8.1 million compared to \$12.0 million in the fiscal year ended March 31, 2002. The decrease is due to decrease in sales, the personnel reduction implemented in the third quarter of 2002 and fourth quarter of 2003 and control of expenditures.

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

DEPRECIATION AND AMORTIZATION

Depreciation and amortization decreased by \$2.6 million, or 38%, to \$4.1 million in the fiscal year ended March 31, 2003 from \$6.7 million in the fiscal year ended March 31, 2002. The decrease is mainly due to a reduction of \$2.2 million in amortization pursuant to the non-amortization provisions of Statement Financial Accounting Standard ("SFAS") No. 142 for goodwill with indefinite useful lives.

INTEREST EXPENSE

Interest expense decreased by \$1.9 million, or 64%, to \$1.1 million in the fiscal year ended March 31, 2003 from \$3.0 million in the fiscal year ended March 31, 2002. Interest expense in fiscal 2002 included \$1.2 million interest expense on the \$10.0 million note payable to Softline. Our obligations related to this note were released by Softline effective in January 1, 2002 in connection with the integrated series of recapitalization transactions with Softline. The decrease was also due to \$0.7 million decrease in amortization of debt discount.

DISCONTINUED OPERATIONS

Income from discontinued operations in fiscal 2003 represents a profit of \$0.2 million from operations of the Training Products subsidiary; offset in part by \$0.1 million accrual for loss on the sale of our Training Products subsidiary. Our Training Products subsidiary was sold effective April 1, 2003.

EXTRAORDINARY ITEM - GAIN ON DEBT FORGIVENESS

On March 31, 2003, we entered into a Discounted Loan Payoff Agreement with Union Bank of California (the "Bank"), our senior lender. Under this agreement, we paid the Bank \$2.8 million acquired from the sale of 9% convertible debentures to certain investors. We also issued to the Bank 1 million shares of our common stock and a \$500,000 one-year unsecured, non-interest bearing convertible note payable in either cash or stock, at our option. The cash payment, shares and convertible note were accepted by the Bank in full satisfaction of our debt to the Bank. The Bank also canceled the warrant to purchase 1.5 million shares of our common stock and returned all collateral held, including 10.7 million shares of our common stock pledged as security. In connection with the settlement of the debt to the Bank, we reported an extra-ordinary gain of \$1.5 million.

CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

The cumulative effect of accounting change in the fiscal year end March 31, 2003 was a non-cash, net-of-tax transitional goodwill impairment charge of \$0.6 million which relates to the adoption of SFAS No. 142.

CUMULATIVE PREFERRED DIVIDEND

Cumulative dividends on the outstanding preferred stock attributable to the fiscal years ended March 31, 2003 and 2002 were \$1.0 million and \$0.3 million, respectively.

LIQUIDITY AND CAPITAL RESOURCES

During the fiscal year ended March 31, 2004, we financed our operations using cash on hand, internally generated cash, proceeds from the sale of common stock and proceeds from sale of convertible debentures. At March 31, 2004 and 2003, we had cash of \$2.1 million and \$1.3 million, respectively.

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

Operating activities used cash of \$9.1 million in the fiscal year ended March 31, 2004 and \$1.1 million in the fiscal year ended March 31, 2003. Cash used for operating activities in the fiscal year ended March 31, 2004 resulted from \$4.2 million net loss, \$6.0 million increase in accounts receivable and other receivables and \$4.6 million decrease in accounts payable and accrued expenses; offset in part by non-cash charges of \$3.9 million for depreciation

25

and amortization, \$0.8 million for provision for allowance for doubtful accounts and \$0.5 million for amortization of debt discount on convertible debts.

Investing activities used cash of \$5.5 million in the fiscal year ended March 31, 2004 and \$0.1 million in the fiscal year ended March 31, 2003. Cash used for investing activities in the current year was primarily for capitalization of \$3.1 million software development costs, acquisition of Page Digital totaling \$1.9 million and \$0.5 million purchases of furniture and equipment.

Financing activities provided cash of \$15.3 million and \$1.3 million in the fiscal years ended March 31, 2004 and 2003, respectively. The financing activities in the current year included net proceeds of \$11.8 million from the sale of common stock and \$3.7 million from the issuance of convertible debentures.

Changes in the currency exchange rates of our foreign operation had the effect of decreasing cash by \$.01 million in the fiscal years ended March 31, 2004, 2003 and 2002.

Accounts receivable increased to \$4.6 million at March 31, 2004 from \$4.0 million at March 31, 2003. The increase is primarily due to receivables acquired in connection with the acquisition of Page Digital.

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.

CASH POSITION

As a result of our indebtedness and net losses for the past three years, we have experienced significant strains on our cash resources. In order to manage our cash resources, we have extended payment terms with many of our trade creditors wherever possible, have diligently focused our collection efforts on our accounts receivable and have been actively engaged in raising capital. See "Financing Transactions" below. We had a working capital of \$0.8 million at March 31, 2004 compared to a negative working capital of \$4.1 million at March 31, 2003.

During fiscal 2003 and the first half of fiscal 2004, we were unable to make timely, monthly rent payments due for our Irvine and Carlsbad facilities. We renegotiated rent terms with the landlords of our Irvine and Carlsbad facilities, and we have been in compliance with the renegotiated terms. In July 2003, we terminated the lease for the Carlsbad office. We are current with rent payments for all our presently leased facilities.

We have been actively engaged in attempts to resolve our liquidity problems. In April and May 2003, we sold 9% convertible debentures for an aggregate of \$0.7 million. On June 27, 2003, we sold 5,275,000 shares of our common stock for an aggregate of \$7.9 million, less expenses and placement fees, in a private placement transaction. On November 7, 2003, we sold 3,180,645 shares of our common stock for an aggregate of \$4.9 million, less expenses and

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

placement fees, in a private placement transaction. On March 15, 2004, we issued 9% convertible debentures and warrants for an aggregate of \$3.0 million, less expenses, in a private placement transaction. 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 may continue to seek private or public equity and/or debt placements to help discharge aged payables, pursue growth initiatives and prepay bank indebtedness. We have no binding commitments for funding at this time. If we do decide to seek financing, it may not be available on terms and conditions acceptable to us, or at all.

FINANCING TRANSACTIONS

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. The notes were originally due August 30, 2001, and accrued interest at the rate of 12% per annum to be paid until maturity, with the interest rate increasing to 17% in the event of a default in payment of principal or interest. We also issued 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 replaced 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 were required to pay accrued interest on the new notes calculated from July 19, 2002, in quarterly installments beginning September 30, 2002. The investors agreed to reduce accrued interest and late

26

charges on the original notes by up to \$16,000, and to accept the reduced amount in 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 were convertible at the option of the holders into shares of our common stock valued at \$0.60 per share.

In July 2002, we also replaced 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, with 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. None of the warrants have been exercised as of June 1, 2004.

In September 2003, the investors converted the outstanding principal and accrued interest totaling \$1.4 million into 2,287,653 shares of our common stock.

SOFTLINE/THE SAGE GROUP

In May 2002, we entered into a series of transactions with Softline by which:

1. We transferred Softline the note received in connection with the sale of IBIS Systems Limited ("IBIS Note").
2. We issued Softline 141,000 shares of newly-designated Series A Convertible Preferred Stock ("Series A Preferred").
3. Softline released us from approximately \$12.3 million in indebtedness due to Softline under a promissory note.

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

4. Softline transferred us 10,700,000 shares of our common shares.

These transactions were recorded for accounting purposes on January 1, 2002, the date when Softline took effective control of the IBIS note and we ceased accruing interest on the Softline note. We did not recognize any gain or loss in connection with the disposition of the IBIS Note or the other components of the transactions.

The Series A Preferred has a stated value of \$100 per share and is redeemed at our option any time prior to the maturity date of December 31, 2006 ("Maturity Date") for 107% of the stated value and accrued and unpaid dividends. The shares are entitled to cumulative dividends of 7.2% per annum, payable semi-annually. At June 1, 2004, cumulative dividends amount to \$2.2 million. The holders may convert each share of Series A Preferred at any time into the number of shares of our common stock determined by dividing the stated value plus all accrued and unpaid dividends, by a conversion price initially equal to \$0.80. The conversion price will increase at an annual rate of 3.5% calculated on a semi-annual basis. As of June 1, 2004, the conversion price is \$0.86 per share. On the Maturity Date, any outstanding shares of Series A Preferred will be automatically converted into shares of our common stock at a conversion price equal to 95% of the average closing price of our common stock for the last ten business days. The Series A Preferred is entitled upon liquidation to an amount equal to its stated value plus accrued and unpaid dividends in preference to any distributions to common stockholders. The Series A Preferred has no voting rights prior to conversion into common stock, except with respect to proposed impairments of the Series A Preferred rights and preferences, or as provided by law. We have the right of first refusal to purchase all but not less than all of any shares of Series A Preferred or shares of common stock received on conversion which the holder may propose to sell to a third party, upon the same price and terms as the proposed sale to a third party.

On September 17, 2003, an aggregate 500,000 shares of common stock, consisting of accrued dividends on the Series A Convertible Preferred Stock, were issued to certain institutional investors.

On November 14, 2003, the Sage Group acquired substantially all of the assets of Softline, which included 141,000 shares of our Series A Convertible Preferred Stock, 8,923,915 shares of our common stock and 71,812 shares of our common stock underlying stock options. In connection with this acquisition, certain agreements of Softline were also assigned to and assumed by the Sage Group, including the rights and obligations respecting and arising from the Option Agreement between Softline and Steven Beck, as trustee of a certain management group of the Company. Accordingly, the Optionees under the Option Agreement had the right to purchase 8,000,000 shares of common stock of the Company and such number of shares of Series A Convertible Preferred Stock convertible into 17,125,000 shares of common stock of the Company from the Sage Group for a price of \$0.80 per Option Share. The Option expired, unexercised, on March 24, 2004.

