SVI SOLUTIONS INC
Form DEFR14A
June 04, 2003

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant [X]
Filed by a Party other than the Registrant [ ]

Check the appropriate box:

[ ] Preliminary Proxy Statement
[ ] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
[X] Definitive Proxy Statement
[ ] Definitive Additional Materials
[ ] Soliciting Materials Pursuant to ss. 240.14a-12

SVI SOLUTIONS, INC.
Name of Registrant as Specified In Its Charter

N/A
Name of Person(s) Filing Proxy Statement if other than the Registrant

[X] No fee required

[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

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[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which such offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

SVI SOLUTIONS, INC.
5607 PALMER WAY
CARLSBAD, CALIFORNIA 92008

NOTICE OF SPECIAL MEETING
OF SHAREHOLDERS
TO BE HELD ON JULY 9, 2003, AT 8:00 A.M.

The Special Meeting of the Shareholders ("Special Meeting") of SVI Solutions, Inc., a Delaware corporation (the "Company"), will be held at the Irvine office of the Company, 19800 MacArthur Boulevard, Suite 1200, Irvine, California 92612 on July 9, 2003, at 8:00 a.m. for the following purposes:

1. To consider and act upon a proposal to ratify the sale and issuance of up to $6,500,000 of 9% convertible debentures and accompanying warrants to purchase shares of common stock to certain investors;

2. To consider and act upon a proposal to change the Company's name from "SVI Solutions, Inc." to "Island Pacific, Inc."; and

3. To consider and act upon a proposal to amend and restate the Company's Restated Certificate of Incorporation to reflect the removal of Article XII, which restricts the shareholders' ability to take actions by written consent.

The Board of Directors has fixed the close of business on June 5, 2003 as the record date for the determination of the holders of the Company's capital stock entitled to notice of and to vote at the Special Meeting.

All shareholders are cordially invited to attend the Special Meeting in person. Regardless of whether you plan to attend the Special Meeting, please sign and date the enclosed Proxy and return it as promptly as possible in the enclosed pre-addressed and postage paid envelope. The prompt return of Proxies will ensure a quorum and save the Company the expense of further solicitation. Any shareholder returning the enclosed Proxy may revoke it prior to its exercise by voting in person at the Special Meeting or by filing with the Secretary of the Company a written revocation or duly executed Proxy bearing a later date.

By Order of the Board of Directors,

Barry Schechter
Chairman of the Board
San Diego, California
June 3, 2003

SVI SOLUTIONS, INC.
5607 PALMER WAY
CARLSBAD, CALIFORNIA 92008

PROXY STATEMENT

SPECIAL MEETING OF SHAREHOLDERS
TO BE HELD ON JULY 9, 2003

I. PROXIES

This Proxy Statement is furnished in connection with the solicitation of proxies by or on behalf of the Board of Directors ("Board") of SVI Solutions, Inc., a Delaware corporation (the "SVI" or "Company"), for use at the Company's Special Meeting of Shareholders to be held on July 9, 2003 at the Irvine office of the Company, 19800 MacArthur Boulevard, Suite 1200, Irvine, California 92612 at 8:00 a.m., and at any and all adjournments thereof (the "Special Meeting"), for the purposes set forth in the accompanying Notice of Special Meeting of Shareholders.

Any shareholder may revoke his or her proxy by delivering written notice of revocation to the Secretary of the Company at its principal office, 5607 Palmer Way, Carlsbad, California 92008, by delivery of a proxy bearing a later date, or by attendance at the Special Meeting and voting in person.

This Proxy Statement will be mailed on or about June 25, 2003, to each shareholder of record as of the close of business on June 5, 2003.

The solicitation of proxies is being made by use of the mails. The cost of preparing, assembling and mailing these proxy materials will be paid by the Company. Following the mailing of this Proxy Statement, directors, officers and regular employees of the Company may solicit proxies by mail, telephone, telegraph or personal interview. Such persons will receive no additional compensation for such services. Brokerage houses and other nominees, fiduciaries and custodians nominally holding shares of the Company's capital stock of record will be requested to forward proxy soliciting material to the beneficial owners of the shares, and will be reimbursed by the Company for their reasonable out-of pocket expenses incurred in forwarding these materials.

When your proxy is returned properly signed, the shares represented will be voted in accordance with your directions. Where specific votes are not indicated, proxies will be voted in favor of the proposal for which a specific vote is not given. If a proxy indicates that a shareholder or nominee abstains from voting or that shares are not to be voted on a particular proposal, the shares will not be counted as having been voted on that proposal, and those shares will not be reflected in the final tally of the votes cast with regard to that proposal, although such shares will be counted as in attendance at the Special Meeting for purposes of determining a quorum. Additionally, broker non-votes are not counted as votes cast on any matter to which they relate.

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The presence at the Special Meeting in person or by proxy of the holders of a majority of the shares of common stock entitled to vote at the Special Meeting is necessary to constitute a quorum for the transaction of business. Holders of common stock are entitled to one vote per share.

An affirmative vote of a majority of the shares of common stock represented and voting at the Special Meeting is required for approval of all proposals.

The Company had 31,499,632 shares of common stock outstanding at the close of business on March 31, 2003. Holders of record of shares of the capital stock at the close of business on June 5, 2003 will be entitled to notice of and to vote at the Special Meeting.

II. PROPOSAL NUMBER ONE

TO CONSIDER AND ACT UPON A PROPOSAL RATIFY THE SALE AND ISSUANCE OF UP TO

$6,500,000 OF 9% CONVERTIBLE DEBENTURES AND ACCOMPANYING WARRANTS TO PURCHASE SHARES OF COMMON STOCK TO CERTAIN INVESTORS.

A. BACKGROUND

The Company entered into a Securities Purchase Agreement dated March 31, 2003 with Midsummer Investment, Ltd., Omicron Master Trust, and Islandia, L.P. (collectively, the "Investors") for the sale by SVI to the Investors of 9% debentures, convertible into shares of SVI common stock, for an aggregate amount of up to $5,500,000, to be sold in two separate closings. The debentures are accompanied by a certain number of warrants to purchase shares of SVI common stock equal to 40% of (a) the dollar amount of debentures purchased by the Investors and (b) divided by the daily volume weighted average price of SVI's common stock on the American Stock Exchange for the ten consecutive days immediately prior to the closing date the debentures were sold (the "Closing Price"). At the first closing, the Closing Price was $.8901. The first closing occurred on March 31, 2003. The Closing Price for the second closing will be determined at that time. For a full understanding of this transaction, shareholders should review the entire Securities Purchase Agreement and certain exhibits thereto, including the form of the debentures and warrants, which are attached as APPENDIX I.

The first closing for the sale of debentures aggregating $3,500,000 occurred on March 31, 2003. Additional debentures aggregating up to $2,000,000 will be sold to the Investors in a second closing if within one year after the date of first sale of debentures there occurs a period of 15 consecutive trading days during which the daily volume weighted average closing price of the SVI common stock is maintained at a price at or above $1.75 per share, subject to certain conditions.

The debentures bear an interest rate of 9% per annum, and they provide for interest only payments on a quarterly basis, payable, at SVI's option, in cash or shares of SVI common stock. The debentures sold in the first closing for $3,500,000 mature in May 2005, and the additional debentures that may be sold for up to $2,000,000 in the second closing would mature in November 2005. The debentures are convertible into shares of SVI common stock at a conversion price equal to 115% of the daily volume weighed average price of the SVI common stock

on the American Stock Exchange on the date the debentures were sold. The debentures sold at the first closing have a conversion price of $1.0236. If certain conditions are met, the Company has the option to redeem the debentures at 110% of their face value, plus accrued interest. The Company must redeem the debentures at the initial monthly amount of $218,750, commencing on February 1, 2004. If the second closing occurs, this redemption amount will be increased to $300,000, commencing on the later of February 1, 2004 or the fifth month following the second closing. Furthermore, if the daily volume weighed average price of the SVI common stock on the American Stock Exchange exceeds the Closing Price (which was $0.8901 at the first closing) by more than 200% for 15 consecutive trading days, SVI will have the option to convert the debentures into SVI common stock at the conversion price then in effect.

At the first closing, Midsummer Investment was issued 629,143 warrants, Omicron Master Trust was issued 674,082 warrants, and Islandia, L.P. was issued 269,633 warrants. These warrants, as well as the warrants to be issued in the second closing, are for a 5-year term, with an exercise price equal to 115% of the daily volume weighed average price of the SVI common stock on the American Stock Exchange on the date the accompanying debentures were sold. The warrants issued

in the first closing have an exercise price of $1.0236.

The Investors were granted the right of first refusal to participate in certain future offerings by SVI of its common stock or equivalent securities so long as any Investor owns at least 5% of the debentures purchased on the first closing. The Investors were also given registration rights under a Registration Rights Agreement requiring SVI to file a registration statement respecting the common stock issuable upon the conversion of the debentures and the warrants within 30 days after the first closing, and to use best efforts to have the registration statement declared effective at the earliest date. If the registration statement is not filed within these time frames or declared effective within 90 days following the closing date of the debentures sold in the first phase, or within 120 days in the event of a review by the Securities and Exchange Commission, SVI shall be obligated to pay liquidated damages to the Investors equal to 2% of the sum of the amount of debentures subscribed to by the Investors and the value of the warrants for each month until the registration statement becomes effective. For a full understanding of these registration rights, shareholders should review the entire Registration Rights Agreement and certain exhibits thereto, which are attached as APPENDIX II.

On April 1, 2003, SVI also entered into a similar Securities Purchase Agreement with MBSJ Investors LLC ("MBSJ") for the sale by SVI to MBSJ of 9% debentures, convertible into shares of SVI common stock at a conversion price of $1.0236, for $400,000. These debentures were accompanied by 5-year warrants to purchase 156,311 shares of SVI common stock. The debentures sold to MBSJ mature in October 2005. The debentures are convertible into shares of SVI common stock at a conversion price equal to $1.0236. If certain conditions are met, the Company has the option to redeem the debentures at 110% of their face value, plus accrued interest. The Company must redeem the debentures at the initial monthly amount of $20,000, commencing on February 1, 2004. MBSJ was also granted registration rights for the shares underlying the debentures and warrants under a Registration Rights Agreement ("MBSJ Registration Rights Agreement") and certain other rights similar to those granted to

Midsummer, Omicron, and Islandia. For a full understanding of this transaction, shareholder should review the MBSJ Securities Purchase Agreement and its exhibits, which include the form of debentures and warrants, and which are attached as APPENDIX III, and the MBSJ Registration Rights Agreement, which is attached as APPENDIX IV.

On May 5, 2003, SVI also 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 by SVI to the Crestview Investors of 9% debentures convertible into shares of SVI common stock, for an aggregate amount of $600,000 to be sold in two separate closings. The debentures are accompanied by a certain number of warrants to purchase shares of SVI common stock equal to 30% of (a) the dollar amount of debentures purchased by the Crestview Investors, and (b) divided by the daily volume weighted average price of SVI's common stock on the American Stock Exchange for the ten consecutive days immediately prior to the closing date the debentures were sold (the "Crestview Closing Price"). For purposes of determining the Crestview Closing Price, the first closing was deemed to be March 31, 2002 and the Crestview Closing Price was $.8901. The Crestview Closing Price for the second closing will be determined at that time.

