ISLAND PACIFIC INC
Form 424B3
September 24, 2004

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-108249

PROSPECTUS SUPPLEMENT NO. 9
Island Pacific, Inc., a Delaware corporation
(formerly known as SVI Solutions, Inc.)
Common Stock

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

The prospectus dated September 26, 2003, as supplemented by prospectus supplement no. 1 dated November 25, 2003, prospectus supplement no. 2 dated December 17, 2003, prospectus supplement no. 3 dated February 4, 2004, prospectus supplement no. 4 dated February 13, 2004, prospectus supplement no. 5 dated March 8, 2004, prospectus supplement no. 6 dated March 18, 2004, prospectus supplement no. 7 dated July 27, 2004 and prospectus supplement no. 8 dated September 17, 2004 (the "Prospectus"), is hereby amended by the information contained in the attached report on Form 10-Q filed on August 13, 2004. If the information in the attached reports is inconsistent with any information contained in the Prospectus or any prospectus supplement dated earlier than the date of this Supplement, the Prospectus or earlier supplement shall be deemed superceded by this Supplement. In all other ways, the Prospectus and any prior supplement shall remain unchanged.

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

This Prospectus Supplement is dated September 24, 2004.

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2004 OR

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

Commission file number 0-23049

ISLAND PACIFIC, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	33-0896617

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

19800 MACARTHUR BOULEVARD, 12TH FLOOR, IRVINE, CALIFORNIA 92612
(Address of principal executive offices) (Zip Code)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.
Common Stock, $0.0001 Par Value - 54,809,255 shares as of July 31, 2004.

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ITEM 1. FINANCIAL STATEMENTS

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

	JUNE 30, 2004
ASSETS	
Current assets:	
Cash and cash equivalents	$ 1,289
Accounts receivable, net of allowance for doubtful accounts of $1,044 and $409, respectively	6,615
Other receivables, including $14 and $37 from related parties, respectively	83
Inventories	40
Current portion of non-compete agreements	471
Current portion of note receivable	36
Prepaid expenses and other current assets	673
Total current assets	9,207
Note receivable	117
Property and equipment, net	1,226
Goodwill, net	30,654
Other intangibles, net	25,270
Other assets, including $170 from related party	211
Total assets	$ 66,685
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities:	
Current portion of notes payable to related parties	$ 451
Current portion of notes payable	2,470
Current portion of convertible debentures	1,189
Current portion of capital leases	176
Line of credit	182
Accounts payable	2,007
Accrued expenses	3,709
Deferred revenue	6,327
Income tax payable	127
Total current liabilities	16,638
Notes payable to related parties, less current maturities	2,134

Notes payable, less current maturities	352
Convertible debentures, net of debt discount of $623 and $706, respectively, less current maturities	1,210
Capital lease obligations, less current maturities	52
Deferred revenue	906
Deferred rent	89
Total liabilities	21,381
Commitments and contingencies	
Stockholders' equity:	
Preferred Stock, $.0001 par value; 5,000,000 shares authorized:	
Series A Convertible Preferred, 7.2% cumulative 141,100 shares issued and outstanding with a stated value of $100 per share, dividends in arrears of $2,286 and $2,002, respectively	14,100
Series B Convertible Preferred , cumulative dividend of $0.136 per share per annum commencing on January 1, 2005, 2,517,233 shares issued and outstanding with a stated value of $3 per share	5,709
Common Stock, $.0001 par value; 100,000,000 shares authorized; 53,974,532 and 52,427,799 shares issued and outstanding, respectively	5
Additional paid in capital	74,001
Accumulated deficit	(48,511)
Total stockholders' equity	45,304
Total liabilities and stockholders' equity	$ 66,685

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

ISLAND PACIFIC, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Three Months Ended June 30, 2004	2003
Net sales	$ 5,283	$ 5,466
Cost of sales	1,833	1,654
Gross profit	3,450	3,812
Expenses:		
Application development	1,247	137
Depreciation and amortization	1,306	868
Selling, general and administrative	4,517	2,796
Total expenses	7,070	3,801

Income (loss) from operations	(3,620)	11
Other income (expense):		
Interest income	--	26
Other income (expense)	97	(11)
Interest expense	(270)	(311)
Total other expense	(173)	(296)
Loss before provision for income taxes	(3,793)	(285)
Provision for income tax benefits	--	570
Net income (loss)	(3,793)	285
Cumulative preferred dividends	(286)	(272)
Net income (loss) available to common stockholders	$ (4,079)	$ 13
Basic earnings (loss) per share:		
Net loss	$ (0.07)	$ 0.01
Cumulative preferred dividends	(0.01)	(0.01)
Net income (loss) available to common stockholders	$ (0.08)	$ --
Diluted earnings (loss) per share:		
Net income (loss)	$ (0.07)	$ --
Cumulative preferred dividends	(0.01)	--
Net income (loss) available to common stockholders	$ (0.08)	$ --
Weighted-average common shares outstanding:		
Basic	52,938	31,615
Diluted	52,938	64,743

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

ISLAND PACIFIC, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	THREE MON JUN 2004
Cash flows from operating activities:	
Net income (loss)	$(3,793)
Adjustments to reconcile net income (loss) to net cash used for operating activities:	
Depreciation and amortization	1,306
Amortization of debt discount and conversion option	83