27

TOYS "R" US, INC.

In May 2002, Toys agreed to invest \$1.3 million for the purchase of a non-recourse convertible note and a warrant to purchase 2,500,000 of our common shares. The purchase price was received in installments through September 27, 2002. The note was non-interest bearing, and the face amount, which was 16% of the \$1.3 million purchase price as of May 29, 2002 was either convertible into shares of our common stock valued at \$0.553 per share or payable in cash at our option, at the end of the term. The note was due May 29, 2009, or if earlier

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

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. In November 2002, the Board decided that this note would be converted solely for equity and would not be repaid in cash and the \$1.3 million balance was presented as committed common stock on our consolidated balance sheet at March 31, 2003. The warrant entitled Toys to purchase up to 2,500,000 of our common shares at \$0.553 per share. 400,000 shares had vested as of May 29, 2002, and continued to vest at the rate of 100,000 shares per month until February 28, 2004.

In November 2003, we entered an agreement with Toys to terminate the software development and services agreement. Pursuant to the agreement, the \$1.3 million outstanding convertible note due to Toys, which would have been converted solely for equity, was settled in full by offsetting against accounts receivable due to us from Toys and the warrant to purchase 2,500,000 shares of our common stock was cancelled.

In accordance with generally accepted accounting principles, the difference between the conversion price of the note of \$0.553 and our stock price on the date of issuance of the note was considered to be interest expense. For the year ended March 31, 2004 and 2003, we recorded a charge of \$0 and \$151,000, respectively, representing a proportion of the total debt discount.

We have 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. For the year ended March 31, 2003, we recognized \$20,000 as interest expense. The remaining value of the detachable warrants of \$574,000 has been recorded as an offering cost in the fiscal year ended March 31, 2003 and as such, there is no effect on our consolidated statement of operations.

9% CONVERTIBLE DEBENTURES

On March 15, 2004, we sold Omicron and Midsummer (collectively, the "Purchasers") convertible debentures (the "March 2004 Debentures") for an aggregate price of \$3.0 million pursuant to a securities purchase agreement (the "Purchase Agreement"). The March 2004 Debentures bear an interest rate of 9% per annum, and provide for interest only payments on a quarterly basis, payable, at our option, in cash or shares of our common stock. The March 2004 Debentures mature on May 15, 2006. The March 2004 Debentures are convertible into shares of our common stock at a conversion price of \$1.32 per share, subject to adjustment if we offer or sell any securities for an effective per share price that is less than 87% of the then current conversion price, negatively restate any of our financial statements or make any public disclosure that negatively revises or supplements any prior disclosure regarding a material transaction consummated prior to March 15, 2004 or trigger other customary anti-dilution protections. If certain conditions are met, we have the option to redeem the 9% Debentures at 110% of their face value, plus accrued but unpaid interest.

We must redeem the March 2004 Debentures at the initial monthly amount of \$233,333 commencing on February 1, 2005. If the daily volume weighted average price of our common stock on the American Stock Exchange exceeds \$1.15 by more than 200% for 15 consecutive trading days, we have the option to cause the Purchasers to convert the then outstanding principal amount of the March 2004 Debentures into our common stock at the conversion price then in effect.

We also issued the Purchasers two warrants as follows: (1) Series A Warrants to purchase up to an aggregate of 1,043,479 shares of our common stock at an exercise price of \$1.15 per share with a five-year term, exercisable at anytime after September 16, 2004, subject to adjustment if the we offer or sell any securities for an effective per share price that is less than the then current exercise price, negatively restate any of our financial statements or

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

make any public disclosure that negatively revises or supplements any prior disclosure regarding a material transaction consummated prior to March 15, 2004 or trigger other customary anti-dilution protections and (2) Series B Warrants to purchase up to 8,500,000 shares of our common stock with an exercise price of \$5 per share, these warrants are immediately exercisable and expire on the earlier of the six-month anniversary of the effective date of a registration statement that is required to be filed or 18 months from March 15, 2004, subject to adjustment upon the issuance or sale of securities in a public offering for an effective per share price that is less than the then-current exercise price and upon the trigger of other customary anti-dilution protections.

For a period of one hundred eighty (180) days following the date the registration statement is declared effective ("Effective Date"), each Purchaser has the right, in its sole discretion, to elect to purchase such Purchaser's pro

28

rata portion of additional Debentures and Series A Warrants for an aggregate purchase price of up to \$2.0 million in a second closing (the "Second Closing"). The terms of the Second Closing shall be identical to the terms set forth in the Purchase Agreement and related documents, except that, the conversion price for the additional debentures and the exercise price for the additional warrants shall be equal to 115% of the ten day average of the daily volume weighted average price of our common stock on the American Stock Exchange preceding the Second Closing ("Second Closing Price"). The Series A Warrant coverage for the Second Closing shall be 40% of each Purchaser's subscription amount in the Second Closing divided by the Second Closing Price.

For a period of one hundred eighty (180) days following the Effective Date, if the daily volume weighted average price of our common stock for twenty (20) consecutive trading days exceeds \$2.00, subject to adjustment, we may, on one occasion, in our sole determination, require the Purchasers to purchase each such Purchaser's pro rata portion of additional debentures and Series A Warrants for an aggregate purchase price of up to \$2.0 million. Any such additional investment shall be under the terms set forth in the Purchase Agreement and related documents, except that, the conversion price for the additional debentures and the exercise price for the additional warrants shall be equal to the then current conversion price and warrant exercise price for the March 2004 Debentures and warrants purchased on March 15, 2004.

For a period of six (6) months following the Effective Date, the Purchasers have a right of first refusal to participate in certain future financings by us involving the sale of our common stock or equivalent securities. The Purchasers were also granted registration rights under a Registration Rights Agreement dated March 15, 2004, pursuant to which we were required to file a registration statement respecting the common stock issuable upon the conversion of the debentures and exercise of the warrants within thirty (30) days after March 15, 2004, and to use best efforts to have the registration statement declared effective at the earliest date. If a registration statement was not filed within such thirty (30) day period or declared effective within such ninety (90) day period (or within one hundred twenty (120) days in the event of a full review by the SEC), we became obligated to pay liquidated damages to the Purchasers equal to 2% per month of each such Purchasers' subscription amount under the Purchase Agreement plus the value of any warrants issued pursuant to the Purchase Agreement then held by such Purchaser. Omicron and Midsummer waived their registration rights with respect to the shares issuable upon exercise of the Series B Warrant. The registration statement has not been filed as of June 15, 2004; therefore, \$120,000 in liquidated damages has been accrued and included in accrued expenses at March 31, 2004.

In accordance with generally accepted accounting principles, the

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

difference between the conversion price of \$1.32 and our stock price of the date of issuance of the debentures was recorded as interest expense. It was recognized in the statement of operations during the period from the issuance of the debt to the time at which the debt first became convertible. We recognized this interest expense of \$265,000 in the fiscal year ended March 31, 2004.

We allocated the proceeds received from convertible debt with detachable warrants using the relative fair market value of the individual elements at the time of issuance. The amount allocated to the warrants was \$720,000 and is being amortized as interest expense over the life of the convertible debentures. We recorded an interest expense of \$14,000 in the fiscal year ended March 31, 2004.

In March 2003, we entered into a Securities Purchase Agreement for the sale of convertible debentures (the "March '03 Debentures") to Omicron, Midsummer and Islandia, L.P. ("Islandia") for the total proceeds of \$3.5 million. The March '03 Debentures were convertible into shares of our common stock at a conversion price of \$1.02 per share. The March '03 Debentures were due to mature in May 2005 and bore an interest rate of 9% per annum. Interest was payable on a quarterly basis beginning June 1, 2003, at our option, in cash or shares of common stock. If certain conditions were met, we had the right, but not the obligation, to redeem the debentures at 110% of their face value, plus accrued interest. Commencing in February 2004, we would have been obligated to redeem \$219,000 per month of the debenture. In August 2003, the daily volume weighted average price of our common stock on the American Stock Exchange exceeded \$1.02 by more than 200% for 15 consecutive trading days; therefore, we exercised the option to cause the investors to convert their debentures into common stock. As a result, all outstanding balances of the March '03 Debentures were converted into an aggregate of 3,419,304 shares of our common stock during the second quarter of fiscal year ended March 31, 2004.

In accordance with generally accepted accounting principles, the difference between the conversion price of \$1.02 and our stock price on the date of issuance of the notes was considered to be interest expense. It was recognized in the statement of operations during the period from the issuance of the debt to the time at which the debt first became convertible. We recognized interest expense of \$715,000 against the extra-ordinary gain of debt forgiveness, related to the payoff of our debt to the Union Bank of California, in the accompanying statement of operations for the fiscal year ended March 31, 2003.

Omicron, Midsummer and Islandia also received warrants to purchase up to, in the aggregate, 1,572,858 shares of common stock with an exercise price equal to \$1.02 per share. The warrants expire five years from the date of

29

issuance. We 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 \$625,000 and was being amortized as interest expense over the life of the convertible debentures. We recorded an interest expense of \$144,000 in the fiscal year ended March 31, 2004. At the date of the conversion of the debentures to equity, \$481,000 of the expense remained unamortized and has been debited to additional paid in capital. The value of the detachable warrants of \$481,000 had been recorded as an offering cost in the fiscal year ended March 31, 2004. As such, there is no effect on our statement of operations.

In April 2003, we entered into a Securities Purchase Agreement with MBSJ, LLC for a sale of convertible debenture (the "April '03 Debenture"). The debenture was convertible into shares of our common stock at a conversion price

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

of \$1.02 per share, for the total proceeds of \$400,000. Interest was due on a quarterly basis commencing on June 1, 2003, payable in cash or shares of common stock at our option. Commencing on February 1, 2004, we would have been obligated to redeem \$20,000 per month of the debenture. The April '03 Debenture was due to mature in October 2005. In August 2003, the daily volume weighted average price of our common stock on the American Stock Exchange exceeded \$1.02 by more than 200% for 15 consecutive trading days; therefore, we exercised the option to cause the investors to convert their debentures into common stock. As a result, all outstanding balance of the April '03 Debenture was converted into 390,777 shares of our common stock during the second quarter of fiscal year ended March 31, 2004.