The terms of the debentures issued or to be issued to the Crestview Investors are similar to the terms of the debentures issued or to be issued to the Investors. The first sale of debentures to the Crestview Investors aggregating

$300,000 occurred on May 5, 2003. Additional debentures aggregating up to $300,000 will be sold to the Crestview Investors in a second closing if within one year after the date of first sale of debentures there occurs a period of 15 consecutive trading days during which the daily volume weighted average closing price of the SVI common stock is maintained at a price at or above $1.75 per share, subject to certain conditions. Interest on the debentures is due on a quarterly basis, payable in cash or shares of common stock at our option. Commencing on February 1, 2004, SVI must initially redeem $18,750 per month of the debentures, increasing to $32,727 if a second closing occurs. The debentures mature in October 2005.

The debentures initially sold to the Crestview Investors were accompanied by five-year warrants to purchase an aggregate of 101,112 shares of common stock with an exercise price of $1.0236 per share. The terms of the warrants issued or to be issued to the Crestview Investors are similar to the terms of the warrants issued or to be issued to the Investors.

The Crestview Investors were also granted registration rights for the shares underlying the debentures and warrants under the Registration Rights Agreement between SVI and the Investors.

For a full understanding of the transaction with the Crestview Investors, shareholders should review the entire agreement (the "Crestview Agreement"), which is attached as Appendix V, and the documents referenced in the Crestview Agreement. Except as set forth therein, the Crestview Agreement incorporates the terms and conditions of the Securities Purchase Agreement and the Registration Rights Agreement between SVI and the Initial Debenture Investors.

We are seeking your approval because the Securities Purchase Agreement, the MBSJ Registration Rights Agreement, and the agreement with the Crestview Investors require that the Company seek shareholder approval.

None of the Investors, MBSJ or the Crestview Investors, or any of their respective affiliates, maintains or has maintained in the past, any affiliation with SVI or its officers, directors or affiliates.

B. SUMMARY CONSOLIDATED DATA.

The following financial information should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the audited consolidated financial statements and unaudited financial information included elsewhere in this Proxy.

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SUMMARY CONSOLIDATED FINANCIAL DATA FOR THE 9 MONTHS ENDED DECEMBER 31, 2002 AND 2001:

	NINE MONTHS ENDED DECEMBER 31,	
	2002	2001
	(unaudited) (in thousands except for per share data)	
STATEMENT OF OPERATIONS DATA:		
Net sales	$ 16,918	$ 21,446
Cost of sales	5,997	9,247
Gross profit	10,921	12,199

Expenses:		
Product development	2,894	2,932
Depreciation and amortization	3,122	4,991
Selling, general and administrative expenses	7,365	10,388
Total expenses	13,381	18,311
Loss from operations	(2,460)	(6,112)
Other income (expense):		
Interest income	1	8
Other income (expense)	8	(35)
Interest expense	(894)	(2,795)
Gain on foreign currency transaction	23	--
Total other expense	(862)	(2,822)
Loss before provision for income taxes	(3,322)	(8,934)
Provision for income tax benefits	(57)	(2)
Loss before cumulative effect of a change in accounting principle	(3,265)	(8,932)
Cumulative effect of changing accounting principle - goodwill valuation under SFAS 142	(627)	--
Loss from continuing operations	(3,892)	(8,932)
Loss from discontinued operations		(1,140)
Net loss	$ (3,892)	$(10,072)
Basic and diluted loss per share:		
Loss before cumulative effect of change in accounting principle	$ (0.11)	$ (0.23)
Cumulative effect of change in accounting principle	(0.02)	--
Loss from continuing operations	(0.13)	(0.23)
Loss from discontinued operations	--	(0.03)
Net loss	$ (0.13)	$ (0.26)
Weighted average common shares	29,257	38,092
BALANCE SHEET DATA:		
Working Capital	$(11,109)	$(13,371)
Total assets	$ 38,419	$ 52,712
Long-term obligations	$ 99	$ 12,379
Stockholders' equity	$ 20,497	$ 19,003

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SUMMARY CONSOLIDATED FINANCIAL DATA FOR THE LAST 5 FISCAL YEARS (1):

	YEAR ENDED MARCH 31,			
	2002	2001	2000	1999
	(in thousands except for per s			
STATEMENT OF OPERATIONS DATA:				
Net sales	$ 27,109	$ 27,713	$ 26,652	$ 5,010
Cost of sales	10,036	9,188	6,421	1,401
Gross profit	17,073	18,525	20,231	3,609
Application development expenses	4,203	5,333	4,877	--
Depreciation and amortization	6,723	8,616	7,250	1,672
Selling, general and administrative expenses	13,144	18,037	14,817	4,265
Impairment of intangible assets	--	6,519	--	--
Impairment of note receivable received in connection with the sale of IBIS Systems Limited	--	7,647	--	--
Total expenses	24,070	46,152	26,944	5,937
Loss from operations	(6,997)	(27,627)	(6,713)	(2,328)
Other income (expense):				
Interest income	10	628	1,074	520
Other income (expense)	(46)	63	(206)	828
Interest expense	(3,018)	(3,043)	(1,493)	(1)
Gain on disposals of Softline Limited shares	--	--	--	--
Gain (loss) on foreign currency transaction	(9)	2	(10)	(58)
Total other income (expense)	(3,063)	(2,350)	(635)	1,289
Income (loss) before provision (benefit) for income taxes	(10,060)	(29,977)	(7,348)	(1,039)
Provision (benefit) for income taxes	39	(4,778)	(2,414)	30
Income (loss) from continuing operations	(10,099)	(25,199)	(4,934)	(1,069)
Income (loss) from discontinued operations	(4,559)	(3,746)	880	6,654
Net income (loss)	$(14,658)	$(28,945)	$ (4,054)	$ 5,585
Basic earnings (loss) per share:				
Income (loss) from continuing operations	$ (0.28)	$ (0.72)	$ (0.15)	$ (0.04)
Income (loss) from discontinued operations	(0.13)	(0.11)	0.03	0.24
Net income (loss)	$ (0.41)	$ (0.83)	$ (0.12)	$ 0.20

Diluted earnings (loss) per share:				
Income (loss) from continuing operations	$ (0.28)	$ (0.72)	$ (0.15)	$ (0.03)
Income (loss) from discontinued operations	(0.13)	(0.11)	0.03	0.20
Net income (loss)	$ (0.41)	$ (0.83)	$ (0.12)	$ 0.17
Weighted average common shares:				
Basic	35,698	34,761	32,459	28,600
Diluted	35,698	34,761	32,459	33,071
BALANCE SHEET DATA:				
Working capital	$ (5,337)	$ (2,782)	$ 2,628	$ 26,387
Total assets	$ 40,005	$ 56,453	$ 94,083	$ 52,374
Long-term obligations	$ 8,013	$ 18,554	$ 21,586	$ 2,043
Stockholders' equity	$ 21,952	$ 26,993	$ 53,497	$ 45,270

(1) Certain reclassifications are reflected in the above data since the filing of such annual reports on forms 10KSB and 10K.

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C. FINANCIAL STATEMENTS. We have attached to this Proxy the unaudited consolidated balance sheet of SVI and its subsidiaries as of December 31, 2002, and the related consolidated statements of operations, stockholders' equity, and cash flows for the 9 month period then ended, and the audited consolidated balance sheets of SVI and its subsidiaries as of March 31, 2002 and March 31, 2001, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended.

D. 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.

We conduct business in various foreign currencies, primarily in Europe and until February 2002, Australia. 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 12% and 18% of our total net sales were denominated in currencies other than the U.S. dollar for the nine-month period ending December 31, 2002 and 2001, respectively. Approximately 17%, 22%, and 37% of our total net sales were denominated in currencies other than the U.S. dollar for the periods ended March 31, 2002, 2001 and 2000, respectively.

We have no direct equity investments.

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

We are an independent provider of multi-channel application software technology and associated services for the retail industry including enterprise,

direct-to-consumer and store solutions and related training products and professional and support services. Our applications and services represent a full suite of offerings that provide retailers with a complete end-to-end business solution. We also develop and distribute PC courseware and skills assessment products for both desktop and retail applications.

We developed our retail application software technology and services business through acquisitions. The largest and most important of these acquisitions were:

- APPLIED RETAIL SOLUTIONS, INC. (ARS) IN JULY 1998 FOR AGGREGATE CONSIDERATION OF $7.9 MILLION IN CASH AND STOCK PAID TO THE FORMER STOCKHOLDERS; AND

- ISLAND PACIFIC SYSTEMS CORPORATION IN APRIL 1999 FOR $35 MILLION CASH.

Island Pacific is one of the leading providers of retail enterprise applications. ARS was one of the leading providers of store applications, and the technology we acquired and have subsequently enhanced now forms the core of our SVI Store Solutions.

We accounted for both the Island Pacific and ARS acquisitions using purchase accounting, which has resulted in the addition of significant goodwill and capitalized software assets on our balance sheet. See "Significant Accounting Policies."

We are organized into two strategic business units with separate management teams and reporting infrastructures. Each unit is evaluated primarily based on total revenues and operating income. Identifiable assets are also managed by business units. The units are as follows:

- Island Pacific - PROVIDES RETAIL ENTERPRISE SOLUTIONS AND ASSOCIATED PROFESSIONAL SERVICES FOR MULTI-CHANNEL RETAILERS IN THE SPECIALTY, MASS MERCHANDISING AND DEPARTMENT STORE MARKETS.

- SVI Store Solutions - OFFERS RETAILERS MULTI-PLATFORM, CLIENT SERVER IN-STORE SOLUTIONS PROVIDING ALL POINT-OF-SALE AND IN-STORE PROCESSOR FUNCTIONS.

Our operations are conducted principally in the United States and the United Kingdom. Prior to February 2002, we also conducted business in Australia. Effective April 1, 2003, we sold our shares in SVI Training Products, Inc. to Arthur Klitofsky, President of SVI Training Products, Inc., a third unit we previously operated. The financial statements and certain other information contained in this prospectus include the results of operating this unit.

We currently 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

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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. Our sales cycles for new license sales historically ranged from three to twelve months, but new license sales were limited during the past two fiscal years and sales cycles are now difficult to estimate. Our long sales cycles have in the past caused our revenues to fluctuate significantly from period to period. The reduction of new license sales caused the revenues of our Australian subsidiary to decrease substantially prior to discontinuation of operations in February 2002, and caused our sales mix in the US and the UK to shift to lower margin services.