Provision for allowance for doubtful accounts, net of recoveries	48
Stock-based compensation	18
Common stock issued for services rendered and settlement cost	--
Changes in assets and liabilities net of effects from acquisitions:	
Accounts receivable and other receivables	(470)
Income tax refund receivable	--
Inventories	7
Prepaid expenses and other assets	(62)
Accounts payable and accrued expenses	(182)
Income tax payable	--
Accrued interest on stockholders' loans, convertible notes and term loan	85
Deferred revenue	1,887
Net cash used for operating activities	(1,073)
Cash flows from investing activities:	
Payment from note receivable	9
Proceeds from acquisition of Retail Technologies International, Inc., net	672
Purchases of furniture and equipment	(30)
Capitalized software development costs	(260)
Net cash provided by (used for) investing activities	391
Cash flows from financing activities:	
Sale of common stock, net of offering costs	--
Decrease in amount due to stockholders, net	(220)
Proceeds from convertible debts	--
Payments on capital leases	(40)
Payments on convertible debentures	(59)
Proceeds from line of credit	182
Net cash provided by (used for) financing activities	(137)
Effect of exchange rate changes on cash	--
Net increase (decrease) in cash and cash equivalents	(819)
Cash and cash equivalents, beginning of period	2,108
Cash and cash equivalents, end of period	$ 1,289
Supplemental disclosure of cash flow information:	
Interest paid	$ 76
Income taxes paid	
Supplemental schedule of non-cash investing and financing activities:	
Issued 2,517,233 shares of Series B Convertible Preferred Stock in connection with the acquisition of Retail Technologies International, Inc.	5,709
Issued 1,546,733 shares of common stock in connection with the acquisition of Retail Technologies International, Inc.	1,169
Issued promissory notes in connection with the acquisition of Retail Technologies International, Inc.	3,622
Issued 9,849 shares of common stock as payments for bonuses and services rendered in prior periods	$ --

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

ISLAND PACIFIC, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND BASIS OF PREPARATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles applicable to interim financial statements. Accordingly, they do not include all of the information and notes required for complete financial statements. In the opinion of management, all adjustments necessary to present fairly the financial position, results of operations and cash flows at June 30, 2004 and for all the periods presented have been made.

Certain amounts in the prior periods have been reclassified to conform to the presentation for the three months ended June 30, 2004. The financial information included in this quarterly report should be read in conjunction with the consolidated financial statements and related notes thereto in our Form 10-K for the year ended March 31, 2004.

The results of operations for the three months ended June 30, 2004 and 2003 are not necessarily indicative of the results to be expected for the full year.

NOTE 2 - ACQUISITIONS

PAGE DIGITAL INCORPORATED

Effective January 30, 2004, we acquired all of the issued and outstanding shares of Page Digital Incorporated ("Page Digital"), a Colorado-based developer of multi-channel commerce software, through a merger with our newly-formed wholly-owned subsidiary. The purchase price for the acquisition was $7.0 million, consisting of $2.0 million in cash and 2.5 million shares of our common stock valued at $2.00 per share. Upon the consummation of this transaction, we entered into two-year employment agreements for executive officer positions with two of the principals of Page Digital and a two-year non-compete agreement with one of the two principals of Page Digital.

The following unaudited pro forma consolidated results of continuing operations for the three months ended June 30, 2003 assume the acquisition of Page Digital occurred as of April 1, 2003. The pro forma results are not necessarily indicative of the actual results that would have occurred had the acquisitions been completed as of the beginning of the period presented, nor are they necessarily indicative of future consolidated results.

	Quarter ended June 30, 2003 (unaudited) (in thousands, except per share data)
Net sales	$ 6,832
Net income	$ 323
Net income available to common stockholders	$ 51

Basic and diluted income per share of common stock	$	0.01
Basic and diluted income per share available to common stockholders	$	--

RETAIL TECHNOLOGIES INTERNATIONAL, INC.

Pursuant to an agreement dated June 1, 2004, we acquired Retail Technologies International, Inc. ("RTI") from Michael Tomczak, Jeffrey Boone and Intuit Inc. ("Intuit") in a merger transaction. On March 12, 2004, we, RTI, IPI Merger Sub, Inc., ("Merger Sub") and Michael Tomczak and Jeffrey Boone (the "Shareholders") entered the initial Agreement of Merger and Plan of Reorganization (the "March 12, 2004 Merger Agreement") which provided we would acquire RTI in a merger transaction in which RTI would merge with and into Merger Sub. The merger consideration contemplated by the March 12, 2004 Merger Agreement was a combination of cash and shares of our common stock. The March 12, 2004 Merger Agreement was amended by the Amended and Restated Agreement of Merger and Plan of Reorganization, dated June 1, 2004, by and between us, RTI, Merger Sub, IPI Merger Sub II, Inc. ("Merger Sub II") and the Shareholders (the "Amended Merger Agreement").

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

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

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

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

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

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

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

The acquisition has been accounted for as a purchase. The results of the operations of RTI have been included in the consolidated financial statements since the date of the acquisition. The excess of purchase price over the fair values of net assets acquired was approximately $10.2 million and has been recorded as goodwill. The fair value of assets acquired and liabilities assumed were as follows (in thousands):

Accounts receivable	$ 1,348
Inventory	

Property and equipment	496
Other assets	4,931
Liabilities assumed	(6,460)
Net assets	315
Excess of cost over fair value of net assets acquired	10,185
Total purchase price	$ 10,500

The following unaudited pro forma consolidated results for the three months ended June 30, 2004 and 2003 assume the acquisitions of RTI occurred as of April 1, 2004 and 2003, respectively, and Page Digital occurred as of April 1, 2003. The pro forma results are not necessarily indicative of the actual results that would have occurred had the acquisitions been completed as of the beginning of the period presented, nor are they necessarily indicative of future consolidated results.