In accordance with generally accepted accounting principles, the difference between the conversion price of \$1.02 and our stock price on the date of issuance of the notes was considered to be interest expense. It was recognized in the statement of operations during the period from the issuance of the debt to the time at which the debt first became convertible. We recognized interest expense of \$69,000 in the fiscal year ended March 31, 2004.

The April '03 Debenture was accompanied by a five-year warrant to purchase 156,311 shares of our common stock with an exercise price of \$1.02 per share. We 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 determined to be \$63,000 and was being amortized as interest expense over the life of the convertible debentures. We recorded an interest expense of \$11,000 in the fiscal year ended March 31, 2004. At the date of the conversion of the debenture to equity, \$52,000 of the expense remained unamortized and has been debited to additional paid in capital. The value of the detachable warrants of \$52,000 has been recorded as an offering cost in the fiscal year ended March 31, 2004. As such, there is no effect on our statement of operations.

In May 2003, we entered into an agreement with Crestview Capital Fund I, L.P., Crestview Capital Fund II, L.P. and Crestview Capital Offshore Fund, Inc. (collectively, the "Crestview Investors") for the sale of 9% debentures, convertible into shares of our common stock at a conversion price of \$1.02 for the gross proceeds of \$300,000 (the "May '03 Debentures"). Interest was due on a quarterly basis commencing on June 1, 2003, payable in cash or shares of common stock at our option. The debentures were due to mature in May 2005. Commencing on February 1, 2004, we would have been obligated to redeem \$19,000 per month of the debentures. In August 2003, the daily volume weighted average price of our common stock on the American Stock Exchange exceeded \$1.02 by more than 200% for 15 consecutive trading days; therefore, we exercised the option to cause the investors to convert their debentures into common stock. As a result, all outstanding balance of the May '03 Debentures were converted into an aggregate of 293,083 shares of our common stock in the second quarter of fiscal year ended March 31, 2004.

In accordance with generally accepted accounting principles, the difference between the conversion price of \$1.02 and our stock price on the date of issuance of the debentures was recorded as interest expense. We recognized this interest expense of \$38,000 in the fiscal year ended March 31, 2004.

The May '03 Debentures were accompanied by five-year warrants to purchase an aggregate of 101,112 shares of common stock with an exercise price of \$1.02 per share. We 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 is \$39,000 and was being amortized as interest expense over the life of the convertible debentures. We recorded an interest expense of \$5,000 in the fiscal year ended March 31, 2004. At the date of the conversion of the debentures to equity, \$34,000 of the expense remained unamortized and has been debited to

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

additional paid in capital. The value of the detachable warrants of \$34,000 had been recorded as an offering cost at March 31, 2004. As such, there is no effect on our statement of operations.

In connection with the financing in June 2003, we also issued five-year warrants to purchase 375,000 shares of common stock at an exercise price of \$1.65 to Omicron, Midsummer, Islandia and the Crestview Investors in order to obtain their requisite consents and waivers of rights they possessed to participate in the financing. We filed a registration statement covering shares

30

sold and warrants issued in connection with this transaction. In accordance with generally accepted accounting principles, the difference between the conversion price of \$1.02 and our stock price on the date of issuance of the notes was considered to be interest expense. It was recognized in the statement of operations during the period from the issuance of the debt to the time at which the debt first became convertible. We recognized interest expense of \$69,000 in the fiscal year ended March 31, 2004.

COMMON STOCK INSTITUTIONAL INVESTORS

On June 27, 2003, we sold an aggregate of 5,275,000 shares of common stock at a \$1.50 per share to various institutional investors in a private placement transaction for an aggregate purchase price of \$7.9 million (the "June 27, 2003 PIPE Transaction").

On November 7, 2003, we sold an aggregate of 3,180,645 shares of common stock at a price of \$1.55 per share to various institutional investors in a private placement transaction for an aggregate purchase price of \$4.9 million (the "November 7, 2003 PIPE Transaction" and together with the June 27, 2003 PIPE Transaction, the "PIPE Transactions"). We also granted registration rights to the PIPE Transactions investors under registration rights agreements in which we agreed to file registration statements with the SEC for the resale of the shares sold in the PIPE Transactions. A registration statement covering the shares sold in the June 27, 2003 PIPE Transaction was declared effective by the SEC on September 26, 2003. A registration statement covering shares sold in the November 7, 2003 PIPE Transaction was declared effective by the SEC on February 3, 2004.

In connection with the PIPE Transactions, we paid Roth Capital, as placement agent, an aggregate of \$812,000 as cash compensation and five-year warrants to purchase an aggregate of 809,565 shares of common stock, 527,500 shares at \$1.65 per share and 282,065 shares at \$1.71 per share. We also granted Roth Capital 115,226 shares of our common stock in connection with the November 7, 2003 PIPE Transaction. In connection with the June 27, 2003 PIPE Transaction we also issued warrants to purchase 375,000 shares of common stock at an exercise price of \$1.65 to Midsummer, Omicron, Islandia and the Crestview Investors, all holders of the March 2003 Debentures, in order to obtain their requisite consents and waivers of rights they possessed to participate in the June 27, 2003 PIPE Transaction. In accordance with the warrant agreements, these warrants were adjusted to \$1.55 due to the sale of common stock at that price on November 7, 2003 and further adjusted to \$1.32 due to the sale of March 2004 Debentures on March 15, 2004. We also issued an additional 1,509,227 shares of common stock to the November 7, 2003 PIPE investors in connection with the sale of March 2004 Debentures on March 15, 2004 pursuant to anti-dilution provision in the securities purchase agreement for the November 7, 2003 PIPE Transaction.

CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual obligations, including

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

purchase commitments at March 31, 2004, and the effect such obligations are expected to have on our liquidity and cash flow in future periods.

CONTRACTUAL CASH OBLIGATIONS -----	TOTAL -----	PAYMENT DUE BY PERIOD				THEREA -----
		LESS THAN 1 YEAR -----	-13 YEARS -----	3-5 YEARS -----	-----	
(in thousands)						
Long-term debt obligations	\$ 3,371	\$ 723	\$ 2,648	\$ --	\$	
Capital lease obligations	274	182	91	--		
Operating leases	10,678	1,786	2,277	1,922		4,6
Purchase obligations	862	852	10	--		
	-----	-----	-----	-----		-----
Total contractual cash obligations	\$15,185	\$ 3,543	\$ 5,026	\$ 1,922		\$ 4,6
	=====	=====	=====	=====		=====

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

31

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:

- o 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 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 Staff Accounting Bulletin ("SAB") 101, "Revenue Recognition", updated by SAB's 103 and 104, "Update of Codification of Staff Accounting

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

Bulletins", and Technical Practice Aids issued from time to time by the American Institute of Certified Public Accountants.

Software license revenue 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. In addition, if a software license contains customer acceptance criteria or a cancellation right, the software revenue is recognized upon the earlier 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 primarily of deferred license, prepaid services revenue and maintenance support revenue.

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. On 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. We have from time to time provided software and consulting services under fixed price contracts that require the achievement of certain milestones. The revenue under such arrangements is recognized as the milestones are achieved.

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 and the payment of related receivable balances are due upon 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 our customers

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

ability to pay and general economic conditions.

- o VALUATION OF LONG-LIVED AND INTANGIBLE ASSETS AND GOODWILL. Starting fiscal 2003, we adopted SFAS No. 142 resulting in a change in the way we value long-term intangible assets and goodwill. We completed an initial transitional analysis of goodwill impairment as of April 1, 2002 and recorded an impairment of \$0.6 million as a cumulative effect of a change in accounting principle in the first quarter of fiscal 2003.

32

We no longer amortize goodwill, but 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 in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". 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.

- o APPLICATION DEVELOPMENT. The costs to develop new software products and enhancements to existing software products are expensed as incurred until technological feasibility has been established. Technological Feasibility has occurred when all planning, designing, coding and testing have been completed according to design specifications. Once technological feasibility is established, any additional costs would be capitalized, in accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed".
- o STOCK-BASED COMPENSATION. We do not record compensation expense for options granted to our employees as all options granted under our stock option plans have an exercise price equal to the market value of the underlying common stock on

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

the date of grant. In addition, we do not record compensation expense for shares issued under our employee stock purchase plan. As permitted under SFAS No. 123, "Accounting for Stock-Based Compensation" and SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure", we account for costs of stock based compensation in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and accordingly, discloses the pro forma effect on net income (loss) and related per share amounts using the fair-value method defined in SFAS No. 123, updated by SFAS No. 148.

RECENT ACCOUNTING PRONOUNCEMENTS

In April 2003, the FASB issued SFAS No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 further clarifies accounting for derivative instruments. The adoption of this statement did not have a material impact on our consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 did not have a material impact on our consolidated financial statements.

BUSINESS RISKS

Investors should carefully consider the following risk factors and all other information contained in this Form 10-K. 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 this Form 10-K.

33

WE INCURRED LOSSES FOR FISCAL YEARS 2004, 2003 AND 2002.

We incurred losses of \$4.2 million, \$2.7 million and \$14.7 million in the fiscal years ended March 31, 2004, 2003, and 2002 respectively. The losses in the past three 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. If we are unable to achieve profitability, or maintain profitability if achieved, our business and stock price may be adversely effected and we may be unable to continue operations at current levels, if at all.

WE HAD NEGATIVE WORKING CAPITAL IN PRIOR FISCAL YEAR, AND WE HAVE EXTENDED PAYMENT TERMS WITH A NUMBER OF OUR SUPPLIERS.