We evaluate local operations primarily based on total revenues and earnings before interest expense, provision for income taxes, depreciation and amortization and impairment charges. Our evaluation for the nine-month period ending December 31, 2002 and for the fiscal years ended December 31, 2002, 2001 and 2000 are shown below:

	NINE MONTHS ENDED DECEMBER 31, 2002 AND 2001			
	2002		2001	
	AMOUNT	PERCENTAGE OF REVENUE	AMOUNT	PERCENTAGE OF REVENUE
	(UNAUDITED AND IN THOUSANDS)			
STATEMENT OF OPERATIONS DATA:				
Net Sales	$ 16,918	100 %	$ 21,446	100
Cost of sales	5,997	35 %	9,247	43
Gross profit	10,921	65 %	12,199	57
Product development expense	2,894	17 %	2,932	14
Selling, general and administration expenses	7,365	44 %	10,388	48
Other income (expense)	32	0 %	(27)	0
Income (loss) before interest expenses, provision for income taxes, depreciation and amortization and impairment	694	4 %	(1,148)	(5)
Depreciation and amortization	(3,122)	(18)%	(4,991)	(23)
Cumulative effect of change in accounting principle	(627)	(4)%	--	--
Interest expense	(894)	(5)%	(2,795)	(13)
Provision for income tax benefits	(57)	0 %	(2)	0
Loss from continuing operations	(3,892)	(23)%	(8,932)	(41)
Loss from discontinued operations, net of taxes	--		(1,140)	

Net loss	$ (3,892)	$ (10,072)

YEARS ENDED MARCH 31, 2002, 2001 AND 2000

	YEAR ENDED MARCH 31, 2002		2001	
	AMOUNT	PERCENTAGE OF REVENUE	AMOUNT	PERCENTAGE OF REVENUE
Net sales	$ 27,109	100 %	$ 27,713	100 %
Cost of sales	10,036	37 %	9,188	33 %
Gross profit	17,073	63 %	18,525	67 %
Application development expense	4,203	16 %	5,333	19 %
Selling, general and administration expenses	13,144	48 %	18,037	65 %
Other income (expense)	(45)	0 %	693	3 %
Income (loss) before interest expenses, provision for income taxes, depreciation and amortization and impairment	(319)	(1)%	(4,152)	(14)%
Depreciation and amortization	(6,723)	(25)%	(8,616)	(31)%
Impairment of intangible assets			(6,519)	(24)%
Impairment of note receivable received in connection with the sale of IBIS Systems Limited	--	--	(7,647)	(28)%
Interest expense	(3,018)	(11)%	(3,043)	(11)%
Provision (benefit) for income taxes	39	0 %	(4,778)	17 %
Loss from continuing operations	(10,099)	(37)%	(25,199)	(91)%
Income (loss) from discontinued operations, net of taxes	(4,559)		(3,746)	
Net loss	$ (14,658)		$ (28,945)	

We also manage long-lived assets by geographic region. The geographic distribution of our revenues and long-lived assets for the nine months ended December 31, 2002 and December 31, 2001, and for the fiscal years ended December 31, 2002, 2001 and 2000, is as follows (in thousands):

NINE MONTHS ENDED DECEMBER 31, 2002 AND 2001

	NINE MONTHS ENDED DECEMBER 31, 2002	NINE MONTHS ENDED DECEMBER 31, 2001
	(unaudited and in thousands)	
Net Sales:		
United States	$ 14,885	$ 19,278
Australia (discontinued operations)	--	2,110
United Kingdom	2,033	2,168
Total net sales	$ 16,918	$ 23,556
Long-lived assets:		
United States	$ 32,594	$ 44,506
Australia (discontinued operations)	--	1,138
United Kingdom	28	26
Total long-lived assets	$ 32,622	$ 45,670

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YEARS ENDED MARCH 31, 2002, 2001 AND 2000

	YEAR ENDED MARCH 31, 2002	YEAR ENDED MARCH 31, 2001	YEAR ENDED MARCH 31, 2000
		(in thousands)	
Net Sales:			
United States	$ 24,559	$ 25,457	$ 22,820
Australia (discontinued operations)	2,363	4,959	8,372
South Africa (discontinued operations)	--	--	1,090
United Kingdom	2,550	2,256	3,832
Total net sales	$ 29,472	$ 32,672	$ 36,114
Long-lived assets:			
United States	$ 35,280	$ 48,270	$ 60,909
Australia (discontinued operations)	--	1,370	11,471
United Kingdom	22	59	75
Total long-lived assets	$ 35,302	$ 49,699	$ 72,455

Up to March 31, 2002, we classified our operations into two lines of business: retail solutions and training products. As revenues, results of operations and assets related to our training products subsidiary were below the threshold established for segment reporting, we consider our business for the fiscal year ended March 31, 2002 to have consisted of one reportable operating segment. Effective April 1, 2002, we operated under three strategic business units; however, we have since sold one of those units-SVI Training Products. Accordingly, we now operate under two strategic business units, each of which

will be measured separately against their individual business plans, and we will classify our operations as one line of business-retail solutions beginning in fiscal year 2004.

Results of operations for fiscal 2002 and the first nine months of fiscal year 2003 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 2002 fiscal year and the first nine months of fiscal year 2003.

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.

- In October 2002, we appointed Steven Beck, a retail industry expert, to the position of President of Island Pacific. Mr. Beck's vision for Island Pacific is to become the dominant provider of "Thoughtware" to the retail industry. Mr. Beck's goals are to develop high quality, high value products and services to the retail industry; using breakthrough technologies and processes, and to provide these products and their associated services in partnership with major consulting organizations and other best of breed solution providers. These products and services will be offered to small and mid-size retailers. Our goal is to expand alternatives to retailers, matching innovative solutions to emerging industry complexities so retailers will realize ongoing successes. We will make available to retailers at what we believe to be affordable prices a "dashboard" of decision makers, and experienced minds, yielding a range of velocity management alternatives for review and actions that span merchandising and marketing activities from conception to consumption. Effective April 1, 2003, Mr. Beck was appointed as our President, Chief Operating Officer and a director.

- In January 2003, we appointed Harvey Braun, a well-known and highly-respected retail industry veteran, to the position of Chief

Executive Officer of Island Pacific. Together with Mr. Beck, we anticipate Mr. Braun will lead Island Pacific through the next evolution of product and service offerings to meet the ever-changing needs of retailers worldwide. Effective April 1, 2003, Mr. Braun was appointed as our Chief Executive Officer, replacing Barry Schechter, and a director.

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

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

- Under a marketing license agreement with KMG Solutions, Island Pacific will integrate, market and support Traxion(TM) process management solutions. Traxion's business process management solution consists of

three modules. Traxion ProcessEngine(TM) is the real-time process management platform that retailers use to actively manage and support their organizations' unique business processes. Traxion ProcessModeler(TM), includes simulation functions such as same-time comparison of process variations and the use of actual cost data to produce process-based financial estimates. Traxion OrganizationModeler(TM) simplifies the creation of sophisticated models including inter-company workgroups, payroll information, and roles.

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

- Under an OEM agreement with Raymark, Inc., Island Pacific will integrate, market and support Xpert Store point-of-sale ("POS") software solution under the Island Pacific brand. Raymark's full-featured POS solution streamlines the checkout process in order to increase sales associate efficiency and augment customer satisfaction. The software supports multi-channel, multi-language, multi-currency and multi-taxation requirements.

- Under an agreement with Wazagua LLC, Island Pacific will exclusively offer to retailers worldwide Wazagua's products and services including web-based Loss Prevention Case Management Package, ASP Data Hosting and POS Exception Reporting. WAZAGUA(TM) ASP Hosted Suite of Modules

automates data management for the Loss Prevention, Operations, Human Resources, Safety & Risk Management community. These ASP-hosted productivity tools allow retailers to capture the power of the internet. Retailers can create efficiencies, manage and share information, make better use of their staff, eliminate redundant data entry - and work from virtually any point in the world.

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

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

- In the third quarter of 2002, we completed an analysis of our operations and concluded that it was necessary to restructure the

composition of our management and personnel. We were concerned that the new management team had not been able to close a number of new business opportunities or to raise capital. We were also concerned with general economic conditions, especially after the terrorist attacks of September 11, 2001, and the resulting ongoing hostilities in the world. Our CEO, Thomas A. Dorosewicz, and our CFO, Kevin C. O'Neill, elected to leave to pursue other interests, and both resigned from our board of directors. We appointed Barry M. Schechter, our Chairman, as Chief Executive Officer. Mr. Schechter remains our Chairman, but resigned as our CEO effective April 1, 2003. We also reduced our staff by a total of 20%, and restructured and refocused our sales force toward opportunities available in the current economic climate. This reorganization resulted in costs savings of approximately $3 million per year.

o In the fourth quarter of 2001, we appointed experienced managers to manage our Island Pacific and SVI Store Solutions operations. These managers report directly to the CEO. We also appointed an experienced vice president of sales to the team.

o We developed measurable budgets for each divisional operation so as to measure performance directly and maintain control over expenditures.

o We restructured our application development efforts in concert with our new Marketing and Technology Management team to work more closely with customers for improvements to our offerings. We expect the result will be application technology that more closely meets the needs of our customers. Additionally, more of the costs of development may be offset against customer specific revenues.

o We relocated our principal executive offices to smaller and less expensive premises in Carlsbad, California.

o In July 2002, we negotiated an extension of our senior bank lending facility to August 31, 2003, and then we subsequently satisfied this debt in full under the Discounted Loan Payoff Agreement dated March 31, 2003. See "Liquidity and Capital Resources -- Contractual Obligations -- Union Bank."

o We completed an integrated series of transactions with Softline to repay our subordinated note to Softline, to transfer to Softline our note received in connection with the sale of IBIS Systems Limited, and to issue new Series A Convertible Preferred securities in exchange for 10,700,000 SVI common shares. See "Financing Transactions -- Softline."

o Our Australian subsidiary ceased operations in February 2002. See "Discontinued Operations."

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

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

- In March 2003, we issued a total of $3.5 million in 9% convertible debentures to Midsummer Investment, Ltd., Omicron Master Trust and Islandia, L.P. Along with these debentures, warrants to purchase an aggregate of 1,572,858 shares of common stock were issued to these investors. See "Financing Transactions - Midsummer/Omicron/Islandia" below. We used most of the proceeds from this issuance to repay our debt to Union Bank.

- On April 1, 2003, we issued a total of $400,000 in 9% convertible debentures to MSBJ Investors LLC. Along with these debentures, warrants to purchase an aggregate of 156,863 shares of common stock were issued to this investors. See "Financing Transactions - MSBJ" below.

- On May 5, 2003, we issued a total of $300,000 in 9% convertible debentures to Crestview Capital Fund I, L.P., Crestview Capital Fund II, L.P. and Crestview Capital Offshore Fund, Inc. Along with these debentures, warrants to purchase an aggregate of 101,112 shares of common stock were issued to these investors. See "Financing Transactions - Crestview Investors" below.

- Effective April 1, 2003, we sold SVI Training Products, Inc. to Arthur S. Klitofsky for $180,000, plus earnout payments equal to 20% of the total gross revenues of SVI Training Products in each of its next two fiscal years, to the extent the revenues in each of those years exceed $1.4 million. Mr. Klitofsky delivered to us a promissory note for the amount of $180,000, and the earnout payments, if any, will be made in quarterly installments following each fiscal year, bearing an annual interest rate of five percent (5%).

Discontinued Operations

Due to the declining performance of our Australian subsidiary, we decided in the third quarter of fiscal 2002 to sell certain assets of the Australian subsidiary to the former management of such subsidiary, and then cease Australian

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operations. Such sale was, however, subject to the approval of National Australia Bank, the subsidiary's secured lender. The bank did not approve the sale and the subsidiary ceased operations in February 2002. The bank caused a receiver to be appointed in April 2002 to sell substantially all of the assets of the Australian subsidiary and pursue collections on any outstanding receivables. The receiver proceeded to sell substantially all of the assets for $300,000 in May 2002 to the entity affiliated with former management, and is actively pursuing the collection of receivables. If the sale proceeds plus collections on receivables are insufficient to discharge the indebtedness to National Australia Bank, we may be called upon to pay the deficiency under our guarantee to the bank. We have accrued $187,000 as our potential exposure. The receiver has also claimed that we are obligated for inter-company balances of $636,000. 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. For further details, see "Liquidity and Capital Resources -- Contractual Obligations -- National Australia Bank."