	Quarters Ended June 30, 2004	20
	(unaudited) (in thousands, except per	
Net sales	$ 6,676	$ 8,9
Net income (loss)	$(4,725)	$ 3
Net income (loss) available to common stockholders	$(5,011)	$
Basic and diluted income (loss) per share of common stock	$ (0.09)	$ 0.
Basic and diluted income (loss) per share available to common stockholders	$ (0.09)	$

NOTE 3 - NOTE RECEIVABLE

Effective April 1, 2003, we sold our wholly-owned subsidiary, SVI Training Products, Inc. ("Training Products"), to its former president, for the sale price of $180,000 plus earn-out payments equal to 20% of the total gross revenues of Training Products in each of its next two fiscal years, to the extent the revenues in each of those years exceed certain targets. We received a promissory note for the amount of $180,000 and the earn-out payments, if any, will be made in quarterly installments following each fiscal year, bearing an annual interest rate of 5%. We agreed to postpone the payments due January 2004 and April 2004 until April 2008. The note has a balance of $153,000 and $162,000 at June 30, 2004 and March 31, 2004, respectively, of which $36,000 is current.

NOTE 4 - INVENTORIES

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

NOTE 5 - GOODWILL AND OTHER INTANGIBLES

At June 30, 2004 and March 31, 2004, goodwill and other intangibles consist of the following (in thousands):

	JUNE 30, 2004			MARCH 31,	
	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumula amortiza
Goodwill	$ 37,147	$ (6,493)	$ 30,654	$ 26,962	$ (6,4
Other intangibles:					
Amortized intangible assets					
Software technology	35,874	(14,164)	21,710	34,257	(13,3
Non-compete agreements	7,015	(6,543)	471	6,986	(6,3
Customer relationships	2,564	(89)	2,475	904	(
Unamortized intangible					
Trademark	1,085	--	1,085	285	
	46,537	(20,796)	25,741	42,432	(19,6
Less: current portion of non- compete agreements	471	--	471	668	
Long-term portion of other intangibles	46,066	(20,796)	25,270	41,764	(19,6
Long-term portion of goodwill and other intangibles	$ 83,213	$(27,289)	$ 55,924	$ 68,726	$(26,1

During the quarter ended June 30, 2004, we recorded approximately $10.2 million goodwill, $1.4 million software, $1.7 million customer relationships, $800,000 trademark and $29,000 non-compete agreement in connection with the acquisition of RTI. Software and customer relationships are amortized on a straight-line basis over their useful lives, seven and ten years, respectively. The goodwill and the trademark have indefinite useful lives and are not subject to amortization. The non-compete agreement will be amortized its remaining useful life of seven months.

We found no indication of impairment of the goodwill during the quarter ended June 30, 2004. Accordingly, absent of future indications of impairment, the next annual impairment test will be performed in fourth quarter of fiscal 2005.

We also evaluated the remaining useful lives of our intangible assets in the quarter ended June 30, 2003 and during the fourth quarter 2004. No adjustments have been made to the useful lives of our intangible assets.

Amortization expense from continuing operations for quarters ended June 30, 2004 and 2003 was $1.2 million and $812,000, respectively. We expect amortization expense for the next five years to be as follows (in thousands):

Year Ending March 31:	
2006	$ 4,981
2007	$ 4,340
2008	$ 4,162
2009	$ 4,138
2010	$ 3,211

NOTE 6 - DEBTS

NOTES PAYABLE TO RELATED PARTIES

In connection with the RTI acquisition, we issued promissory notes to RTI's two principal officers totaling $2,585,000 , payable in installments totaling $20,000 per month for the period of June 1, 2004 through May 1, 2005 and increasing to $200,000 per month from June 1, 2005 through June 1, 2006, at 6.5% interest per annum. The notes have a balance of $2,585,000 as of June 30, 2004, of which $451,000 is current. There were no notes payable due to related parties at March 31, 2004.

NOTES PAYABLE

In connection with the acquisition of RTI, we issued a promissory note to Intuit and assumed RTI's obligations under certain promissory notes originally issued by RTI. Notes payable consisted of the following (in thousands):

	June 30, 2004	March 31, 2004
Notes payable, secured by common stock of our new subsidiary, IP Retail Technologies International, Inc. ("IP RTI"), payable in monthly installments totaling $197,000 including interest at 6.5% per annum beginning June 1, 2004 through May 31, 2005	$2,289	$ --
Note payable, to Intuit, secured by IP RTI's common stock, payable in monthly installments of $4,000 for the period from June 1, 2004 through December 1, 2004 and $30,000 from January 1, 2005 through June 1, 2006, including interest at 6.5% per annum	533	--
Total	2,822	--
Less: accrued interest	3	--
	$2,819	$ --
Total notes payable (including accrued interest)	$2,822	$ --
Less: current maturities	2,470	--
Long-term portion of notes payable	$ 352	$ --

CONVERTIBLE DEBENTURES

In March 2004, we entered into a Securities Purchase Agreement for the sale of convertible debentures (the "March '04 Debentures") to two investors (the "Purchasers") for the total gross proceeds of $3.0 million. The debentures mature in May 2006, bear an interest rate of 9% per annum and provide for interest only payments on a quarterly basis, payable, at our option, in cash or shares of our common stock. The debentures are convertible into shares of our common stock at a conversion price of $1.32 per share, subject to adjustment if we offer or sell any securities for an effective per share price that is less than 87% of the then current conversion price, negatively restate any of our financial statement or make any public disclosure that negatively revises or supplements any prior disclosure regarding a material transaction consummated prior to March 15, 2004 or trigger other customary anti-dilution protections. If certain conditions are met, we have the option to redeem the March '04 Debentures at 110% of their face value, plus accrued but unpaid interest.