At March 31, 2003, we had negative working capital of \$4.1 million. We

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

have had difficulty meeting operating expenses, including interest payments on debt, lease payments and supplier obligations. 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, and we may be unable to obtain these products from other parties on terms acceptable to us, if at all.

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

Our net sales decreased by 2% in the fiscal year ended March 31, 2004, compared to the fiscal year ended March 31, 2003. Our net sales decreased by 16% in the fiscal year ended March 31, 2003 compared to the fiscal year ended March 31, 2002. We experienced a substantial decrease in application license software sales in fiscal year 2003 and 2002, which typically carry a much higher margin than other revenue sources. 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 sales has not been due to factors which might continue to negatively affect sales.

OUR FINANCIAL CONDITION MAY INTERFERE WITH OUR ABILITY TO SELL NEW APPLICATION SOFTWARE LICENSES.

Future sales growth may depend on our ability to improve our financial condition. Our past financial condition has made it difficult for us to complete sales of new application software licenses. Because our applications typically require lengthy implementation and extended servicing arrangements, potential customers require assurance that these services will be available for the expected life of the application. These potential customers may defer buying decisions until our financial condition improves, or may choose the products of our competitors whose financial conditions are, or are perceived to be, stronger. Customer deferrals or lost sales will adversely affect our business, financial conditions and results of operations.

OUR SALES CYCLES ARE LONG AND PROSPECTS ARE UNCERTAIN. THIS MAKES IT DIFFICULT FOR US TO PREDICT REVENUES AND BUDGET EXPENSES.

The length of sales cycles in our business makes it difficult to evaluate the effectiveness of our sales strategies. Our sales cycles historically have ranged from three to twelve months, which has caused significant fluctuations in revenues from period to period. Due to our difficulties in completing new application software sales in recent periods and our refocused sales strategy, it is difficult to predict revenues and properly budget expenses.

Our software applications are complex and perform or directly affect mission-critical functions across many different functional and geographic areas of the retail enterprise. In many cases, our customers must change established business practices when they install our software. Our sales staff must dedicate significant time consulting with a potential customer concerning the substantial technical and business concerns associated with implementing our products. The purchase of our products is often discretionary, so lengthy sales efforts may

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

not result in a sale. Moreover, it is difficult to predict when a license sale will occur. All of these factors can adversely affect our business, financial condition and results of operations.

34

OUR OPERATING RESULTS AND REVENUES 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, which are outside of our control including: the size and timing of orders, the general health of the retail industry, the length of our sales cycles and technological changes. 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 net sales or operating results will be below the expectations of public market analysts or investors. If that happens, our stock price will likely decline.

Further, due to these fluctuations, we do not believe period to period comparisons of our financial performance are necessarily meaningful nor should they be relied on as an indication of our future performance.

WE MAY EXPERIENCE SEASONAL DECLINES IN SALES, WHICH COULD CAUSE OUR OPERATING RESULTS TO FALL SHORT OF EXPECTATIONS IN SOME QUARTERS.

We may experience slower sales of our applications and services from October through December of each year as a result of retailers' focus on the holiday retail-shopping season. This can negatively affect revenues in our third fiscal quarter and in other quarters, depending on our sales cycles.

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, our former director, made short-term loans to us in fiscal 2002 and in fiscal 2003 to meet payroll. 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 former Chairman. We borrowed an additional \$164,000 from Mr. Schechter in March 2001, which was repaid in July 2001, for operational needs related to our Australian subsidiary.

We may not be able to obtain capital from related parties in the future. No officer, director, stockholder or related party is under any obligation to provide cash to meet our future liquidity needs.

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

We may need to raise capital to:

- o Support unanticipated capital requirements;
- o Take advantage of acquisition or expansion opportunities;

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

- o Continue our current development efforts;
- o Develop new applications or services; or
- o 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 or convertible debt securities, our stockholders may experience substantial dilution and the new securities may have greater rights, preferences or privileges than our existing common stock.

35

INTANGIBLE ASSETS MAY BE IMPAIRED MAKING IT MORE DIFFICULT TO OBTAIN FINANCING.

Goodwill, capitalized software, non-compete agreements and other intangible assets represent approximately 84% of our total assets as of March 31, 2004. We may have to impair or write-off these assets, which will cause a charge to earnings and could cause our stock price to decline.

Any such impairment will also reduce our assets, as well as the ratio of our assets to our liabilities. These balance sheet effects could make it more difficult for us to obtain capital, and could make the terms of capital we do obtain more unfavorable to our existing stockholders.

FOREIGN CURRENCY FLUCTUATIONS MAY IMPAIR OUR COMPETITIVE POSITION AND AFFECT OUR OPERATING RESULTS.

Fluctuations in currency exchange rates affect the prices of our applications and services and our expenses, and foreign currency losses will negatively affect profitability or increase losses. Approximately 17%, 12% and 9% of our net sales from continuing operations were outside North America, principally in Australia and the United Kingdom, in the fiscal years ended March 31, 2004, 2003 and 2002, respectively. Many of our expenses related to foreign sales, such as corporate level administrative overhead and development, are denominated in U.S. dollars. When accounts receivable and accounts payable arising from international sales and services are converted to U.S. dollars, the resulting gain or loss contributes to fluctuations in our operating results. We do not hedge against foreign currency exchange rate risks.

HISTORICALLY WE HAVE BEEN DEPENDENT ON A SMALL NUMBER OF CUSTOMERS FOR A SIGNIFICANT AMOUNT OF OUR BUSINESS.

QQQ Systems Ltd. ("QQQ Systems") accounted for 18% of our net sales for the fiscal year ended March 31, 2004. The software license sale to QQQ Systems was a one-time transaction. Toys "R" Us ("Toys") accounted for 7%, 31% and 47% of our net sales from continuing operations for the fiscal years ended March 31, 2004, 2003 and 2002, respectively. In November 2003, Toys terminated their software development and services agreement with us. We cannot provide any assurances that QQQ Systems or any of our current customers will continue at current or historical levels or that we will be able to obtain orders from new

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

customers.

IF WE LOSE THE SERVICES OF ANY MEMBER OF OUR SENIOR MANAGEMENT OR KEY TECHNICAL AND SALES PERSONNEL, OR IF WE ARE UNABLE TO RETAIN OR ATTRACT ADDITIONAL TECHNICAL PERSONNEL, OUR ABILITY TO CONDUCT AND EXPAND OUR BUSINESS WILL BE IMPAIRED.

We are heavily dependent on our President and Chief Operating Officer, Michael Tomczak and our Chief Technology Officer, Jeffrey Boone. We are also heavily dependent on our former Chairman, Barry Schechter, who remains as a consultant to us. We do not have a written consulting agreement with Mr. Schechter. We also believe our future success will depend largely upon our ability to attract and retain highly-skilled software programmers, managers, and sales and marketing personnel. Competition for personnel is intense, particularly in international markets. The software industry is characterized by a high level of employee mobility and aggressive recruiting of skilled personnel. We compete against numerous companies, including larger, more established companies, for our personnel. We may not be successful in attracting or retaining skilled sales, technical and managerial personnel, which could negatively affect our financial performance and cause our stock price to decline.

WE ARE DEPENDENT ON THE RETAIL INDUSTRY, AND IF ECONOMIC CONDITIONS IN THE RETAIL INDUSTRY FURTHER DECLINE, OUR REVENUES MAY ALSO DECLINE. RETAIL SALES HAVE BEEN AND MAY CONTINUE TO BE SLOW.

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. 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. In addition, the retail industry may be consolidating, and it is uncertain how consolidation will affect the industry. 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. Specifically, uncertain economic conditions and the specter of terrorist activities have adversely impacted sales of our software applications, and we believe mid-tier specialty retailers may be reluctant during the current economic climate to make the substantial infrastructure investment that generally accompanies the implementation of our software applications, which may adversely impact our business.

36

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

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

the 90-day preference period. We also face risk from international customers who 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:

- o Introduce new technologies that render our existing or future products obsolete, unmarketable or less competitive;
- o 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
- o 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. For a further discussion of competitive factors in our industry, see "Description of Business - Competition" below.

OUR MARKETS ARE SUBJECT TO RAPID TECHNOLOGICAL CHANGE, SO OUR SUCCESS DEPENDS HEAVILY ON OUR ABILITY TO DEVELOP AND INTRODUCE NEW APPLICATIONS AND RELATED SERVICES.

The retail software industry is characterized by rapid technological change, evolving standards and wide fluctuations in supply and demand. We must cost-effectively develop and introduce new applications and related services that keep pace with technological developments to compete. If we do not gain market acceptance for our existing or new offerings or if we fail to introduce progressive new offerings in a timely or cost-effective manner, our financial performance will suffer.

The success of application enhancements and new applications depends on a variety of factors, including technology selection and specification, timely and efficient completion of design, and effective sales and marketing efforts. In developing new applications and services, we may:

- o Fail to respond to technological changes in a timely or cost-effective manner;
- o Encounter applications, capabilities or technologies developed

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

by others that render our applications and services obsolete or non-competitive or that shorten the life cycles of our existing applications and services;

- o Experience difficulties that could delay or prevent the successful development, introduction and marketing of these new applications and services; or

37

- o Fail to achieve market acceptance of our applications and services.

The life cycles of our applications are difficult to estimate, particularly in the emerging electronic commerce market. As a result, new applications and enhancements, even if successful, may become obsolete before we recoup our investment.

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 INITIATE 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 our intellectual property rights.

We may find it necessary to bring claims or initiate 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.

OUR APPLICATIONS MAY BE SUBJECT TO CLAIMS THEY INFRINGE ON THE PROPRIETARY RIGHTS OF THIRD PARTIES, WHICH MAY EXPOSE US TO LITIGATION.

We may become subject to 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 DEPENDS 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.

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

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, including licensing software and technology that is integrated into our applications. 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, and 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 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.