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 with the prior period results restated.

Effective April 1, 2003, we sold our shares in SVI Training Products, Inc. to Arthur Klitofsky. This business unit accounted for less than 7% of our total revenues in the nine month period ending December 31, 2002. The selling price was $180,000, plus earnout payments equal to 20% of the total gross revenues of SVI Training Products in each of its next two fiscal years, to the extent the revenues in each of those years exceed $1.4 million. Mr. Klitofsky delivered to us a promissory note for the amount of $180,000. The earnout payments, if any, will be made in quarterly installments following each fiscal year, bearing an annual interest rate of five percent (5%).

Critical Accounting Policies and Estimates

Our discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, based on historical experience, and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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

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

We license software under non-cancelable agreements and provide related services, including consulting and customer support. We recognize revenue in accordance with Statement of Position 97-2 (SOP 97-2), Software Revenue Recognition, as amended and interpreted by Statement of Position 98-9, Modification of SOP 97-2, Software Revenue Recognition, with respect to certain transactions, as well as Technical Practice Aids issued from time to time by the American Institute of Certified Public Accountants. We adopted Staff Accounting Bulletin No. 101 (SAB 101), Revenue Recognition in Financial Statements, during the first quarter of 2000. SAB 101 provides further interpretive guidance for public companies on the recognition, presentation, and disclosure

of revenue in financial statements. The adoption of SAB 101 did not have a material impact on our licensing or revenue recognition practices.

Software license revenue 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 ability to pay and general economic conditions.

o Valuation of long-lived and intangible assets and goodwill. We assess the impairment of identifiable intangibles, long-lived assets and related goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. When we determine that the carrying value of intangibles, long-lived assets and related goodwill 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. Net intangible assets, long-lived assets, and goodwill amounted to $35.5 million as of March 31, 2002.

In our 2003 fiscal year, Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets became effective and as a result, we will cease to amortize approximately $14.8 million of goodwill. We had recorded approximately $2.2 million of amortization during fiscal 2002 and would have recorded approximately $2.2 million of amortization during fiscal 2003.

We review for impairment at least annually or on an interim basis if an event occurs or circumstances change that would indicate that the value of intangible assets has diminished or been impaired. Other intangible assets will continue to be amortized over their estimate useful lives. We evaluate the remaining useful lives of these intangibles on an annual basis to determine whether events or circumstances warrant a revision to the remaining period of amortization.

Financing Transactions.

AMRO International, S.A.

On October 24, 2000, the SEC declared effective a registration statement registering up to 700,000 shares of our common stock for resale by AMRO International, S.A. AMRO purchased 344,948 shares in March 2000 for approximately $2.9 million, and under the terms of the purchase agreement, was entitled to receive additional shares of our common stock if the average of the closing price of our stock for the five days preceding the effective date of the registration statement was less than $10.34. Pursuant to the repricing formula,

we issued to AMRO 375,043 additional shares of common stock. We became obligated to pay to AMRO liquidated damages for late effectiveness of the registration statement in the amount of $286,000. AMRO agreed in March 2001 to accept 286,000 shares of common stock in satisfaction of the liquidated damages, and agreed to purchase an additional 214,000 shares of common stock for $214,000. In connection with this agreement, we issued AMRO a two-year warrant to purchase up to 107,000 shares of common stock at $1.50 per share, which has since expired.

We agreed to register all of the shares sold in March 2001, and those that we may sell under the warrant, with the SEC. We became obligated to pay to AMRO as liquidated damages the amount of $60,000. In April 2002, AMRO agreed to accept 140,000 shares of common stock in satisfaction of the liquidated damages

ICM Asset Management, Inc.

In December 2000, we entered into an agreement to sell up to 2,941,176 common shares to a limited number of accredited investors related to ICM Asset Management, Inc. for cash at $0.85 per share. We sold 1,764,706 of such shares in December 2000, for gross proceeds of $1.5 million, and an additional 588,235 shares in January 2001, for additional gross proceeds of $0.5 million. Two of the investors exercised a right to purchase an additional 588,235 shares in February 2001 for additional gross proceeds of $0.5 million.

We also agreed to issue to each investor a warrant to purchase one common share at $1.50 for each two common shares purchased in the private placement (aggregate warrants exercisable for 1,470,590 option shares). We had the right to call 50% of the warrants, subject to certain conditions, if our common shares traded at a price above $2.00 per share for thirty consecutive days. We had the right to call the remaining 50% of the warrants, subject to certain conditions, if our common shares traded at a price above $3.00 per share for thirty consecutive days.

We agreed to register all of the shares sold under the purchase agreement or upon exercise of the warrants with the SEC. Our agreement with the investors provided that if a registration statement was not effective on or before April 21, 2001, we would be obligated to issue two-year warrants to each investor, entitling the investor to purchase additional shares of our common stock at $0.85 per share. We filed a registration statement in January 2001 to register these shares, but it did not become effective. As of June 28, 2002, we had issued the investors warrants to purchase 1,249,997 common shares under this agreement.

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

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In July 2002, we agreed to amend the terms of the notes and warrants issued to the investors related to ICM Asset Management, Inc. The investors agreed to replace the existing notes with new notes having a maturity date of September 30, 2003. The interest rate on the new notes was reduced to 8% per annum, increasing to 13% in the event of a default in payment of principal or interest. We are required to pay accrued interest on the new notes calculated from July 19, 2002, in quarterly installments beginning September 30, 2002. The investors agreed to reduce accrued interest and late 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 are convertible at the option of the holders into shares of our common stock valued at $0.60 per share. We do not have a right to prepay the notes. In December 2002, the investors agreed to extend the payments of accrued interest to September 30, 2003.

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

us.

We also agreed to file a registration statement for the resale of all shares held by or issuable to these investors. In the event such registration statement is not declared effective by the SEC by June 30, 2003, we will be obligated to issue five-year warrants for the purchase of 5% of the total number of registrable securities at an exercise price of $0.60 per share. For the first and second 30 day periods after June 30, 2003 in which the registration statement is not effective, we will be obligated to issue additional warrants for the purchase of 5% of the total number of registrable securities at an exercise price of $0.60 per share. For each 30 day period thereafter in which the registration statement is not effective, we will be obligated to issue additional warrants for the purchase of 2.5% of the total number of registrable securities at an exercise price of $0.60 per share.

Softline

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

1. We transferred to Softline the note received in connection with the sale of IBIS Systems Limited.

2. We issued to Softline 141,000 shares of newly-designated Series A Convertible Preferred Stock .

3. Softline released us from approximately $12.3 million in indebtedness due to Softline under a promissory note.

4. Softline surrendered 10,700,000 shares of our common shares held by Softline.

The Series A Preferred Stock has a stated value of $100 per share and is redeemable at our option any time prior to the maturity date of December 31, 2006 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 when, as and if declared by the board of directors. Softline may convert each share of Series A Preferred Stock at any time into the number of common shares determined by dividing the stated value plus all accrued and unpaid dividends, by a conversion price initially equal to $0.80. The conversion price increases at an annual rate of 3.5% calculated on a semi-annual basis. The Series A Preferred Stock is entitled upon liquidation to an amount equal to its stated value plus accrued and unpaid dividends in preference to any distributions to our common stockholders. The Series A Preferred Stock 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 Stock or common shares received on conversion which Softline may propose to sell to a third party, upon the same price and terms as the proposed sale to a third party. We also granted Softline certain registration rights for the common shares into which the Series A Preferred Stock is convertible, including the right to demand registration on Form S-3 if such form is available to us and Softline proposes to sell at least $5 million of registrable common shares, and the right to include shares obtainable upon conversion of the Series A Preferred Stock in other registration statements we propose to file.

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.

Toys "R" Us, Inc.

In May 2002, Toys "R" Us, Inc. ("Toys") agreed to invest $1.3 million for the purchase of a non-recourse convertible note and a warrant to purchase 2,500,000 common shares. The purchase price was received in installments through September 27, 2002. The note is non-interest bearing, and the face amount was either convertible into shares of our stock valued at $0.553 per share or payable in cash at our option, at the end of the term. In November 2002, the Board decided that this note will be converted solely for equity and will not be repaid in cash. The note is due May 29, 2009, or if earlier than that date, three years after the completion of the development project contemplated in the development agreement between us and Toys entered into at the same time. We do not have the right to prepay the convertible note before the due date. The face amount of the note is 16% of the $1.3 million purchase price as of May 29, 2002, and increases by 4% of the $1.3 million purchase price on the last day of each succeeding month, until February 28, 2004, when the face amount is the full $1.3 million purchase price. The face amount will cease to increase if Toys terminates its development agreement with us for a reason other than our breach. The face amount will be zero if we terminate the development agreement due to an uncured breach by Toys of the development agreement.

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The warrant entitles Toys to purchase up to 2,500,000 of our common shares at $0.553 per share. The warrant is initially vested as to 400,000 shares as of May 29, 2002, and vests at the rate of 100,000 shares per month until February 28, 2004. The warrant will cease to vest if Toys terminates its development agreement with us for a reason other than our breach. The warrant will become entirely non-exercisable if we terminate the development agreement due to an uncured breach by Toys of the development agreement. Toys may elect a "cashless exercise" where a portion of the warrant is surrendered to pay the exercise price. As of March 31, 2003, 1.4 million shares of the warrant are exercisable.

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

Midsummer/Omicron/Islandia

On March 31, 2003, we entered into a Securities Purchase Agreement with Midsummer Investment, Ltd. ("Midsummer"), Omicron Master Trust ("Omicron"), and Islandia, L.P. ("Islandia") for the sale to these investors of 9% debentures, convertible into shares of SVI common stock at a conversion price equal to

$1.0236 per share, for an aggregate amount of $3,500,000. The investors also each received a warrant to purchase up to, in the aggregate, 1,572,858 shares of common stock with an exercise price equal to $1.0236 per share.

The debentures bear an interest rate of 9% per annum, and they provide for interest only payments on a quarterly basis, payable, at our option, in cash or shares of common stock. The debentures mature in May 2005. If certain conditions are met, we have the right, but not the obligation, to redeem the debentures at 110% of their face value, plus accrued interest. Commencing on February 1, 2004, we must redeem $218,750 per month of the debenture. Furthermore, if the daily volume weighed average price of the our common stock on the American Stock Exchange exceeds $1.0236 by more than 200% for 15 consecutive trading days, we will have the option to cause the investors to convert their debentures into common stock.

The warrants issued to the investors are for a 5-year term, with an exercise price equal to $1.0236 per share.

The investors were granted the right of first refusal to participate in our future offerings of common stock or equivalent securities so long as any one of them owns at least 5% of the debentures purchased by them. Monthly redemptions shall be in cash, or, provided certain conditions are met, such as an effective

registration statement, in shares of common stock. If we elect to pay in shares of common stock, the conversion price shall be the lessor of $1.0236 and 90% of the average of the daily volume weighted average price of the common stock for the 20 trading days immediately prior to the redemption date. The investors were also given registration rights under a Registration Rights Agreement requiring us to file by April 30, 2003 a registration statement respecting 130% of the common stock issuable upon the conversion of the debentures and the warrants, and to use best efforts to have the registration statement declared effective at the earliest date. If the registration statement is not filed within these timeframes or declared effective by June 29, 2003 following the closing date of the debentures sold in the first phase, or within 120 days in the event of a review by the Securities and Exchange Commission, we will be obligated to pay liquidated damages to the investors equal to 2% of the sum of the amount of debentures subscribed to by the investors and the value of the warrants for each month until the registration statement becomes effective.