We must redeem the debentures at the initial monthly amount of $233,333 commencing on February 1, 2005. If the daily volume weighted average price of our common stock on the American Stock Exchange exceeds $1.15 by more than 200% for 15 consecutive trading days, we have the option to cause the Purchasers to convert the then outstanding principal amount of March '04 debentures into our common stock at the conversion price then in effect.

We also issued the Purchasers two warrants as follows: (1) Series A Warrants to purchase up to an aggregate of 1,043,479 shares of our common stock at an exercise price of $1.15 per share with a five-year term, exercisable at anytime after September 16, 2004, subject to adjustment if we offer or sell any securities for an effective per share price that is less than the then current exercise price, negatively restate any of our financial statements or make any public disclosure that negatively revises or supplements any prior disclosure regarding a material transaction consummated prior to March 15, 2004 or trigger other customary anti-dilution protections and (2) Series B Warrants to purchase up to 8,500,000 shares of our common stock with an exercise price of $5 per share, these warrants are immediately exercisable and expire on the earlier of the six-month anniversary of the effective date of the registration statement

that is required to be filed or 18 months from March 15, 2004, subject to adjustment upon the issuance or sale of securities in a public offering for an effective per share price that is less than the then-current exercise price and upon the trigger of other customary anti-dilution protections.

For a period of one hundred eighty (180) days following the date the registration statement is declared effective ("Effective Date"), each Purchaser has the right, in its sole discretion, to elect to purchase such Purchaser's pro rata portion of additional Debentures and Series A Warrants for an aggregate purchase price of up to $2,000,000 in a second closing (the "Second Closing"). The terms of the Second Closing shall be identical to the terms set forth in the Purchase Agreement and related documents, except that, the conversion price for the additional debentures and the exercise price for the additional warrants shall be equal to 115% of the average of the daily volume weighted average price of our common stock on the American Stock Exchange for the ten (10) days preceding the Second Closing ("Second Closing Price"). The Series A Warrant coverage for the Second Closing shall be 40% of each Purchaser's subscription amount divided by the Second Closing Price.

For a period of one hundred eighty (180) days following the Effective Date, if the daily volume weighted average price of our common stock for twenty (20) consecutive trading days exceeds $2.00, subject to adjustment, we may, on one occasion, in our sole determination, require the Purchasers to purchase each such Purchaser's pro rata portion of additional debentures and Series A Warrants for an aggregate purchase price of up to $2,000,000. Any such additional investment shall be under the terms set forth in the Purchase Agreement and related documents, except that, the conversion price for the additional Debentures and the exercise price for the additional warrants shall be equal to the then current conversion price and warrant exercise price for the 9% Debentures and warrants purchased on March 15, 2004.

For a period of six (6) months from the Effective Date, the Purchasers have a right of first refusal to participate in certain future financings by us involving the sale of our common stock or equivalent securities. The Purchasers were also granted registration rights under a Registration Rights Agreement dated March 15, 2004, pursuant to which we were required to file a registration statement respecting the common stock issuable upon the conversion of the debentures and exercise of the warrants within thirty (30) days after March 15, 2004, and to use best efforts to have the registration statement declared effective at the earliest date. If a registration statement was not filed within such thirty (30) day period or declared effective within such ninety (90) day period (or within one hundred twenty (120) days in the event of a full review by the SEC), we became obligated to pay liquidated damages to the Purchasers equal to 2% per month of each such Purchasers' subscription amount under the Purchase Agreement plus the value of any warrants issued pursuant to the Purchase Agreement then held by such Purchaser. The registration statement has not been filed as of the date of this report, June 30, 2004; therefore, liquidated damages in the amounts of $81,000 and $120,000 have been recorded in the quarters ended June 30, 2004 and March 31, 2004, respectively. Included in accrued expenses at June 30, 2004 and March 31, 2004 is $201,000 and $120,000, respectively, related to accrued liquidated damages.

In accordance with generally accepted accounting principles, we will compute the difference between the conversion price of $1.32 and our stock price of the date of issuance of the debentures and record the relative portion as an interest expense in the second quarter of fiscal 2005.

We will also allocate the proceeds received from convertible debt with detachable warrants using the relative fair market value of the individual elements at the time of issuance and amortize the change over the life of the note.

The balance of convertible debentures is $2,399,000 and $2,306,000 at June 30, 2004 and March 31, 2004, of which $1,189,000 and $146,000, respectively, are current.

Subsequent to June 30, 2004, we sold and issued a secured convertible term note to an unrelated investor for $7.0 million (the "Laurus Transaction")(see Note 15). Part of the proceeds from this debt financing were used to pay off $1.8 million due to one of the two investors. We issued 600,000 shares of our common stock to the remaining investor in order to pay $112,000 in liquidated damages and secure such investor's consent to the Laurus Transaction. We also amended the remaining investor's debenture in exchange for the remaining investors consent for the Laurus Transaction. Pursuant to Amendment No. 1 to the 9% Debenture Due May 15, 2006 Issued to Midsummer Investments, Ltd. And Waiver, the terms of the remaining debenture were amended as follows:

- Prepayment penalty is eliminated,
- Conversion price is reduced to $0.56 per share,
- Interest payments are due on a monthly basis, and

- The commencement of monthly redemption payments was accelerated to September 1, 2004 and the payments due were revised such that payments of $50,000 are due monthly from September 1, 2004 and the monthly payments increase to $62,500 starting February 1, 2005. Monthly redemption payments are payable in cash or registered shares at a 90% of the average of the 20 days volume weighted average price

In addition, the exercise price of the Series A Warrants held by both investors was reduced to $0.56 per share.