38

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. 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 material 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

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

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.

THE SAGE GROUP HAS THE RIGHT TO ACQUIRE A SIGNIFICANT PERCENTAGE OF OUR COMMON STOCK, WHICH IF ACQUIRED BY THE SAGE GROUP, MAY ENABLE THE SAGE GROUP TO EXERCISE EFFECTIVE CONTROL OF US.

On November 14, 2003, the Sage Group acquired substantially all of the assets of Softline, including Softline's 141,000 shares of our Series A Convertible Preferred Stock which are convertible into 18,905,269 shares of our common stock within 60 days of June 1, 2004, 8,923,915 shares of our common stock and options to purchase 71,812 shares of our common stock. The Sage Group beneficially owns approximately 38.2% of our outstanding common stock, including shares the Sage Group has the right to acquire upon conversion of its Series A Convertible Preferred Stock and exercise of its outstanding options. Although the Series A Convertible Preferred Stock is non-voting as to most matters and is redeemable by us, if the Sage Group converts its Series A Convertible Preferred Stock to common stock, it may have effective control over all matters affecting us, including:

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

39

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

The Sage Group beneficially owns a significant percentage of our common stock. In addition, two of the current members of our board of directors are employed by a subsidiary of the Sage Group. The Sage Group's potential effective 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, the Sage Group's potential effective 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.

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

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. For further information on our stock price trends, see "Price Range of Common Stock" below.

WE HAVE NEVER PAID A DIVIDEND ON OUR COMMON STOCK AND WE DO NOT INTEND TO PAY DIVIDENDS ON OUR COMMON STOCK 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 on our common stock in the foreseeable future. Holders of our Series A Convertible Preferred Stock are entitled to dividends 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 in May 2002 and 2,517,232 shares of Series B Convertible Preferred Stock in June 2004. 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. Pursuant to these guidelines the Exchange will consider suspending trading in a listed security or delisting a security when, in the opinion of the Exchange: (i) the financial condition and/or operating results of the issuer appear to be unsatisfactory; (ii) the aggregate market value of the security has become so reduced as to make further dealings on the Exchange inadvisable; (iii) the issuer has sold or otherwise disposed of its principal operating assets, or has ceased to be an operating company; (iv) the issuer has failed to comply with its listing agreements with the Exchange; or (v) any other event shall occur or any condition shall exist which makes further dealings on the Exchange unwarranted. As a result of our financial condition or other factors, the American Stock 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.

SHARES ISSUABLE UPON THE EXERCISE OF OPTIONS OR WARRANTS, CONVERSION OF DEBENTURES OR DIVIDENDS ON CONVERTIBLE PREFERRED STOCK OR UNDER ANTI-DILUTION

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

PROVISIONS IN CERTAIN AGREEMENTS 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 have exercise prices at below the market price of our stock. We currently have outstanding options and warrants for 28,965,623 shares as of June 1, 2004. Of these options and warrants, as of June 1, 2004, 17,596,785 have exercise prices above the recent market price of \$0.77 per share (as of June 1, 2004), and 11,368,838 have exercise prices at or below that recent market price.

40

Our existing stock option plan currently has approximately 906,663 shares available for issuance as of June 1, 2004. Future options issued under the plan may have further dilutive effects.

The issuance of additional shares pursuant to these options, warrants, convertible debentures or anti-dilution provisions will cause immediate and possibly substantial dilution to our stockholders. Further, subsequent sales of the shares in the public market 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.

SUBSTANTIALLY ALL OF OUR AUTHORIZED COMMON STOCK IS ISSUED AND OUTSTANDING OR IS RESERVED FOR ISSUANCE PURSUANT TO EXERCISE OF OUTSTANDING OPTIONS OR WARRANTS OR CONVERSION OF DEBENTURES OR PREFERRED STOCK. OUR INABILITY TO ISSUE ADDITIONAL SHARES OF COMMON STOCK IN THE FUTURE MAY LIMIT OUR ABILITY TO RAISE CAPITAL, ENTER STRATEGIC TRANSACTIONS AND SATISFY CONTRACTUAL OBLIGATIONS.

Our authorized capital stock under our Amended and Restated Certificate of Incorporation is 100,000,000 shares of common stock, 53,974,532 of which were issued and outstanding as of June 1, 2004 and 5,000,000 shares of preferred stock consisting of 141,000 shares of Series A Preferred, all of which were issued and outstanding as of June 1, 2004, and 2,517,232 Series B Preferred Stock, all of which were issued and outstanding as of June 4, 2004. In addition, we have 43,856,654 shares of common stock reserved for issuance upon exercise of options or warrants or conversion of debentures or preferred stock. As a result, we only have 2,168,814 authorized shares of common Stock that are not reserved and that may be issued for any future business purposes. We intend to submit a proposal to amend our Certificate of Incorporation to increase the number of shares of Common Stock we are authorized to issue from 100,000,000 to 250,000,000 to our stockholders at our next annual meeting and certain of our stockholders and members of management have signed voting agreements obligating them to vote their shares in favor of such amendment at the meeting. However, there can be no assurances that such a proposal will be approved by the requisite vote of the stockholders. If we are unable to increase our authorized Common Stock our ability to obtain additional capital through sales of our common stock, to engage in acquisitions or other strategic transactions and to satisfy contractual commitments will be severely limited.

WE MAY BE UNABLE TO SUCCESSFULLY INTEGRATE OUR OPERATIONS WITH PAGE DIGITAL OR RTI OR REALIZE ALL OF THE ANTICIPATED BENEFITS OF THESE ACQUISITIONS.

On January 30, 2004, we acquired Page Digital and on June 1, 2004, we acquired Retail Technologies, Inc. (see "Recent Transactions" below). These acquisitions involve integrating two companies that previously operated independently into Island Pacific. These integrations will be complex, costly and time-consuming processes. The difficulties of combining these companies' operations include, among other things:

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

- o Coordinating geographically disparate organizations, systems and facilities;
- o Strain on management resources due to integration demands;
- o Integrating personnel with diverse business backgrounds;
- o Consolidating corporate and administrative functions;
- o Coordinating product development;
- o Coordinating sales and marketing functions;
- o Retaining key employees; and
- o Preserving relationships with key customers.

BUSINESS RISKS FACED BY PAGE DIGITAL COULD DISADVANTAGE OUR BUSINESS.

Page Digital is a developer of multi-channel commerce software and faces several business risks that could disadvantage our business. These risks include many of the risks that we face, described above, as well as:

- o LONG AND VARIABLE SALES CYCLES MAKE IT DIFFICULT TO PREDICT OPERATING RESULTS - Historically, the period between initial contact with a prospective customer and the licensing of Page Digital's products has ranged from one to twelve months. Page Digital's average sales cycle is currently three months. The licensing of Page Digital's products is often an enterprise wide decision by customers that involves a significant commitment of resources by Page Digital and its prospective customer. Customers generally consider a wide range of issues before committing to purchase Page Digital's products, including product benefits, cost and time of implementation, ability to operate with existing and future computer systems, ability to accommodate increased transaction volume and product reliability. As a part of the sales process, Page Digital spends a significant amount of resources informing prospective customers about the use and benefits of Page Digital products, which may not result in a sale, therefore increasing operating expenses. As a result of this sales cycle, Page Digital's revenues are unpredictable and could vary significantly from quarter to quarter causing our operating results to vary significantly from quarter to quarter.

41

- o DEFECTS IN PRODUCTS COULD DIMINISH DEMAND FOR PRODUCTS AND RESULT IN LOSS OF REVENUES - From time to time errors or defects may be found in Page Digital's existing, new or enhanced products, resulting in delays in shipping, loss of revenues or injury to Page Digital's reputation. Page Digital's customers use its products for business critical applications. Any defects, errors or other performance problems could result in damage to Page Digital's customers' businesses. These customers could seek significant compensation from Page Digital for any losses. Further, errors or defects in Page Digital's products may be caused by defects in third-party software incorporated into Page Digital

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

products. If so, Page Digital may not be able to fix these defects without the assistance of the software providers.

- FAILURE TO FORMALIZE AND MAINTAIN RELATIONSHIPS WITH SYSTEMS INTEGRATORS COULD REDUCE REVENUES AND HARM PAGE DIGITAL'S ABILITY TO IMPLEMENT PRODUCTS - A significant portion of Page Digital's sales are influenced by the recommendations of systems integrators, consulting firms and other third parties who assist with the implementation and maintenance of Page Digital's products. These third parties are under no obligation to recommend or support Page Digital's products. Failing to maintain strong relationships with these third parties could result in a shift by these third parties toward favoring competing products, which could negatively affect Page Digital's software license and service revenues.
- PAGE DIGITAL'S PRODUCT MARKETS ARE SUBJECT TO RAPID TECHNOLOGICAL CHANGE, SO PAGE DIGITAL'S SUCCESS DEPENDS HEAVILY ON ITS ABILITY TO DEVELOP AND INTRODUCE NEW APPLICATIONS AND RELATED SERVICES - The retail software industry is characterized by rapid technological change, evolving standards and wide fluctuations in supply and demand. Page Digital must cost-effectively develop and introduce new applications and related services that keep pace with technological developments to compete. If Page Digital fails to gain market acceptance for its existing or new offerings or if Page Digital fails to introduce progressive new offerings in a timely or cost-effective manner, our financial performance may suffer.
- FAILURE TO PROTECT PROPRIETARY RIGHTS OR INTELLECTUAL PROPERTY, OR INTELLECTUAL PROPERTY INFRINGEMENT CLAIMS AGAINST PAGE DIGITAL COULD RESULT IN PAGE DIGITAL LOSING VALUABLE ASSETS OR BECOMING SUBJECT TO COSTLY AND TIME-CONSUMING LITIGATION - Page Digital's success and ability to compete depend on its proprietary rights and intellectual property. Page Digital relies on trademark, trade secret and copyright laws to protect its proprietary rights and intellectual property. Page Digital also has one issued patent. Despite Page Digital's efforts to protect intellectual property, a third party could obtain access to Page Digital's software source code or other proprietary information without authorization, or could independently duplicate Page Digital's software. Page Digital may need to litigate to enforce intellectual property rights. If Page Digital is unable to protect its intellectual property it may lose a valuable asset. Further, third parties could claim Page Digital has infringed their intellectual property rights. Any claims, regardless of merit, could be costly and time-consuming to defend.
- COMPETITION IN THE SOFTWARE MARKET IS INTENSE AND COULD REDUCE PAGE DIGITAL'S SALES OR PREVENT THEM FROM ACHIEVING PROFITABILITY - The market for Page Digital's products is intensely competitive and subject to rapid technological change. Competition is likely to result in price reductions, reduced gross margins and loss of Page Digital's market share, any one of which could reduce future revenues or earnings. Further, most of Page Digital's competitors are large companies with greater resources, broader customer relationships, greater name recognition and an international presence. As a result, Page Digital's competitors may be able

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

to better respond to new and emerging technologies and customer demands.