Additional debentures aggregating up to $2,000,000 will be sold to these investors in a second closing if within one year after the date of first sale of debentures there occurs a period of 15 consecutive trading days during which the daily volume weighted average closing price of our common stock is maintained at a price at or above $1.75 per share, subject to certain conditions. The shares of common stock underlying these debentures and warrants are not included for registration in this prospectus.

MBSJ Investors, LLC

On April 1, 2003, we entered into a Securities Purchase Agreement with MBSJ Investors, LLC ("MBSJ") for the sale to MBSJ of a 9% debenture, convertible to shares of our common stock at a conversion price of $1.0236, for $400,000. This debenture was accompanied by a five-year warrant to purchase 156,311 shares of common stock with an exercise price of $1.0236 per share. Interest is due on a quarterly basis, payable in cash or shares of common stock at our option. Commencing on February 1, 2004, we must redeem $20,000 per month of the debenture. The debenture matures in October 2005. MBSJ was also granted

registration rights under a Registration Rights Agreement, and certain other rights similar to those granted to Midsummer, Omicron and Islandia.

Crestview Investors

On May 5, 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. for the sale to these investors of 9% debentures, convertible into shares of our common stock at a conversion price of $1.0236, for $300,000. These debentures were accompanied by five-year warrants to purchase an aggregate of 101,112 shares of common stock with an exercise price of $1.0236 per share. Interest is due on a quarterly basis, payable in cash or shares of common stock at our option. Commencing on February 1, 2004, we must initially redeem $18,750 per month of the debentures. The debentures mature in October 2005. The Crestview Investors were also granted registration rights under a registration rights agreement, and certain other rights similar to those granted to Midsummer, Omnicron and Islandia.

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Results of Operations

The following table sets forth, for the periods indicated, the relative percentages that certain income and expense items bear to net sales for the interim nine-month periods ending December 31, 2002 and December 31, 2001:

	NINE MONTHS ENDED DECEMBER 31,			
	2002		2001	
	AMOUNT	PERCENTAGE OF REVENUE	AMOUNT	PERCENT OF REVE
			(unaudited and in thousands)	
Net sales	$ 16,918	100 %	$ 21,446	10
Cost of sales	5,997	35 %	9,247	4
Gross profit	10,921	65 %	12,199	5
Product development expense	2,894	17 %	2,932	1
Depreciation and amortization	3,122	18 %	4,991	2
Selling, general and administration expenses	7,365	44 %	10,388	4
Total expenses	13,381	79 %	18,311	8
Loss from operations	(2,460)	(14)%	(6,112)	(2
Other income (expense)				
Interest income	1	0 %	8	
Other income (expense)	8	0 %	(35)	

Interest expense	(894)	(5)%	(2,795)	(1
Gain (loss) on foreign currency translation	23	0 %		
Total other expense	(862)	(5)%	(2,822)	(1
Loss before provision (benefit) for income taxes	(3,322)	(19)%	(8,934)	(4
Provision for income tax benefits	(57)	0 %	(2)	
Loss before cumulative effect of a change in accounting principle	(3,265)	(19)%	(8,932)	(4
Cumulative Effect of Change of Accounting Principle - Goodwill under SFAS 142	(627)	(4)%	(0)	
Loss from continuing operation	(3,892)	(23)%	(8,932)	(4
Loss from discontinued Australian operation	--		(1,140)	
Net loss	$ (3,892)		$(10,072)	

NINE MONTH PERIOD ENDED DECEMBER 31, 2002 COMPARED TO NINE MONTH PERIOD ENDED DECEMBER 31, 2001 (Unaudited)

Net Sales

Net sales decreased by $4.5 million, or 21%, to $16.9 million in the nine months ended December 31, 2002 from $21.4 million in the nine months ended December 31, 2001. The decrease is due to $3.0 million decrease in modification service revenue and $2.4 million decrease in professional service revenues. The decrease is offset by $1.1 million increase in software license revenue. In May 2002, we entered into a new development agreement services through February 2004. We expect that the overall level of services to be performed for Toys "R" Us, Inc. in fiscal 2003 will be substantially less than fiscal 2002.

Cost of Sales/Gross Profit

Cost of sales decreased by $3.2 million, or 35%, to $6.0 million in the nine months ended December 31, 2002 from $9.2 million in the nine months ended December 31, 2001. Gross profit as a percentage of net sales increased to 65% in the nine months ended December 31, 2002 from 57% in the prior comparative period. The decrease in cost of sales and the increase in gross profit as a percentage of net sales were due to increases in software license and maintenance sales as percentage of sales of 48% and 32%, respectively, in the nine months ended December 31, 2002 compared to the nine months ended December 31, 2001.

Product Development Expense

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

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

Depreciation and Amortization

Depreciation and amortization decreased by $1.9 million, or 3.8%, to $3.1 million in the nine months ended December 31, 2002 from $5.0 million in the nine months ended December 31, 2001, as a result of our ceasing to amortize goodwill upon adoption of SFAS No. 142.

Selling, General and Administrative Expenses

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

Operating Loss

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

Interest Expense

Interest expense decreased by $1.9 million, or 68%, to $0.9 million in the nine months ended December 31, 2002 from $2.8 million in the nine months ended December 31, 2001. Interest expense in the 2001 period included $1.2 million interest expense on the note due Softline Limited. Our obligations related to this note were released by Softline effective January 1, 2002 in connection with the integrated series of recapitalization transactions with Softline. The balance of the difference was a $0.7 million decrease in amortization of debt discount.

Cumulative Effect of Change in Accounting Principle

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

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, 2002, March 31, 2001 and March 31, 2000:

	YEAR ENDED MARCH 31,			
	2002		2001	
	AMOUNT	PERCENTAGE OF REVENUE	AMOUNT	PERCENTAG OF REVENU
Net sales	$ 27,109	100 %	$ 27,713	100 %
Cost of sales	10,036	37 %	9,188	33 %
Gross profit	17,073	63 %	18,525	67 %
Application development expense	4,203	16 %	5,333	19 %
Depreciation and amortization	6,723	25 %	8,616	31 %
Selling, general and administration expenses	13,144	48 %	18,037	65 %
Impairment of intangible assets			6,519	24 %
Impairment of note receivable received in connection with the sale of IBIS Systems Limited			7,647	(28)%
Total expenses	24,070	89 %	46,152	167 %
Loss from operations	(6,997)	(26)%	(27,627)	(100)%
Other income (expense)				
Interest income	10	0 %	628	2 %
Other income (expense)	(46)	0 %	63	0 %
Interest expense	(3,018)	(11)%	(3,043)	(11)%
Gain (loss) on foreign currency translation	(9)	0 %	2	0 %
Total other expense	(3,063)	(11)%	(2,350)	(8)%
Loss before provision (benefit) for income taxes	(10,060)	(37)%	(29,977)	(108)%
Provision (benefit) for income taxes	39	0 %	(4,778)	17 %
Loss from continuing operations	(10,099)	(37)%	(25,199)	(91)%
Income (loss) from discontinued operations, net of taxes	(4,559)		(3,746)	
Net loss	$(14,658)		$(28,945)	

FISCAL YEAR ENDED MARCH 31, 2002 COMPARED TO FISCAL YEAR ENDED MARCH 31, 2001

Net Sales

Net sales decreased slightly by $0.6 million, or 2%, to $27.1 million in the fiscal year ended March 31, 2002 from $27.7 million in the fiscal year ended March 31, 2001. Fiscal year 2001 revenues included recognition of $2.0 million in revenue from a one-time sale of technology rights which was signed in fiscal 2000.

Fiscal 2002 was a challenging year in which to close new application license sales. We believe our difficulties initially arose from insufficient staffing of our sales force. Although we significantly increased the staffing of our sales force in the first quarter of fiscal 2002, the economic slowdown and the terrorist attacks of September 11, 2001, and the ongoing hostilities in the world increased the challenges faced by our sales force. 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.

In October 2001, we took aggressive steps designed to improve sales of new application software licenses, and to streamline our operations around services to our existing customers. These steps included a restructuring of our operations and repositioning of the sales force to better focus on the historical markets of our retail enterprise solution and our retail store solution. This strategy has permitted us to reduce overhead expenses, while allowing us to target those markets most likely to result in sales in the current economic climate. Our newly focused sales force has also begun to aggressively market individual modules within our suites. These modules have been improved through modification services performed for existing customers, and may now be marketed as separate applications to new customers. These modules are suited to those potential customers looking for incremental upgrades to their systems at a substantially lower cost, and with a substantially reduced implementation commitment, than an upgrade to our full suite would require. We intend to add additional sales personnel at such time as the economic climate and market for our products permits. In July 2001, we entered into an agreement to expand our current professional services activities with Toys "R" Us significantly through September 2003. In May 2002, we entered into a new development agreement with Toys for the provision of development services through February 2004. We expect the overall dollar amount of professional services we perform for Toys in 2003 to be comparable to fiscal 2002, and to continue to be a significant source of professional services revenues in fiscal 2004. Toys accounted for 42% of our net sales in fiscal 2002 compared to 29% of net sales in fiscal 2001.

Cost of Sales/Gross Profit

Cost of sales increased $0.8 million, or 9%, to $10.0 million in the fiscal year ended March 31, 2002 from $9.2 million in the fiscal year ended March 31, 2001. Gross profit as a percentage of net sales decreased to 63% in fiscal 2002 from 67% in fiscal 2001. The decrease in gross profit margin was due to a further shift in the sales mix from high margin application licenses to lower margin

software modification and professional services. During fiscal 2002, application technology license revenues represented 17% of net sales and related services represented 76% of net sales, compared to 25% and 69% of net sales, respectively, of net sales during fiscal 2001.

Cost of sales for fiscal 2002 and 2001 included $3.6 million and $3.4 million, respectively, in costs associated with the development or modification of modules for Toys "R" Us, 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 for the fiscal year ended March 31, 2002 was $4.2 million compared to $5.3 million for the fiscal year ended March 31, 2001,

a decrease of 21%. The decrease primarily reflects a shift toward customer-funded development expenses. For a further discussion of our application technology development program, see "Description of Business" under the heading "Application Technology Development."

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the first year ended March 31, 2002 decreased by $4.9 million, or 27%, to $13.1 million compared to $18.0 million in the fiscal year ended March 31, 2001. The decrease was due to the following:

- PERSONNEL REDUCTION IMPLEMENTED IN THE FOURTH QUARTER OF 2001 AND THIRD QUARTER OF 2002 AND CONTROL OF EXPENDITURES.

- A $0.9 MILLION RESERVE FOR BAD DEBTS IN FISCAL 2001.

During the third quarter of 2002, we completed an analysis of our operations and concluded that it was necessary to restructure the composition of our management and personnel. We anticipated that the restructuring would result in an approximately $3.0 million annual reduction in our expense levels compared to expenses prior to implementation of the plan. To the extent resources are available, we expect to slowly increase our expense levels in fiscal 2003 from the reduced level after the reductions in the third quarter of fiscal 2002. Additional planned expenditures are for the building of our sales force and for additions to our Professional Services group for US and UK retail operations as new licenses and services are sold.