NOTE 7 - CAPITAL LEASES

In connection with the acquisition of Page Digital, we assumed capital lease obligations on certain office equipment and fixtures leases expiring from November 2004 through November 2006. The capital leases bear interest at rates between 7% and 11% per annum and monthly lease payments range between approximately $1,000 to $8,000.

In connection with the acquisition of RTI, we assumed a capital lease obligation for certain office equipment, expiring in February 2006. The capital lease bears interest at a rate of approximately 11% per annum and monthly lease payments of approximately $600.

The balance of capital leases is $228,000 and $258,000 at June 30, 2004 and March 31, 2004, respectively, of which the current portion is $176,000 and $169,000, respectively.

NOTE 8 - LINE OF CREDIT

In connection with the acquisition of RTI, we assumed obligation under a line of credit with a balance of $182,000 at June 30, 2004. Subsequent to June 30, 2004, the line of credit was paid off in full.

NOTE 9 - PREFERRED STOCK

The Series A Convertible Preferred Stock (the "Series A Preferred") has a stated value of $100 per share and is redeemed at our option any time prior to the maturity date of December 31, 2006 for 107% of the stated value and accrued and unpaid dividends. The preferred shares are entitled to cumulative dividends of 7.2% per annum, payable semi-annually, and have cumulative dividends of $2.3 million, or $16.22 per share, and $2.0 million, or $14.19 per share, at June 30, 2004 and March 31, 2004, respectively. The holders may convert each share of Series A Preferred at any time into the number of shares of our common stock determined by dividing the stated value plus all accrued and unpaid dividends, by a conversion price initially equal to $0.80. The conversion price increases at an annual rate of 3.5% calculated on a semi-annual basis. The conversion price as of July 1, 2004 is $0.86. The Series A Preferred is entitled upon liquidation to an amount equal to its stated value plus accrued and unpaid dividends in preference to any distributions to common stockholders. The Series A Preferred has no voting rights prior to conversion into common stock, except with respect to proposed impairments of the Series A Preferred rights and preferences, or as provided by law. We have the right of first refusal to purchase all but not less than all of any shares of Series A Preferred or shares of common stock received on conversion which the holder may propose to sell to a third party, upon the same price and terms as the proposed sale to a third party.

On November 14, 2003, the Sage Group plc (the "Sage Group") acquired substantially all the assets of Softline, including Softline's 141,000 shares of our Series A Preferred, 8,923,915 shares of our common stock and options to purchase 71,812 shares of our common stock. On September 17, 2003, 500,000 shares of common stock constituting accrued dividends on our Series A Preferred were issued to various financial institutions.

The Series B Convertible Preferred Stock (the "Series B Preferred") has no stated value and is entitled to cumulative dividends at the rate of $0.136 per share per annum, payable annually commencing on January 1, 2005. Upon our filing of an amendment to our Certificate of Incorporation ("Certificate") increasing the number of shares of common stock, we are authorized to issue, to a sufficient number of shares to permit full conversion of all Series B Preferred, each share of Series B Preferred will automatically convert into the number of shares of our common stock determined by dividing the conversion value of $3 per share by the conversion price of $1 per share. The Series B Preferred is entitled upon liquidation to $2.27 per share plus unpaid dividends in preference to any distributions to common stockholders. Each holder of Series B Preferred is entitled to the number of votes equal to the number of shares of common stock into which such shares of Series B Preferred are convertible. No dividends have been declared as of June 30, 2004.

NOTE 10 - EQUITY TRANSACTIONS

During the quarter ended June 30, 2004, we have the following equity transactions:

- Issued 1,546,733 shares of common stock, with a fair value of $1,169,000, to Intuit in connection with the acquisition of RTI.
- Issued an aggregate of 2,517,233 shares of Series B Convertible Preferred Stock, with a fair value of $5,709,000 to Michael Tomczak, our director, COO and President, and Jeffrey Boone, our CTO, in connection with acquisition of RTI.
- Granted options to purchase 1,572,364 and 1,772,364 shares of common stock at an exercise price of $0.77per share to Messrs. Boone and Tomczak, respectively, in accordance with their employment agreements.
- Issued warrants to purchase an aggregate of 20,000 shares of common stock at exercise prices of $0.75 and $1.05 per share to a consulting firm for investor relation services rendered for a fair value of $3,000.
- In connection with the acquisition of RTI, we assumed RTI's incentive stock option plan and converted all outstanding options at June 1, 2004 into our options at a conversion rate of 1.5562. As a result, RTI's option holders have options to purchase an aggregate of 1,366,911 shares of our common stock at an exercise price of $0.02.
- Granted options to purchase an aggregate of 67,500 shares of common stock at exercise prices ranging from $0.62 to $1.17 to employees hired during the quarter ended June 30, 2004.
- Granted options to purchase an aggregate of 20,000 shares of common stock at an exercise price of $0.96 to certain outside directors of the board as directors' fees during June 30, 2004.

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

The following table presents pro forma disclosures required by SFAS 123 and SFAS 148 of net income (loss) and basic and diluted earnings (loss) per share as if stock-based employee compensation had been recognized during the quarter ended June 30, 2004 and 2003. The compensation expense for these periods has been determined under the fair value method using the Black-Scholes pricing model, and assumes graded vesting.