BUSINESS RISKS FACED BY RTI COULD DISADVANTAGE OUR BUSINESS.

RTI is a provider of retail management store solutions to small through mid-tier retailers via an international network of retailers and faces several business risks that could disadvantage our business. These risks include many of the risks that we face, described above, as well as:

- o RTI FACES INTENSE COMPETITION IN THE RETAIL POINT OF SALE INDUSTRY - RTI operates in an extremely competitive industry, which is subject to rapid technological and market changes. We anticipate that the competition will increase as more companies focus on providing technology solutions to small and mid-tier retailers. Many of our current and potential competitors, such as Microsoft, have more resources to devote to product development, marketing and distribution. While RTI

42

believes that it has competitive strengths in its market, there can be no assurance that RTI will continue to compete successfully against larger more established competitors.

- o RTI IS DEPENDENT ON THEIR VALUE-ADDED RESELLERS (VARs) - RTI does not have a direct sales force and relies on VARs to distribute and sell its products. RTI currently has approximately 67 VARs - 27 in North America, 7 in South America, 11 in Asia, 19 in Europe and the Middle East, 1 in Africa, and 1 each in Australia and New Zealand. Combined, RTI's four largest VARs account for approximately 35% of its revenues, although no one is over 15%. RTI's VARs are independently owned businesses and there can be no assurance that one or more will not go out of business or cease to sell RTI products. Until a replacement VAR could be recruited, and trained, or until an existing VAR could expand into the vacated territory, such a loss could result in a disruption in RTI's revenue and profitability. Furthermore, there can be no assurance that an adequate replacement could be located.
- o A PROLONGED SLOWDOWN IN THE GLOBAL ECONOMY COULD ADVERSELY IMPACT RTI'S REVENUES - A slowdown in the global economy might lead to decreased capital spending, fewer new retail business start ups, and slower new store expansion at existing retail businesses. Such conditions, even on a regional basis could severely impact one or more of RTI's VARs and result to a disruption in RTI's revenues, and profitability.
- o RTI'S PRODUCT MARKETS ARE SUBJECT TO RAPID TECHNOLOGICAL CHANGE, SO RTI'S SUCCESS DEPENDS HEAVILY ON ITS ABILITY TO DEVELOP AND INTRODUCE NEW APPLICATIONS AND RELATED SERVICES - We believe RTI's ability to succeed in its market is partially dependent on its ability to identify new product opportunities and rapidly, cost-effectively bring them to market. However, there is no guarantee that they will be able to gain market acceptance for any new products. In addition, there is no guarantee that one of RTI competitors will not be able to bring competing applications to market faster or market them more effectively. Failure to successfully develop new products, bring them to market and gain market acceptance

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

could result in decreased market share and ultimately have a material adverse affect on RTI.

- o RTI DOES NOT HOLD ANY PATENTS OR COPYRIGHTS, ANY TERMINATION OF OR ADVERSE CHANGE TO RTI'S LICENSE RIGHTS COULD HAVE A MATERIAL ADVERSE EFFECT ON ITS BUSINESS - RTI has a license to develop, modify, market, sell, and support its core technology from a third party. Any termination of, or disruption in this license could have a material adverse affect on RTI's business. Further, we believe that most of the technology used in the design and development of RTI's core products is widely available to others. Consequently, there can be no assurance that others will not develop, and market applications that are similar to RTI's, or utilize technologies that are equivalent to RTI's. Likewise, while RTI believes that its products do not infringe on any third party's intellectual property, there can be no assurance that they will not become involved in litigation involving intellectual property rights. If such litigation did occur, it could have a material adverse affect on RTI's business.

ITEM 7A. 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 and changes in foreign currency exchange rate as measured against the U.S. dollar.

INTEREST RATE RISK

We do not have financial instruments with variable interest rates or investment securities.

FOREIGN CURRENCY EXCHANGE RATE RISK

We conduct business in various foreign currencies, primarily in Europe. Sales 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 sales, 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 17%, 12% and 9% of our total net sales from continuing operations were denominated in currencies other than the U.S. dollar for the periods ended March 31, 2004, 2003 and 2002, respectively.

43

EQUITY PRICE RISK

We have no direct equity investments.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements at March 31, 2004, 2003 and 2002 and the reports of Singer Lewak Greenbaum & Goldstein LLP, independent accountants, are included in this report on pages beginning on F-1.

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Our management, including our principal executive officer and principal financial and accounting officer, have conducted an evaluation of the effectiveness of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that were in effect at the end of the period covered by this report. Based on their evaluation, our principal executive officer and principal financial and accounting officer have concluded that our disclosure controls and procedures that were in effect on March 31, 2004 were effective to ensure that all material information relating to us that is required to be included in the reports that we file with the SEC is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. There have been no changes in internal controls over financial reporting that were identified during the evaluation that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Our directors and executive officers, and their ages as of June 1, 2004, are as follows:

NAME ----	AGE ---	POSITION -----
Michael Silverman (1) (2)	59	Chairman of the Board
Michael Tomczak	49	President, Chief Operating Officer and Director
Jeffrey Boone	40	Chief Technology Officer
Ran Furman	34	Chief Financial Officer
Steven Beck	63	Executive Vice President - Product Visionary and Director
Lawrence Page	49	Executive Vice President - Special Projects and Director
Ivan M. Epstein	43	Director
Ian Bonner (1) (2)	49	Director
Robert P. Wilkie	34	Director
David S. Joseph	55	Senior Vice President, Sales and Marketing
Kavindra Malik	43	Executive Vice President, Product Management

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

Mike Dotson

37

Managing Director, European Operations

- (1) Member of the Compensation Committee
- (2) Member of the Audit Committee

44

Michael Silverman became a director in January 2001 and Chairman in February 2004. Mr. Silverman founded Advanced Remote Communications Solutions, Inc. (formerly known as Boatracs, Inc.) in 1990 and serves on its board of directors. He previously served as its Chairman until May 2002, and as Chief Executive Officer and President until October 1997, and from November 1999 to May 2002. Mr. Silverman is a Chartered Accountant (South Africa) and has an M.B.A. from Stanford University. Mr. Silverman is a member of the Audit and Compensation Committees.

Michael Tomczak became our President, Chief Operating Officer and director in June 2004 after our acquisition of RTI. Mr. Tomczak served as RTI's CEO and President since December 2002 and its CFO for the previous two years. Mr. Tomczak has been an executive with high-growth firms for the past twelve years including having served as Chief Financial Officer of a publicly traded technology company. Previously, Mr. Tomczak served as head director of Ernst & Young's Sacramento office's Entrepreneurial Services Group. Mr. Tomczak holds a Bachelor of Science degree in business administration from Western Michigan University and is a Certified Public Accountant in both California and Michigan.

Jeffrey Boone became the Chief Technical Officer of Island Pacific in June 2004, following the acquisition of RTI. Mr. Boone served as Chief Technical Officer since 2001. Previously, Mr. Boone served as VP of Products and Technology and later CIO for Objective Systems Integrators ("OSI"), before its acquisition by Agilent Technologies, where he directed product development and information services. Before joining OSI, he held key technical positions with Systems Center and IBM. Mr. Boone received his Bachelor of Science degree in computer science from California State University, Sacramento.

Ran Furman joined Island Pacific in July 2003 from e.Digital Corporation where he served as Chief Financial Officer since 2001. Prior to that, he was a Managing Director at DP Securities, Inc. He was also a Senior Vice President at Jesup & Lamont Securities between 1995 and 2000, and previously held positions at Bank of Montreal/Nesbitt Burns and Deloitte & Touche. He was awarded a Bachelor of Arts from the University of Washington and an M.B.A. from Columbia Business School.

Steven Beck became a director in April 2003. Mr. Beck currently serves as Executive Vice President - Product Visionary. He served as President from April 2003 to June 2004 and as Chief Operating Officer from April 2003 to February 2004. He had been President and Chief Operating Officer of our Retail Management Solutions division (formerly our Island Pacific division) from September 2002 to March 2003. Since January 2002, he had served as an independent consultant to various retailers. From March 1998 until January 2002, he was co-founder and Chief Operating Officer of Planalytics, the foremost provider of past and future weather analytics to the retail industry, the inventor of ARTHUR (a trademark of JDA), the most widely installed Merchandise Planning System for retailers, an officer of The Limited, and President of Dennison TRG. Mr. Beck received a B.A. from Adelphi University.

Lawrence Page became a director in March 2004 after our acquisition of Page Digital. Mr. Page currently serves as Executive Vice President - Special Projects. He served as Chief Technology Officer from January 2004 to June 2004 and as Chief Operating Officer from February 2004 to June 2004. He is the former Chief Executive Officer and Chairman of the board of Page Digital, which he

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

founded in 1980. Mr. Page has over 25 years of direct commerce experience. Mr. Page attended the California Institute of Technology for three years, when he departed to pursue his business interests in software.