Earnings (Loss) from Continuing Operations and Before Interest Expense, Income Taxes, Depreciation, Amortization and Impairments

The loss from continuing operations and before interest expense, income taxes, depreciation, amortization, and impairments of intangible assets and notes receivable was $0.3 million for the year ended March 31, 2002 as compared to a comparable loss from continuing operations of $4.2 million in the year ended March 31, 2001, representing an improvement of $3.9 million. The gross profit

for the year decreased by $1.5 million and other income by $3.9 million, but was offset by improvements primarily from reduced application development expenses in the amount of $1.1 million, and reduced selling, general and administrative expenses of $4.9 million.

Depreciation and Amortization

Depreciation and amortization decreased by $1.9 million, or 22%, to $6.7 million in the fiscal year ended March 31, 2002 from $8.6 million in the fiscal year ended March 31, 2001. The decrease reflected the reduction in the base amounts of goodwill and capitalized software assets resulting from the recognition of impairments of those assets in the fourth quarter of fiscal 2001. As a result of the implementation of SFAS No. 142, we will not amortize goodwill in fiscal 2003. We will however record in the first quarter of fiscal 2003 a $0.6 million

impairment charge based upon the transitional analysis of goodwill impairment required by SFAS 142, and we may record impairment charges based upon the impairment testing procedures required by SFAS 144.

Interest Income and Expense

Interest expense was $3.0 million in the fiscal years ended March 31, 2002 and 2001.Interest income decreased $0.6 million to $0.1 million in fiscal 2002, compared to $0.7 million in fiscal 2001 due to cessation of the accrual of interest income on the note receivable received in connection with the sale of IBIS after the second quarter of fiscal 2001.

Discontinued Operations

Loss from discontinued operations in fiscal 2002 was $4.6 million, which included $1.4 million of net loss from Australian operations and $3.2 million of loss on disposal. Loss from discontinued operations in fiscal 2001 was $3.7 million. Net sales from Australian operations decreased from $5.0 million in fiscal 2001 to $2.4 million in fiscal 2002, due primarily to its disposal during the fiscal year 2002.

FISCAL YEAR ENDED MARCH 31, 2001 COMPARED TO FISCAL YEAR ENDED MARCH 31, 2000

Net Sales

Net sales increased by $1.0 million, or 4%, to $27.7 million in the fiscal year ended March 31, 2001 from $26.7 million in the fiscal year ended March 31, 2000. Fiscal year 2001 revenues included recognition of $2.0 million in revenue from a one-time sale of technology rights which was signed in fiscal 2000. Excluding that transaction, overall net rates decreased principally due to a $1.6 million reduction in revenue from our United Kingdom retail operations reflecting a substantial decrease in new application license sales. The substantial decrease in new application license sales was due in part to our inability to close several larger application license transactions in our sales pipeline.

Cost of Sales/Gross Profit

Cost of sales increased $2.8 million, or 43%, to $9.2 million in the fiscal year

ended March 31, 2001 from $6.4 million in the fiscal year ended March 31, 2000. Gross profit as a percentage of net sales decreased to 67% in fiscal 2001 from 76% in fiscal 2000. The decrease in gross profit margin was due to a shift in the sales mix from high margin application licenses to lower margin software modification and professional services. During fiscal 2001, application technology license revenues represented 23% of net sales and related services represented 77% of net sales, compared to 30% and 70% of net sales, respectively, of net sales during fiscal 2000.

Cost of sales for fiscal 2001 included $4.9 million in costs associated with the development or modification of modules for Toys "R" Us, including the use of higher cost outsource development services (subcontractors) for certain

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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 for the fiscal year ended March 31, 2001 was $5.3 million compared to $4.9 million for the fiscal year ended March 31, 2000, an increase of 8%. During fiscal 2001, we continued our application technology development program begun in fiscal 2000 to improve and integrate our application software. For a further discussion of our application technology development program, see "Description of Business" under the heading "Application Technology Development."

Depreciation and Amortization

Depreciation and amortization increased by $1.3 million, or 18%, to $8.6 million in the fiscal year ended March 31, 2001 from $7.3 million in the fiscal year ended March 31, 2000. The increase was due to the amortization of software purchased in connection with the acquisition of MarketPlace Systems Corporation in March 2000, and to amortization of capitalized software that was made available for sale in fiscal 2001.

Impairment of Assets

Our March 31, 2001 balance sheet includes a $7.0 million note receivable. This note was secured by 1,536,000 shares or approximately 11% of the outstanding common stock of Integrity Software, Inc. We do not believe the obligor under the note has significant assets other than the Integrity shares securing the note. The obligor is an entity affiliated with Integrity, and its ability to sell the Integrity shares to repay the note is limited by law and by market conditions. During the fiscal year ended March 31, 2001, we determined that the value of this note receivable was impaired, and we wrote off a total of $7.6 million as a valuation allowance. We obtained an independent valuation of the Integrity shares securing the note at March 31, 2001, which supported the value shown on our March 31, 2001 balance sheet. This note and the shares securing it were transferred to Softline effective January 1, 2002. See "Financing Transactions -- Softline."

We also recorded in the fourth quarter of fiscal 2001 an impairment of $6.5 million in capitalized software and goodwill associated with Australian operations. In determining the amount of impairment, we compared the net book

value of the long-lived assets associated with the Australian subsidiary, primarily consisting of recorded goodwill and software intangibles, to their estimated fair values. Fair values were estimated based on anticipated future cash flows of the Australian operations, discounted at a rate commensurate with the risk involved.

Interest Income and Expense

Interest expense increased $1.5 million, or 100%, to $3.0 million in the fiscal year ended March 31, 2001 from $1.5 million in the fiscal year ended March 31,

2000. The increase was due to inclusion for the full 2001 fiscal year of interest from indebtedness incurred in June 1999 to purchase Island Pacific, and an increase in our average interest rate to 12% in fiscal 2001 compared to 9% in fiscal 2000. The increase also included $0.5 million in amortized loan refinancing costs, including $0.2 million of amortized loan cost reimbursement to Softline.

Interest income decreased $0.5 million to $0.6 million in fiscal 2001, compared to $1.1 million in fiscal 2000 due to decreased cash and cash equivalents.

Liquidity and Capital Resources

CASH FLOWS DURING THE NINE MONTH PERIOD ENDED DECEMBER 31, 2002

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

Operating activities used cash of $1.3 million and $0.7 million in the nine months ended December 31, 2002 and 2001, respectively. Cash used for operating activities in the nine months ended December 31, 2002 resulted from $3.9 million of net losses and $2.7 million increase in accounts receivable; offset in part by $3.1 million of depreciation and amortization, $0.6 million of goodwill impairment, $1.0 million increase in accounts payable and accrued expenses and $0.7 million increase in accrued interest on notes payable.

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

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

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

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

Deferred revenue decreased to $2.9 million at December 31, 2002 from $3.5 million at March 31, 2002. The decrease was primarily due to decreases in

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prepare paid modification and services revenue of $1.5 million from our major customer, Toys "R" Us, Inc., and $0.5 million from other customers; offset in party by $1.4 million increase in prepaid support services revenue.

CASH FLOWS DURING FISCAL YEAR ENDED MARCH 31, 2002

During the fiscal year ended March 31, 2002, we financed our operations using cash on hand, internally generated cash, cash from the issuance of convertible notes and loans from an entity affiliated with Donald S. Radcliffe, a director. During the fiscal year ended March 31, 2001, we financed our operations using cash on hand, internally generated cash, cash from the sale of common stock, proceeds from the exercise of options, lines of credit and loans from each of Softline, a subsidiary of Softline and Barry M. Schechter, our Chairman. During the fiscal year ended March 31, 2000, we financed our operations through internally generated cash, proceeds from bank and other loans (including a loan from a major stockholder), proceeds from the sale of common stock and the exercise of options, and bank lines of credit. At March 31, 2002 and 2001, we had cash of $1.3 million.

Operating activities provided cash of $1.6 million in the fiscal year ended March 31, 2002 and used cash of $2.4 million in the fiscal year ended March 31, 2001 and $2.3 million in the fiscal year ended March 31, 2000. Cash provided for operating activities in fiscal 2002 resulted primarily from $2.5 million decrease in accounts receivable and other receivables, $1.6 million increase in deferred revenue, $7.1 million in non-cash depreciation and amortization, $3.2 million of loss on disposal of Australian operations, $2.3 million increase in interest payable and $1.0 million in non-cash charges for stock-based compensation and interest related to convertible notes due stockholders; offset by $14.7 million of net losses and $1.9 million decrease in accounts payable and accrued expenses. Cash used for operating activities in fiscal 2001 resulted primarily from $28.9 million of net losses, a $4.4 million decrease in net deferred tax liability and a $4.4 million decrease in deferred revenue; offset by $16.5 million in non-cash impairments of assets, $9.5 million in non-cash depreciation and amortization, a $5.1 million decrease in accounts receivable, and a $4.4 million increase in accounts payable and accrued expenses. Cash used for operating activities during fiscal year 2000 primarily resulted from a $4.1 million net loss, a $4.6 million increase in accounts receivable and other receivables, a $0.6 million decrease in accounts payable and accrued expenses, a $0.8 million increase in interest receivable, a $2.6 million decrease in income tax payable, and a $2.6 million increase in deferred income taxes liability; offset in part by $7.9 million of non-cash depreciation and amortization expense and a $5.0 million increase in deferred revenue.

Accounts receivable decreased during fiscal year 2002 primarily due to a write-off of $367,000 in receivables in connection with the discontinuation of Australian operations in February 2002 and a significant improvement in collection efforts. Accounts receivable decreased during fiscal year 2001 primarily due to payment during fiscal 2001 of $2.0 million from the one-time sale of technology rights during fiscal 2000, the write-off during the fourth quarter of fiscal 2001 of the $1.6 million outstanding balance remaining from the one-time sale of technology rights and a decrease in trade receivables aged over 30 days as a result of improvement in collection efforts. Accounts

receivable increased during fiscal year 2000 primarily due to the inclusion of Island Pacific accounts receivable of $4.0 million at March 31, 2000 and the

$3.3 million total receivable associated with the non-recurring sale of technology rights. Accounts receivable balances fluctuate significantly due to a number of factors including acquisitions and dispositions, seasonality, shifts in customer buying patterns, contractual payment terms, the underlying mix of applications and services sold, and geographic concentration of revenues.

Investing activities used cash of $0.7 million, $3.0 million, and $36.5 million in the fiscal years ended March 31, 2002, 2001 and 2000. Investing activities during fiscal 2002 included a $0.4 million increase in capitalized software development costs and $0.3 million in furniture and equipment purchases. Investing activities during fiscal year 2001 included a $2.5 million increase in purchase of software and capitalized software development costs and $0.5 million in furniture and equipment purchases. Investing activities during fiscal year 2000 included a $33.8 million net cash payment for the acquisition of Island Pacific, $1.8 million in software purchases and capitalized software development costs and $0.8 million in capital expenditures.