	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003
	(in thousands, except per share amounts) (unaudited)	
Net income (loss) as reported	$(3,793)	$ 285
Less: stock-based compensation expense, net of related tax effects	(502)	(540)
Pro forma net loss	$(4,295)	$ (255)
Basic earnings (loss) per share - as reported	$ (0.07)	$ 0.01
Diluted earnings (loss) per share - as reported	$ (0.07)	$ --
Basic earnings (loss) per share - pro forma	$ (0.08)	$ --
Diluted earnings (loss) per share - pro forma	$ (0.08)	$ --

NOTE 11 - EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per common share are calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per common shares ("diluted EPS") reflect the potential dilutive effect, determined by the treasury method, of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. Earnings per share for the three months ended June 30, 2004 and 2003 is calculated as follows (in thousands):

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	Three Months ended June 30, 2004	Three Months ended June 30, 2003
Net income (loss) available to common stockholders	$ (4,079)	$ 13
Basic weighted average shares	52,938	31,615
Dilutive common stock equivalent	--	33,128
Diluted weighted average shares	52,938	64,743
Basic and diluted earnings (loss) per share available to common Stockholders	$ (0.08)	$ --

The following potential common shares have been excluded from the computation of diluted net loss per share for the three months ended June 30, 2004, because the effect would have been anti-dilutive:

	Three Months Ended June 30, 2004
Outstanding options under our stock option plans	6,074,662

Outstanding options granted outside our stock option plans	8,314,774
Warrants issued in conjunction with private placements and Financing	13,348,760
Warrants issued for services rendered	1,231,898
Series A Convertible Preferred Stock	19,115,405
Series B Convertible Preferred Stock	7,551,699
Convertible debentures	2,272,727
Total	57,909,925

NOTE 12 - BUSINESS SEGMENTS AND GEOGRAPHIC DATA

We are a leading provider of software solutions and services to the retail industry. Our solutions and services have been developed specifically to meet the needs of the retail industry. We provide high value innovative solutions that help retailers understand, create, manage and fulfill consumer demand. Our solutions help retailers improve the efficiency and effectiveness of their operations and build stronger, longer lasting relationships with their customers. We acquired Page Digital, which offers multi-channel retail solutions, on January 31, 2004 and RTI, which offers point-of-sale and inventory management solutions, on June 1, 2004.

We currently operate in the Americas and Europe. On June 1, 2004, we began to operate in Asia. The geographic distribution of our net sales and long-lived assets are as follows (in thousands):

	Three Months ended June 30, 2004	Three Months ended June 30, 2003
Net sales:		
Americas	$4,232	$4,925
Europe	1,012	541
Asia	39	--
Total net sales	$5,283	$5,466

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	June 30, 2004	March 31, 2004
Long-lived assets:		
Americas	$57,809	$44,229
Europe	25	30
Total long-lived assets	$57,832	$44,259

In the three months ended June 30, 2004, net sales to one major customer represents 12% of total net sales and accounts receivable balance at June 30, 2004 from this customer represents 8% of total accounts receivable. In the three months ended June 30, 2003, net sales to another major customer represents 24% of total net sales and its accounts receivable balance represents 13% of total accounts receivable.

We structure our operations into three business units that have separate reporting infrastructures. Each unit is evaluated primarily based on total net sales and operation income excluding depreciation and amortization. Identifiable assets are also managed by business units. Our three business units are as follows:

- RETAIL MANAGEMENT SOLUTIONS ("RETAIL MANAGEMENT") - offers suite of applications, which builds on our long history in retail software design and development. We provide our customers with an extremely reliable, widely deployed, comprehensive and fully integrated retail management solutions. Retail Management includes merchandise management that optimizes workflow and provides the highest level of data integrity. This module supports all operational areas of the supply chain including planning, open-to-buy purchase order management, forecasting, warehouse and store receiving distribution, transfers, price management, performance analysis and physical inventory. In addition, Retail Management includes a comprehensive set of tools for analysis and planning, replenishment and forecasting, event and promotion management, warehouse, ticketing, financials and sales audit. Through collaborations with strategic partners, Retail Management offers tools for loss prevention, communication with stores and vendors, integration needs, purchase and allocation decisions, analysis of weather impact, control and management of business processes, consumer research, tracking consumer shopping patterns, forecasting and replenishment, and analyzing store people productivity.

- STORE SOLUTIONS - offers suites of applications built on our long history of providing multi-platform, client server in-store solutions. We market these sets of applications under the name "OnePointe,"(TM) and "Retail Pro"(R). With more than 15 years of development, OnePointe(TM) is a solution with a high degree of fit and value out of the box. Additionally, the software was designed for easy customization, enabling our development team to quickly develop solutions to meet retailers' specific point-of-sale ("POS") and in-store processor (server) requirements. Retail Pro(R) is a leading point-of-sale and inventory management software used by specialty retailers worldwide.

- MULTI-CHANNEL RETAIL SOLUTIONS ("MULTI-CHANNEL RETAIL") - Page Digital designs its application to specifically address direct commerce business processes, which primarily relate to interactions with the end-user. Having developed its software out of necessity to manage its own former direct commerce operation, Page Digital has been extremely attentive to functionality, usability and scalability. Its software components include applications for customer relations management, order management, call centers, fulfillment, data mining and financial management. Specific activities like partial ship orders, payments with multiple tenders, back order notification, returns processing and continuum marketing, represent just a few of the more than 1,000 parameterized direct commerce activities that have been built into its "Synaro"(R)applications. Page Digital makes these components and its interfacing technology available to customers, systems integrators and independent software developers who may modify them to meet their specific needs. This growing base of inherited functionality continues to improve the market relevance of its products.