Ian Bonner became a director in May 1998. He is President and Chief Executive Officer of Terraspring, Inc., a software and Internet infrastructure company. From 1993 until April 2001, he held various positions with IBM Corporation, including Vice President of Partner Marketing and Programs for the IBM/Lotus/Tivoli Software Group. His responsibilities included the development and implementation of marketing campaigns and programs designed to serve the business partners of IBM, Lotus and Tivoli, including major accounts, independent software vendors and global systems integrators. He also oversaw the IBM BESTeam and the Lotus Business Partner programs which are designed to provide enhanced opportunities, including education, marketing and training support, to qualified providers of IBM's and Lotus's portfolio of network solutions. Mr. Bonner received a Bachelor of Commerce from the University of the

45

Witwatersrand in 1976 and a graduate degree in Marketing Management and Market Research and Advertising from the University of South Africa in 1978. Mr. Bonner is a member of the Audit and Compensation Committees.

Ivan M. Epstein became a director of the Company in May 1998. He is Chief Executive Officer of Softline PTY Ltd, a subsidiary of Sage Group, plc. Softline PTY Ltd is one of the leading accounting software vendors in the world. Mr. Epstein co-founded Softline Limited in 1988 and served as its CEO and chairman until November 2003, when it was acquired by Sage Group plc.

Robert P. Wilkie became a director in June 2002. He is Chief Financial Officer of Softline PTY Ltd, a subsidiary of Sage Group plc. Prior to this, Mr. Wilkie was CFO and director of Softline Limited, which he joined in 1997 as controller. Mr. Wilkie received a Bachelor of Commerce from the University of Cape Town in 1989 and Bachelor of Accounting from the University of Witwatersrand in 1992. Mr. Wilkie is a Chartered Accountant (South Africa).

David S. Joseph became Senior Vice President of Sales and Marketing in January 2004 after our acquisition of Page Digital. He is the former Executive Vice President and director of Page Digital. Prior to joining Page Digital he served as senior Vice President of Sales at Computer Systems Dynamics, a software solution provider to the retail lumber and building materials industry, which he joined in 1980. At Page Digital, Mr. Joseph was responsible for establishing markets for new products through sales to major accounts such as IBM, Lands' End, FAO Schwarz and Hershey Foods. He received a B.A. in English from Michigan State University and has completed graduate level coursework in Computer Science.

Kavindra Malik became Executive Vice President in May 2003. Mr. Malik served as Vice President from January 2003 to April 2003. Mr. Malik is responsible for the product vision and roadmap for Island Pacific unit. Prior to joining Island Pacific, Mr. Malik served as Vice President of Product Management for Spotlight Solutions from 2002. From 1997 to 2002, Mr. Malik was the Director of Retail and Consumer Goods Solutions Management for i2 Technologies. Mr. Malik received a Ph.D. in Decision Sciences from the University of Pennsylvania in 1988.

Mike Dotson became Managing Director of our United Kingdom Operations in April 2001. Prior to that appointment, Mr. Dotson held various positions with Island Pacific's United Kingdom office since January 1998. Mr. Dotson received a B.A. in Political Science and Economy from University of California at Irvine in May 1988.

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

There are no family relationships among the directors. There are no arrangements or understandings between any director and any other person pursuant to which that director was or is to be elected.

CODE OF ETHICS AND BUSINESS CONDUCT

We have adopted a Code of Ethics and Business Conduct ("Code of Ethics") that applies to all of our employees, officers and directors. The Code of Ethics meets the requirements of the rules of the SEC.

BOARD COMMITTEES

We have established a Compensation Committee and an Audit Committee.

The Board of Directors formed a Compensation Committee in April 1998. The Compensation Committee's primary function is to establish the compensation policies and recommend compensation arrangements for senior management and directors to the Board of Directors. The Compensation Committee also recommends the adoption of compensation plans, in which officers and directors are eligible to participate, and the granting of stock options or other benefits to executive officers. The Compensation Committee is composed entirely of independent directors (as "independence" is defined in Section 121(A) of the listing standards of the American Stock Exchange). The Audit Committee is composed entirely of independent directors. Current members of the Compensation Committee are Ian Bonner and Michael Silverman. The Compensation Committee met 4 times during the fiscal year ended March 31, 2004

The Board of Directors also formed an Audit Committee in April 1998. The purpose of the Audit Committee is to assist the Board of Directors in fulfilling its responsibilities for our financial reporting. The Audit Committee recommends the engagement and discharge of independent auditors, reviews the audit plan and the results of the audit with independent auditors, reviews the independence of the independent auditors, reviews internal accounting procedures and discharges such other duties as may from time to time be assigned to it by the Board of Directors. Current members of the Audit Committee are Ian Bonner and Michael Silverman. The Audit Committee met 4 times during Fiscal 2004.

46

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Ian Bonner and Michael Silverman served as the members of the Compensation Committee during Fiscal 2004. No member of our Compensation Committee has ever been an officer of the Company or any of its subsidiaries. During the last completed fiscal year, none of our executive officers served as a member of a compensation committee or board of directors of any entity that had one or more of its executive officers serving as a member of our Compensation Committee.

COMPENSATION OF DIRECTORS

During Fiscal 2004, we issued the following options to purchase shares of our common stock to our directors: (a) Ian Bonner and Michael Silverman each 5,000 options at exercise price of \$2.55 per share, 5,000 options at \$2.17 per price, 5,000 options at \$2.23 per share, 5,000 options at \$1.34 per share and 5,000 options at \$0.92 per share, vesting immediately; (b) Ivan Epstein 5,000 options with exercise price of \$2.55 per share, 5,000 options at \$2.17 per share and 5,000 options at \$0.92 per share, vesting immediately; and (c) Robert Wilkie 5,000 options at exercise price of \$2.55 per share, 5,000 options at \$2.17 per share, 5,000 options at \$1.34 per share and 5,000 options at \$0.92 per share,

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

vesting immediately. We also paid cash compensation totaling \$154,000 to Barry Schechter, who served as the Chairman of the Board until July 2003.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") requires our officers, directors and persons who own more than 10% of a class of our securities registered under Section 12 of the Exchange Act to file reports of ownership and changes in ownership with the SEC and the National Association of Securities Dealers. Officers, directors and greater than 10% stockholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file.

Based solely on a review of copies of such reports furnished to us and written representations that no Form 5 report was required for the fiscal year ended March 31, 2004, we believe that all persons subject to the reporting requirements of Section 16(a) were complied with during the fiscal year ended March 31, 2004, except as follows: David Joseph was late in filing initial Form 3 report; Ivan Epstein and Robert Wilkie, each of whom were late in filing Form 4 reports reporting two grants of options to each such individual; Ian Bonner was late in filing Form 4 reports reporting three option grants, exercises of two options and sale of 30,000 shares; Michael Silverman was late in filing Form 4 reports reporting three option grants and shares gifted; Donald Radcliffe, our former director, was late in filing Form 4 reporting two option grants and exercise of an option; and Michael Lenaghan and George Brocco, our former officers, were late in filing Form 4 reports reporting two option grants to each such individual.

47

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth summary information concerning the compensation for the last three fiscal years received by each person who served as Chief Executive Officer during the last completed fiscal year, the four other most highly compensated persons serving as executive officers at the end of the last completed fiscal year, and two other persons who were executive officers during the last completed fiscal year but were not executive officers at the end of the last completed fiscal year. These individuals are referred to as the "named executive officers."

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION			LONG COMPENSATION UNDER SECURITY OPTION
		SALARY (\$)	BONUS (\$)	OTHER ANNUAL COMPENSATION (\$)	
Harvey Braun (2) (Former Chief Executive Officer)	2004	598,000	--	--	
	2003	163,000	--	--	2,000
Steven Beck (3) (Executive Officer)	2004	651,000	--	--	
	2003	379,431	--	--	2,000
Ran Furman (4) (Chief Financial	2004	100,000	--	--	100

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

Officer)

Kavindra Malik (5) (Executive Vice President)	2004	212,000	--	--	20
	2003	41,000	11,000	--	75
Mike Dotson (Vice President)	2004	170,000	--	--	
	2003	154,000	--	--	
	2002	143,000	--	--	25
Cheryl Valencia (6) (Former Vice President)	2004	121,000	--	--	
	2003	69,000	17,000	--	40
George Brocco (7) (Former Vice President)	2004	169,000	--	--	50

(1) We also provide certain compensatory benefits and other non-cash compensation to the named executive officers. Except as set forth above, our incremental cost of all such benefits and other compensation paid in the years indicated to each such person was less than 10% of his or her reported compensation and also less than \$50,000.

- (2) Mr. Braun was employed with us from January 2003 to May 2004.
- (3) Mr. Beck began his employment with us in October 2002.
- (4) Mr. Furman began his employment with us in August 2003.
- (5) Mr. Malik began his employment with us in January 2002.
- (6) Ms. Valencia was employed with us from September 2002 to November 2003.
- (7) Mr. Brocco was employed with us from May 2003 to May 2004.

48

STOCK OPTION GRANTS AND EXERCISES

The following table sets forth the information concerning individual grants of stock options during the last fiscal year to the named executive officers.

OPTION GRANTS IN LAST FISCAL YEAR

INDIVIDUAL GRANTS						
NAME	DATE OF GRANT	OPTIONS GRANTED (#)	% OF TOTAL	EXERCISE OR BASE PRICE (\$/SH.)	EXPIRATION DATE	
Ran Furman	08/04/03	94,041 (1)	7.02%	3.19	08/04/13	
Ran Furman	08/04/03	5,959 (2)	0.44%	3.19	08/04/13	
Kavindra Malik	05/01/03	20,000 (1)	1.49%	0.98	05/01/13	
George Brocco	05/16/03	40,000 (1)	2.99%	1.12	05/16/13	
George Brocco	06/10/03	10,000 (1)	0.75%	2.17	06/10/13	

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

- (1) Options vest as to one-third of the shares on the first anniversary of the grant and the remaining two-thirds of the shares in 24 equal monthly installments after the first vesting date, subject to continuing service.
- (2) Options granted outside of the plan and vest on the first anniversary of the grant, subject to continuing service.