Financing activities used cash of $0.8 million in the fiscal year ended March 31, 2002 and provided cash of $1.9 million and $30.9 million in the fiscal years ended March 31, 2001 and 2000. Financing activities during fiscal year 2002 included $1.2 million in note payments and $0.8 million decrease in amounts due to stockholders; offset in part by $1.3 million in proceeds from issuance of convertible notes. Financing activities during fiscal year 2001 included $3.8 million in proceeds from the sale of common stock, $9.9 million increase in amounts due to stockholders and $1.6 million in proceeds from lines of credit, offset by $13.2 million in note payments. Financing activities during fiscal year 2000 included $18.5 million in proceeds from loans obtained to acquire Island Pacific, $9.6 million in proceeds from the exercise of options and private sale of common stock and $2.3 million in proceeds from lines of credit, offset in part by $1.5 million in loan payments.

Changes in the currency exchange rates of our foreign operations had the effect of decreasing cash by $0.1 million in the fiscal years ended March 31, 2002 and 2001 and $0.3 million in the fiscal year ended March 31, 2000.

Contractual Obligations

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

	For the fiscal years ending March 31,				
Contractual Cash Obligations	2003	2004	2005	2006	Thereafter
			(in thousands)		

Operating leases	$ 752	$ 724	$ 704	$ 192	$ 7
Capital leases	73	18			
Term loans (a)	3,303	500			
Convertible debentures (a)		839	3,276	575	
Convertible notes (a)		1,370			
Demand loans due stockholders	618				
Payables aged over 90 days	449				
Other long-term obligations	200				
Total contractual cash obligations	$5,395	$4,872	$3,980	$ 767	$ 7

	For the fiscal years ending March 31,				
Other Commercial Commitments	2003	2004	2005	2006	Thereafter
		(in thousands)			
Guarantees	$ 187				
Total commercial commitments	$ 187				

(a) Reflects certain transactions that occurred in March and April 2003.

Union Bank

On June 29, 2001, we entered into an amended and restated loan agreement with Union Bank with respect to the $7.4 million owing under the our term loan. The maturity date under the restated agreement was May 1, 2002, but we had a right to extend that date to November 1, 2002 if we satisfied certain conditions, including our achieving certain earnings targets. We were required to pay monthly interest at 5% over the bank reference rate, increased by an additional 2% for late payments of principal and interest. We were required to make an initial $210,000 principal payment in August 2001, and monthly principal payments of $50,000 beginning October 1, 2001. Monthly principal payments were to increase to $100,000 on May 1, 2002 upon an extension of the maturity date. We had difficulty making both interest and principal payments during fiscal 2002, and the bank extended on several occasions the due dates for required payments. We were required to use any proceeds in excess of $6 million we received from private equity placements to reduce principal under the loan. We were also prohibited from making any payments on certain subordinated obligations, including the convertible notes held by entities related to ICM Asset Management, Inc. The entire amount owed to the bank was secured by substantially all of our assets and those of our subsidiaries and 10,700,000 shares of our treasury stock. The restated agreement also contained limitations on acquisitions, investments and other borrowings.

We agreed to pay the bank a loan restructuring fee of $200,000, originally due May 1, 2002 (or if the maturity date was extended, $150,000 on May 1, 2002 and $50,000 on November 1, 2002), but the fee would be waived if we discharged the loan before May 1, 2002. We were also required to reimburse the bank for certain other expenses incurred during the term of the loan.

On March 18, 2002, the loan agreement was amended to release certain collateral

from the pledge to Union Bank, and to instead pledge to the bank the 10,700,000 shares of our common stock surrender by Softline in the related recapitalization transactions with Softline described under the heading "Financing Transactions -- Softline." The released collateral was our shares in our Australian subsidiary, and the IBIS note and related shares of Integrity Software.
On May 21, 2002, the bank further amended the agreement to extend the maturity date to May 1, 2003 and to revise other terms and conditions. We agreed to pay to the bank $100,000 as a loan extension fee, payable in four monthly installments of $25,000 each commencing on June 30, 2002. If we failed to pay any installment when due, the loan extension fee was to increase to $200,000, and the monthly payments were to increase accordingly. We also agreed to pay all overdue interest and principal by June 30, 2002, and to pay monthly installments of $24,000 commencing on June 30, 2002 and ending April 30, 2003 for the bank's legal fees. Effective July 15, 2002, the bank further amended the restated term loan agreement, and waived the then existing defaults. Under this third amendment to the restated agreement, the bank agreed to waive the application of the additional 2% interest rate for late payments of principal and interest, and to waive the additional $100,000 refinance fee required by the second amendment. The bank also agreed to convert $361,000 in accrued and unpaid interest and fees to term loan principal, and we executed a new term note in total principal amount of $7.2 million. We were required to make a principal payment of $35,000 on October 15, 2002, principal payments of $50,000 on each of November 15, 2002 and December 15, 2002, and consecutive monthly principal payments of $100,000 each on the 15th day of each month thereafter through August 15, 2003. The entire amount of principal and accrued interest was due August 31, 2003. The bank also agreed to eliminate certain financial covenants and to ease others. We were not in compliance with the revised financial covenants.

On January 2, 2003, we issued a warrant to an affiliate of the bank to purchase up to 1.5 million shares of our common stock for $0.01 per share. The warrant was exercisable for shares equal to 1% of our outstanding common stock on January 2, 2003, and would have become exercisable for shares equal to an additional 0.5% of the outstanding common stock on the first day each month thereafter, until it was exercisable for the full 4.99% of the outstanding common stock. To the extent we discharged in full our bank obligations before any warrants became exercisable, those warrants would not have become exercisable.

On March 31, 2003, we entered into a Discounted Loan Payoff Agreement with the bank. Under that agreement, we paid the bank $2,800,000 from the sale of debentures to Midsummer, Omicron and Islandia. We also issued to the bank 1,000,000 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 $7.1 million debt. The bank also cancelled the

warrant to purchase 1.5 million shares of our common stock and returned all collateral held, including 10,700,000 shares of our common stock pledged as security.

National Australia Bank Limited

Our Australian subsidiary maintained an AUS$1,000,000 (approximately US$510,000) line of credit facility with National Australia Bank Limited. The facility was secured by substantially all of the assets of our Australian subsidiary, and we have guaranteed all amounts owing on the facility. In April 2001, we received a

formal demand under our guarantee for the full AUS$971,000 (approximately US$495,000) then alleged by the bank to be due under the facility. Due to the declining performance of our Australian subsidiary, we decided in the third quarter of fiscal 2002 to sell certain assets of the Australian subsidiary to the former management of such subsidiary, and then cease Australian operations. Such sale was, however, subject to the approval of National Australia Bank, the subsidiary's secured lender. The bank did not approve the sale and the subsidiary ceased operations in February 2002. The bank caused a receiver to be appointed in February 2002 to sell substantially all of the assets of the Australian subsidiary and pursue collections on any outstanding receivables. The receiver proceeded to sell substantially all of the Australian subsidiary's assets for $300,000 in May 2002 to the entity affiliated with former management, and is actively pursuing the collection of receivables. If the sale proceeds plus collections on receivables are insufficient to discharge the indebtedness to National Australia Bank, we may be called upon to pay the deficiency under our guarantee to the bank. We have accrued $187,000 as the maximum amount of our potential exposure. The receiver has also claimed that we are obligated to it for inter-company balances of $636,000, but we do not believe any amounts are owed to the receiver, who has not as of the date of this report acknowledged the monthly corporate overhead recovery fees and other amounts charged by us to the Australian subsidiary offsetting the amount claimed to be due.

Other Indebtedness, Including Related Parties

In connection with our acquisition of Island Pacific effective April 1999, we also borrowed $2.3 million with no stated maturity date from three entities in June 1999. $1.5 million of this amount was borrowed from Claudav Holdings Ltd. B.V., a significant stockholder. The balance due on these loans were paid off in full at January 31, 2003. The loans bore interest at the prime rate and were due upon demand.

In May and June 2001, we issued convertible notes to entities related to ICM Asset Management, Inc., these notes were amended in July 2002. See "Financing Transactions -- ICM Asset Management, Inc."

In May 2001, December 2001, May 2002 and September 2002, we borrowed $50,000, $125,000, $70,000 and $50,000, respectively, from World Wide Business Centres, a company affiliated with Donald S. Radcliffe, a director, to meet payroll expenses. These amounts have been repaid in full together with interest at the then-effective prime rate, as cash flows have been received.

In March 2003, we issued convertible debentures to Midsummer, Omicron, and Islandia for $3.5 million. See "Financing Transactions - Midsummer/Omicron/Islandia."

On April 1, 2003, we issued convertible debentures to MBSJ Investors, LLC for $400,000. See "Financing Transactions - MBSJ."

On May 5, 2003, we issued convertible debentures to Crestview Capital Fund I, L.P., Crestview Capital Fund II, L.P. and Crestview Capital Offshore Fund, Inc. for $300,000. See "Financing Transactions - Crestview Investors."

Cash Position

As a result of our indebtedness and net losses for the past three years, we have

experienced significant strain on our cash resources. In order to manage our cash resources, we reduced expenses and discontinued our Australian operations. We have also extended payment terms with many of our trade creditors wherever possible and have diligently focused our collection efforts on our accounts receivable. We had a negative working capital of $5.3 million and $2.8 million at March 31, 2002 and 2001, respectively.

We were unable to make timely monthly rent payments for our Irvine and Carlsbad facilities during the first quarter of fiscal 2003. We renegotiated rent terms with the landlords of our Irvine and Carlsbad facilities in June 2002, and we are currently in compliance with the renegotiated terms.

As discussed above, we renegotiated our agreements with Union Bank on several occasions after we were unable to make payments which would have otherwise been required. Other than cash on hand, we have no unused sources of liquid assets at March 31, 2003.

Management has been actively engaged in attempts to resolve our liquidity problems. We recently issued $3.5 million in convertible debentures to Midsummer, Omicron, and Islandia and used most of those proceeds to satisfy our indebtedness to Union Bank, which would have been due in full in the second quarter of fiscal 2004. If certain conditions are satisfied, we will issue an additional $2,000,000 in convertible debentures to those investors by April 2004. We also recently issued $400,000 in convertible debentures to MBSJ Investors, LLC. We also recently issued $300,000 in convertible debentures to Crestview Fund I, L.P., Crestview Fund II, L.P. and Crestview Capital Offshore Fund, Inc., and, if certain conditions are satisfied, we may issue an additional $300,000 in convertible debentures to those investors by April 2004. As a result, we believe we will have sufficient cash to remain in compliance with our debt obligations, and meet our critical operating obligations, for the next twelve months. We are nonetheless actively seeking a private equity placement to help discharge aged payables, pursue growth initiatives and repay the bank indebtedness of $500,000. We have no binding commitments for funding at this time. Financing may not be available on terms and conditions acceptable to us, or at all.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations." SFAS 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. The adoption of SFAS 141 did not have a significant impact on our financial statements.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets," which is effective for fiscal years beginning after December 15, 2001. SFAS 142 prohibits the amortization of goodwill and intangible assets with indefinite useful lives but requires that these assets be reviewed for impairment at least annually or on an interim basis if an event occurs or circumstances change that could indicate that their value has diminished or been impaired. Other intangible assets will continue to be amortized over their estimated useful lives. We evaluate the remaining useful lives of these intangibles on an annual basis to determine whether events or circumstances warrant a revision to the remaining period of amortization. Pursuant to SFAS 142, amortization of goodwill and assembled workforce intangible assets recorded in business combinations prior to June 30,

2001 ceased effective March 31, 2002. Goodwill resulting from business combinations completed after June 30, 2001, will not be amortized. We recorded amortization expense of approximately $2.2 million on goodwill during the fiscal year ended March 31, 2002. We currently estimate that application of the non-amortization provisions of SFAS 142 will reduce amortization expense and increase net income by approximately $2.2 million in fiscal 2003.