A summary of the net sales and operating income (loss), excluding depreciation and amortization, and identifiable assets attributable to each of these business units are as follows (in thousands):

	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003
Net sales:		
Retail Management	$ 2,965	$ 5,064
Store Solutions	1,163	402
Multi-channel retail	1,155	--
Total net sales	$ 5,283	$ 5,466
Operating income (loss):		
Retail Management	$ (864)	$ 1,596
Store Solutions	(358)	--
Multi-channel retail	(514)	
Other (see below)	(1,884)	(1,585)
Total operating income (loss)	$ (3,620)	$ 11
Other operating loss:		
Amortization of intangible assets	$ (1,229)	$ (812)
Depreciation	(122)	(56)
Administrative costs and other non-allocated Expenses	(533)	(717)
Total other operating loss	$ (1,884)	$ (1,585)
Identifiable assets:		
Retail Management	$ 36,823	$ 34,151
Store Solutions	19,795	4,132
Multi-channel retail	9,691	--
Total identifiable assets	$ 66,309	$ 38,283

Operating income (loss) in Retail Management, Store Solutions and Multi-channel Retail includes direct expenses for software licenses, maintenance services, programming and consulting services, sales and marketing expenses, product development expenses, and direct general, administrative and depreciation expenses. The "Other" caption includes depreciation, amortization of intangible assets, non-allocated costs and other expenses that are not directly identified with a particular business unit and which we do not consider in evaluating the operating income of the business unit.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

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 the former management, and actively pursued the collection of receivables. If the sale proceeds plus collections on receivables had been insufficient to discharge the indebtedness to National Australia Bank, we might have been called upon to pay the deficiency under our guarantee to the bank. At March 31, 2004 we accrued $187,000 as the maximum amount of our potential exposure. In June 2004, we settled this obligation by paying $69,000 to the bank. As a result, the $118,000 accrual in excess of settlement amount was written off to the consolidated statement of operations as other income in the quarter ended June 30, 2004.

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

On November 22, 2002, we and Sabica Ventures, Inc. ("Sabica", our wholly-owned subsidiary), were sued in a matter entitled Stemley vs. Shea Homes, Inc. et. al., in San Diego Superior Court Case No. GIC 787680, as Pacific Cabinets. The case dealt with alleged construction defects. Pacific Cabinets was dismissed from the litigation for a waiver of fees and costs. At this time, neither we nor Pacific Cabinets are parties to this action. Because no significant discovery was done, it is not possible at this time to provide an evaluation of potential exposure, though it appears highly unlikely that Pacific Cabinets or we would be brought back into this suit.

On April 2, 2004, we filed a federal court action in the Southern District of California against 5R Online, Inc., John Frabasile, Randy Pagnotta, our former officers, and Terry Buckley for fraud, breach of fiduciary duty, breach of contract, and unfair business practice arising from their evaluation of, recommendation for, and ultimately engagement in a development arrangement between IPI and 5R. Pursuant to the development agreement entered into in June 2003 and upon reliance of the representations of the individual defendants that product development was progressing, we paid and expensed $640,000 in development payments in the fiscal year ended March 31, 2004 but received no product. The amount in controversy is the $640,000 development payments as well as a claim for punitive damages. Defendants Pagnotta and Buckley have counterclaimed against defendant Frabasile, who has moved to dismiss in light of a parallel action pending in Canada. Frabasile's and 5R Online, Inc.'s response to IPI's complaint was due on August 9, 2004. Settlement negotiations are currently underway.

RTI was named as a cross-defendant in an action by General Electric Capital Corporation as plaintiff ("GE Capital"), against San Francisco City Stores LLC, dated May 10, 2004. The cross-complaint filed on behalf of San Francisco City Stores names GE Capital, Big Hairy Dog Information Systems, and RTI as cross-defendants, claiming breach of warranty and unfair competition (against RTI), and makes various other claims against GE Capital and Big Hairy Dog Information Systems. The claim is for approximately $83,000. However, we believe the claims made against RTI are without merit and we intend to vigorously defend them.

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.

NOTE 14 - RELATED-PARTY TRANSACTIONS

Included in other receivables at June 30, 2004 and March 31, 2004 are amounts due from our officers and employees in the amount of $14,000 and $37,000, respectively.

In connection with the Page Digital acquisition, we assumed a three-party lease agreement for our Colorado offices between CAH Investments, LLC ("CAH"), wholly owned by the spouse of our executive officer, Larry Page, and Southfield Crestone, LLC, whereby Page Digital agreed to lease offices for ten years expiring on December 31, 2013. CAH and Southfield Crestone LLC are equal owners of the leased property. Rent expense related to this lease is $200,000 for the three months ended June 30, 2004. Security deposit of $170,000 relating to this lease is included in other long-term assets at June 30, 2004 and March 31, 2004.

We retain our former CEO and Chairman of the Board, Barry Schechter, to provide consulting services starting August 2003. For the quarters ended June 30, 2004 and 2003, the expense for this service was $111,000 and $0, respectively.

We retained an entity owned by an immediate family member of our former CEO and Chairman, Harvey Braun, to provide recruiting and marketing services. For the quarters ended June 30, 2004 and 2003, the expense for this service was $0 and $10,000, respectively.

In May 2004, Mr. Braun resigned from his position as Chief Executive Officer. We are currently negotiating a separation agreement as of July 31, 2004. We reserved an estimated severance payment of $163,000 in the three months ended June 30, 2004 and included this in accrued expenses at June 30, 2004.