The potential realizable value is calculated based on the term of the option at its time of grant and the number of shares underlying the grant at fiscal year end. It is calculated based on assumed annualized rates of total price appreciation from the market price at the date of grant of 5% and 10% (compounded annually) over the full term of the grant with appreciation determined as of the expiration date. The 5% and 10% assumed rates of appreciation are mandated by SEC rules and do not represent our estimate or projections of future common stock prices. Actual gains, if any, on stock option exercises are dependent on the future performance of the common stock and overall stock market conditions. The amounts reflected in the table may not be achieved.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END VALUES

The following table sets forth the information concerning the fiscal year end value of unexercised options held by the named executive officers. None of the named executive officers exercised options during the last fiscal year.

FISCAL YEAR END OPTION VALUES		
NAME	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FY END (#) EXERCISABLE/UNEXERCISABLE	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FY END (\$) EXERCISABLE/UNEXERCISABLE (1)
-----	-----	-----
Harvey Braun	2,000,000/--	1,460,000/--
Steven Beck	1,620,754/--	1,183,000/--
Ran Furman	--/100,000	--/--
Kavindra Malik	29,167/65,833	8,000/14,000
Mike Dotson	34,138/5,862	6,000/2,000
George Brocco	--/50,000	--/--

- (1) Based upon the market price of \$1.01 per share, determined on the basis of the closing sale price per share of our common stock on the American Stock Exchange on the last trading day of the 2004 fiscal year, less the option exercise price payable per share.

EMPLOYMENT AGREEMENTS

We entered into an employment agreement with Lawrence Page on January 30, 2004. The term of the agreement is two years. Under the agreement, Mr. Page is entitled to \$190,000 in annual compensation and was granted an option to

purchase 200,000 shares of our common stock. Mr. Page's right to purchase 66,666 of the shares subject to the option shall vest on the first anniversary date of

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

the agreement, thereafter, the option shall vest at the rate of 5,556 shares per month during the second year of this agreement. The remaining unvested option shares shall either: (i) vest at the second anniversary date of this agreement, or (ii) vest at the rate of 5,556 shares per month if Mr. Page continues to be our employee after the second anniversary date of this agreement in accordance with and subject to our current Stock Option Plan. If Mr. Page's employment with us is terminated without cause during the term of the agreement, he will receive severance in the amount of the greater of \$190,000 or the balance of his base compensation for the remaining term of the agreement. We also entered a non-competition agreement with Mr. Page, pursuant to which Mr. Page agreed not to engage in any business or activity that in any way competes with us for a period of two years after the termination of his employment with us.

We entered into an employment agreement with David S. Joseph on January 30, 2004. The term of the agreement is two years. Under the agreement, Mr. Joseph is entitled to \$170,000 in annual compensation. He also received an option to purchase 150,000 shares of our common stock. Mr. Joseph's right to purchase 50,000 of the shares subject to the option shall vest at the first anniversary date of this agreement, thereafter, the option shall vest at the rate of 4,166 shares per month during the second year of this agreement. The remaining unvested options shall either: (i) vest at the second anniversary date of this agreement, or (ii) vest at the rate of 4,166 shares per month if Mr. Joseph continues to be employed by us after the second anniversary date of this agreement, all in accordance with and subject to our current Stock Option Plan. If Mr. Joseph's employment with us is terminated without cause during the term of the agreement, he will receive severance in the amount of the greater of \$170,000 or the balance of his compensation payable over the remaining term of the agreement.

We entered into an employment agreement with Michael Tomczak on June 1, 2004. The term of the agreement is two years. Under the agreement, Mr. Tomczak is entitled to \$360,000 in annual compensation. He also received an option to purchase 1,772,354 shares of our common stock. Mr. Tomczak's right to purchase 886,178 of the shares subject to the option shall vest at the first anniversary date of this agreement, thereafter, the remaining option shall vest at the rate of 73,848 shares per month during the second year of this agreement. If Mr. Tomczak's employment with us is terminated without cause during the term of the agreement, he will receive severance in the amount of the lesser of \$360,000 or the balance of compensation payable over the remaining term of the agreement, but in no event should the amount be less than \$180,000. We also entered into non-competition agreement with Mr. Tomczak, pursuant to which Mr. Tomczak agreed not to engage in any business or activity that in any way competes with us for a period of two years after the termination of his employment with us.

We entered into an employment agreement with Jeffrey Boone on June 1, 2004. The term of the agreement is two years. Under the agreement, Mr. Boone is entitled to \$240,000 in annual compensation. He also received an option to purchase 1,572,354 shares of our common stock. Mr. Boone's right to purchase 786,179 of the shares subject to the option shall vest at the first anniversary date of this agreement, thereafter, the remaining option shall vest at the rate of 65,514 shares per month during the second year of this agreement. If Mr. Boone's employment with us is terminated without cause during the term of the agreement, he will receive severance in the amount of the lesser of \$240,000 or the balance of his compensation payable over the remaining term of the agreement, but in no event should the amount be less than \$120,000. We also entered into non-competition agreement with Mr. Boone, pursuant to which Mr. Boone agreed not to engage in any business or activity that in any way competes with us for a period of two years after the termination of his employment with us.

We entered into an employment agreement with Barry M. Schechter effective October 1, 2000. Under the employment agreement, Mr. Schechter had the

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

right to annual compensation of \$325,000 for the first year of the agreement, \$350,000 for the second year of the agreement and \$375,000 for the third year of the agreement. In addition, Mr. Schechter was entitled to receive on each anniversary of the date of the agreement, an option to purchase the number of shares of common stock determined by dividing 150% of his base compensation for the prior year by the closing price of our common stock on the anniversary date. The agreement stated that options will be fully vested when issued and exercisable for ten years after the date of the grant. This agreement was terminated in July 2003 upon Mr. Schechter's resignation from the position of Chairman of the Board. Mr. Schechter remains as a consultant to us. The expense for Mr. Schechter's consulting services was \$295,000 in the fiscal year ended March 31, 2004.

LONG TERM INCENTIVE PLANS/BENEFIT OR ACTUARIAL PLANS

We do not have any long-term incentive plans, as those terms are defined in SEC regulations. We have no defined benefit or actuarial plans covering any named executive officer.

50

STOCK INCENTIVE PLANS

We have two stock incentive plans. Our Incentive Stock Option Plan ("1989 Plan") terminated in October 1999. It provided for issuance of incentive stock options to purchase up to 1,500,000 shares of common stock to employees. 438,735 of such shares remain subject to option as of June 1, 2004. The 1989 Plan was administered by the Board of Directors, which established the terms and conditions of each option grant.

Our 1998 Incentive Stock Plan ("1998 Plan") authorizes the issuance of shares of common stock through incentive stock options, non-statutory options, stock bonuses, stock appreciation rights and stock purchase agreements. The 1998 Plan was amended in August 2000 to increase the number of shares reserved for issuance from 3,500,000 to 4,000,000. The August 2000 amendments authorized a further automatic annual increase in reserved shares to take place on the first trading day of each fiscal year. The amount of the automatic annual increase is 2% of the total number of shares of common stock outstanding on the last trading day of the immediately prior fiscal year. The automatic annual increase cannot however be more than 600,000 shares, and the Board may in its discretion provide for a lesser increase. The 1998 Plan was further amended in August 2002 to increase the number of shares reserved for issuance from 4,600,000 to 5,600,000. The August 2000 amendment also implemented a limit on stock awards to any one person in excess of 500,000 shares in any calendar year, which limit was increased to 1,000,000 shares in August 2002. Our stockholders approved the August 2000 amendment at our annual meeting held November 16, 2000 and the August 2002 amendment at our annual meeting held September 19, 2002. On April 1, 2003 and April 1, 2004, the automatic increase of 600,000 shares was effected, so that the total number of shares reserved under the 1998 Plan is currently 7,365,872. The exercise price of options is determined by the Board of Directors, but the exercise price may not be less than 100% of the fair market value on the date of the grant, in the case of incentive stock options, or 85% of the fair market value on the date of the grant, in the case of non-statutory stock options.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table shows beneficial ownership of shares of our common stock as of June 1, 2004 (except as otherwise stated below) (i) by all persons known by us to beneficially own more than 5% of such stock, (ii) by each director, (iii) each of the named executive officers, and (iv) all directors and

Edgar Filing: ISLAND PACIFIC INC - Form 424B3

executive officers as a group. Except as otherwise specified, the address for each person is 19800 MacArthur Boulevard, 12th Floor, Irvine, California 92612. As of June 1, 2004, there were 53,974,532 shares of common stock outstanding. Each of the named persons has sole voting and investment power with respect to the shares shown (subject to community property laws), except as stated below.

Name and Address of Beneficial Owner (1) -----	Amount and Nature of Beneficial Ownership -----
The Sage Group plc Sage House Benton Park Road Newcastle upon Tyne NE7 7LZ, England	27,900,996 (2)
ICM Asset Management, Inc. 601 W. Main Ave., Suite 600 Spokane, WA 99201	2,766,275 (3)
Omicron Master Trust c/o Omicron Capital L.P. 810 Seventh Avenue, 39th Floor New York, New York 10019	7,106,199 (4)
Midsummer Investments, Ltd. 485 Madison Avenue 23rd Floor New York, NY 10022	5,255,937 (5)
Michael Tomczak	3,775,848 (6)
Jeffrey Boone	3,775,848 (6)
Steven Beck	1,920,754 (7)
Harvey Braun	2,033,000 (8)
Kavindra Malik	95,278 (9)