We tested goodwill for impairment during the 2003 fiscal year, and a resulting impairment of $0.6 million will be recorded as a cumulative effect of a change in accounting principle in the first quarter of fiscal 2003.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143 ("SFAS 143"), "Accounting for Asset Retirement Obligations." This statement applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of long-lived assets, except for certain obligations of lessees. The adoption of SFAS No. 143 did not have a significant impact on our consolidated financial statements.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 supercedes SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS 144 applies to all long-lived assets (including discontinued operations) and consequently amends APB Opinion 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS 144 develops one accounting model for long-lived assets that are to be disposed of by sale. SFAS 144 requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value cost to sell. Additionally SFAS 144 expands the scope of discontinued operations to include all components of an entity with operations that (1) can be distinguished from the rest of the entity and (2) will be eliminated from the ongoing operations of the entity in a disposal transaction. SFAS 144 is effective for fiscal years beginning after December 15, 2001. The accounting prescribed in SFAS 144 was applied in connection with the disposal of our Australian subsidiary.

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145 ("SFAS 145"), "Rescission of FASB Statements No. 4, 44, and 64, Amendment of

FASB Statement No. 13, and Technical Corrections." SFAS No. 145 updates, clarifies, and simplifies existing accounting pronouncements. This statement rescinds SFAS No. 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. As a result, the criteria in APB No. 30 will now be used to classify those gains and losses. SFAS No. 64 amended SFAS No. 4 and is no longer necessary as SFAS No. 4 has been rescinded. SFAS No. 44 has been rescinded as it is no longer necessary. SFAS No. 145 amends SFAS No. 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions to be accounted for in the same manner as sale-lease transactions. This statement also makes technical corrections to existing pronouncements. While those corrections are not substantive in nature, in some instances, they may change accounting practice. We do not expect adoption of SFAS No. 145 to have material impact, if any, on our financial position or results of operations.

In November 2001, the FASB issued an Emerging Issues Task Force Issue No. 01-14 ("EITF No. 01-14") "Income Statement Characterization of Reimbursements Received

for Out-of-Pocket Expenses Incurred". EITF No. 01-14 establishes that reimbursements received for out-of-pocket expenses should be reported as revenue in the income statement. Currently, we classify reimbursed out-of-pocket expenses as a reduction in cost of consulting services. We are required to adopt the guidance of EITF No. 01-14 in the first quarter of fiscal year 2003 and our consolidated statements of operations for prior periods will be reclassified to conform to the new presentation. The adoption of EITF No. 01-14 will result in an increase in reported net sales and cost of sales; however, it will not affect net income or loss in any past or future periods.

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

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

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148 ("SFAS 148"), "Accounting for Stock-Based Compensation-Transition and Disclosure". This Statement amends SFAS 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary

change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transition guidance and annual disclosure provisions of SFAS 148 are effective for fiscal years ending after December 15, 2002, with earlier application permitted in certain circumstances. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. We do not expect SFAS 148 to have a material impact on the Company's financial statements.

Employees

At March 31, 2003, we had a total of 130 employees, 114 of which were based in the United States and 16 of which were based in the United Kingdom. Of the total, 12% were engaged in sales and marketing, 40% were engaged in application technology development projects, 30% were engaged in professional services, and 18% 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.

Facilities

Our principal corporate headquarters consists of 13,003 square feet in a building located at 5607 Palmer Way, Carlsbad, California. The lease for this facility is currently being negotiated. The current monthly rent is $13,680. Our primary operational office is in Irvine, California, where we occupy 26,521 square feet in a building located at 19800 MacArthur Blvd. This facility is occupied under a lease that expires on June 30, 2005. The current monthly rent is $55,620. 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 August 31, 2003. Annual rent is $43,646 (payable quarterly) plus common area maintenance charges and real estate taxes.

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 $283,893.53. 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. These matters are still pending and the parties have agreed to resolve all claims in binding arbitrations.

Due to the declining performance of our Australian subsidiary, we decided in the third quarter of fiscal 2002 to sell certain assets of our Australian subsidiary to the former management of such subsidiary, and then cease Australian operations. Such sale was, however, subject to the approval of National Australia Bank, the subsidiary's secured lender. The bank did not approve the sale and the subsidiary ceased operations in February 2002. The bank caused a receiver to be appointed in February 2002 to sell substantially all of the assets of the Australian subsidiary and pursue collections on any outstanding receivables. The receiver proceeded to sell substantially all of the assets for $300,000 in May 2002 to 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 is currently 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 the Company with the

Department of Fair Employment and Housing, alleging harassment and sexual orientation discrimination. The Company has responded appropriately to both the wage claim and the discrimination allegations, which the Company believes lack merit based on present information.

On August 30, 2002, Cord Camera Centers, Inc., an Ohio corporation ("Cord Camera"), filed a lawsuit against one of our subsidiaries, SVI Retail, Inc. 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 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. At this time, we cannot predict the merits of this case because it is in its preliminary state and discovery has not yet commence. However, SVI Retail intends to defend vigorously the action and possibly file one or more counter-claims.

In mid-2002, the Company is the subject of an adverse judgment entered against it 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 the Company 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 believe we have viable defenses to the allegations if the default is set aside. We are determining whether the matter can be settled without the necessity of

litigation to set aside the default, but we are unable to ascertain the likely outcome of this matter at this time.

On December 16, 2002, Chapter 11 Debtors Natural Wonders, Inc. and World of Science, Inc. (collectively "Debtors") filed an adversary proceeding against our subsidiary SVI Retail, Inc. seeking to avoid and recover preferential transfers. The Debtors sought recovery of approximately $84,000, which it had previously paid to SVI Retail for goods and services rendered. On March 12, 2003, the Debtors and SVI Retail settled the adversary proceeding for $18,000.

On November 22, 2002, UDC Homes, Inc and UDC Corporation now known as Shea Homes, Inc. served Sabica Ventures, Inc. ("Sabica") and Island Pacific, an operating division of SVI Solutions, Inc. ("Island Pacific") with a cross-complaint for indemnity on behalf of an entity identified in the summons as Pacific Cabinets. Sabica and Island Pacific filed a notice of motion and motion to quash service of summons on the grounds that neither Sabica nor Island Pacific has ever done business as Pacific Cabinets and has no other known relation to the construction project that is the subject of the cross-complaint and underlying complaint. The hearing on Sabica and Island Pacific's motion to quash is scheduled for May 22, 2003.

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.

D. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On November 30, 2001, Deloitte & Touche LLP notified us that they were resigning as our independent certified public accountants. On December 5, 2001, we engaged Singer Lewak Greenbaum & Goldstein LLP ("Singer Lewak") as our new independent auditors. Singer Lewak previously audited our financial statements for the fiscal years ended March 31, 1998 and September 30, 1997, 1996, 1995 and 1994. The decision to engage Singer Lewak was recommended by the Audit Committee of the Board of Directors and approved by the Board of Directors.

Deloitte & Touche's reports on the financial statements for the fiscal years ended March 31, 2001 and 2000 did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles, except as noted in the following sentence. Deloitte & Touche's audit report on the financial statements for the year ended March 31, 2001, dated July 13, 2001, expressed an unqualified opinion and included an explanatory paragraph relating to substantial doubt about our ability to continue as a going concern. Further, in connection with its audits of our financial statements for the past two fiscal years and the subsequent interim period immediately preceding the date of resignation of Deloitte & Touche, we had no disagreements with Deloitte & Touche on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or

procedure, which disagreements, if not resolved to the satisfaction of Deloitte & Touche, would have caused them to make a reference to the subject matter of the disagreements in connection with their reports on our consolidated financial statements.

A representative of our independent auditor, Singer Lewak, is not expected to be present at the meeting.

F. VOTING SECURITIES AND PRINCIPAL SECURITIES AND PRINCIPAL HOLDERS THEREOF.

The Company had 31,499,632 shares of common stock outstanding at the close of business on March 31, 2003. Each share of common stock is entitled to one vote. Holders of record of shares of common stock at the close of business on May 1, 2003 will be entitled to notice of and to vote at the Special Meeting. The Company also had 141,000 shares of Series A Preferred Stock. The shares of Series A Preferred Stock have no voting rights with respect to the proposals in this Proxy.

The following table shows beneficial ownership of shares of our common stock as of March 31, 2003 (except as otherwise stated below) (i) by all persons known by us to beneficially own more than 5% of such stock (ii) each of the holders of debentures described in Proposal Number One, and (iii) by each director, each of the named executive officers, and all directors and executive officers as a group. Except as otherwise specified, the address for each person is 5607 Palmer Way, Carlsbad, California 92007. As of March 31, 2003, there were 31,499,632 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	Percent of Class

Softline Limited 16 Commerce Crescent Eastgate Extension 13 Sandton 2148 South Africa	27,240,800	(2)	54.7%
Claudav Holdings Ltd. B.V. 9 Rue Charles Humbert 1205 Geneva Switzerland	3,892,742	(3)	11.9%
The Ivanhoe Irrevocable Trust	3,892,742	(3)	11.9%
Barry M. Schechter	3,892,742	(3)	11.9%
ICM Asset Management, Inc. 601 W. Main Ave., Suite 600 Spokane, WA 99201	7,103,028	(4)	20.2%

Name and Address of Beneficial Owner (1)	Amount and Nature of Beneficial Ownership		Current Percent of Class
Midsummer Investment c/o Midsummer Capital, LLC 485 Madison Avenue, 23rd Floor New York, NY 10022	1,996,865	(9)	6.0%
Omnicron Master Trust c/o Omnicron Capital, LP 810 Seventh Avenue, 39th Floor New York, NY 10019	2,139,498	(10)	6.4%
Islandia, L.P. c/p John Lang, Inc. 485 Madison Avenue, 23rd Floor New York, NY 10022	855,799	(11)	2.6%
MBSJ Investors, Inc. c/o Randy Siller 60 Butler Lane New Canaan, Connecticut 06480	547,089	(12)	1.7%
Crestview Capital Fund I, L.P. c/o Richard Levy Crestview Capital Funds 95 Revere Drive, Suite F Northbrook, IL 60062	131,498	(13)	<1%
Crestview Capital Fund II, L.P. c/o Richard Levy Crestview Capital Funds 95 Revere Drive, Suite F	229,947	(14)	<1%

Northbrook, IL 60062			
Crestview Capital Offshore Fund, Inc. c/o Richard Levy Crestview Capital Funds 95 Revere Drive, Suite F Northbrook, IL 60062	32,850	(15)	<1%
Arthur S. Klitofsky	425,728	(5)	1.3%
Steven Beck	2,000,000	(6)	6.0%
Harvey Braun	2,000,000	(6)	6.0%
Randy Pagnotta	46,958	(6)	<1%
Cheryl Valencia	1,000		<1%
Kavindra Malik	50,000		<1%
Ronald Koren	400		<1%
Mike Dotson	23,535	(6)	<1%
Donald S. Radcliffe 575 Madison Avenue New York, NY 10022	905,091	(7)	2.8%
Michael Silverman	143,291	(8)	