NOTE 15 - SUBSEQUENT EVENTS

Pursuant to a Securities Purchase Agreement dated July 12, 2004, we sold and issued to an investor a secured convertible term note ("Note") for a gross proceed of $7.0 million. In addition, we issued to the investor a warrant to purchase up to 3,750,000 shares of our common stock at a price of $0.71 per share ("Warrant"). The investor is aware that we have exceeded our authorized share capital limit of 100,000,000 shares and that we intend to increase our authorized share capital limit to 250,000,000. We submitted a proposal to amend our Certificate of Incorporation to increase our authorized shares of common stock to 250,000,000 to our stockholders at our annual meeting on August 11, 2004. We did not receive sufficient votes to authorize the increase at that time and adjourned the meeting until August 27, 2004 to provide us additional time to secure sufficient votes to effect the increase. Our obligations under the Note are secured by all of our assets. All our wholly owned subsidiaries guaranteed our obligations under the Note. We also pledged all of our interests in the outstanding stock of our subsidiaries as security for our obligations under the Note.

The Note matures on September 1, 2004 (Maturity Date"); provided however, the maturity of the Note will be automatically extended to July 12, 2007 upon the stockholders approving an amendment to our Certificate increasing the authorized common stock to 250 million shares and us filing an amendment to our Certificate to effect the increase with the Secretary of State of Delaware by August 31, 2004. We are required to make monthly payments in the amount of $212,000 plus any unpaid interest commencing on August 1, 2004. In July 2004, the investor agreed to defer the August 1, 2004 payment until Maturity Date.

The Note accrues interest at a rate per annum (the "Interest Rate") equal to the "prime rate" (4.25% as of July 31, 2004) published in The Wall Street Journal from time to time, plus two percent. Interest under the Note is payable monthly in arrears commencing on August 1, 2004. The Interest Rate is calculated on the last day of each month (the "Determination Date") and is subject to adjustment as follows: (1) if the shares issuable upon conversion of the Note or exercise of the Warrant have been registered with the U.S. Securities and Exchange Commission ("SEC") under the Securities Act of 1933, as amended (the "Securities Act") and the market price of our common stock for the five trading days immediately preceding the Determination Date exceeds the then applicable conversion price for the Note by at least 25%, then the Interest Rate for the succeeding calendar month shall be reduced by 2% for each incremental 25% increase over the then applicable conversion price or (2) if all of the conditions set forth in subparagraph (1) have been satisfied, except that the shares issuable upon conversion of the Note or exercise of Warrant have not been registered, then the Interest Rate for the succeeding calendar month shall be reduced by 1% for each incremental 25% increase over the then applicable conversion price. The initial conversion price under the Note is $0.56 per share, subject to adjustment upon our issuance of securities at a price per share below the fixed conversion price, a stock split or combination, declaration of a dividend on our common stock or reclassification of our common stock. We have the option to redeem the Note by paying the investor 125% of the principal amount due under the Note together with all accrued and unpaid interest.

The Warrant is immediately exercisable and has a seven year term. We have the right to require exercise of the Warrant in whole or in part if: (1) all of our obligations under the Note have been irrevocably paid in full, (2) the common stock underlying the Warrant has been registered on a registration statement declared effective by the SEC, and such registration statement remains effective, and (3) the average closing price of our common stock for the ten (10) trading days immediately prior to the proposed date of the mandatory exercise of the Warrant is greater than three hundred percent (300%) of the then applicable exercise price.

We are obligated to file a registration statement on Form S-3 (or if Form S-3 is not available another appropriate form) (the "Registration Statement") registering the shares of our common stock issuable upon conversion of the Note or exercise of the Warrant (the "Underlying Shares") pursuant to the Registration Rights Agreement between us and the investor (the "Registration Rights Agreement"). We are required to file the Registration Statement by September 10, 2004 (the "Filing Date") and have the Registration Statement declared effective by the SEC no later than 90 days after it is filed (the "Effectiveness Date"). If the Registration Statement is not filed by the Filing Date, declared effective by the Effectiveness Date, ceases to be effective for

more than 30 days in any calendar year or 10 consecutive calendar days or if our common stock is not listed or traded or is suspended from trading for three consecutive trading days, we are required to pay the investor liquidated damages equal to 2% of original principal balance on the Note for each 30 day period (with partial periods prorated) that such event continues. We are obligated to keep the Registration Statement effective until the earlier of when (1) all of the Underlying Shares have been sold or (2) such time as all of the Underlying Shares can be sold without registration or volume restrictions under Rule 144(k) of the Securities Act (the "Effectiveness Period"). If there is not an effective Registration Statement covering the Underlying Shares at any time during the Effectiveness Period and we propose to file a registration statement for our own account or the account of others, we will be obligated to include the Underlying Shares on that registration statement.

In accordance with generally accepted accounting principles, the difference between the conversion price of $0.56 and our stock price on the date of issuance of the Note was recorded as interest expense. It was recognized in the statement of operations during the period from the issuance of the debt to the time at which the debt first became convertible. We recognized this interest expense of $281,000 in July 2004.

We allocated the proceeds received from the Note with a detachable warrant using the relative fair market value of the individual elements at the time of issuance. The amount allocated to the warrant was $531,000 and is being amortized as interest expense over the life of the Note.

Effective July 1, 2004, Robert P. Wilkie and Ivan M. Epstein resigned from our board of directors. Messrs. Wilke and Epstein were both independent directors and we are currently looking for two independent individuals to fill the vacancies resulting from their resignations.

Effective as of July 14, 2004, Steven Beck resigned from our board of directors and Donald Radcliffe, who previously served as our director from May 1998 to October 2003, was appointed to replace Mr. Beck. Effective July 29, 2004, Mr. Beck resigned from his position as executive officer. We agreed to pay Mr. Beck $325,000 with $109,000 payable on July 29, 2004 and the balance payable in four monthly installments of $54,000 commencing on August 15, 2004.

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

FORWARD-LOOKING STATEMENTS

THIS REPORT CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933 AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934 AND THE COMPANY INTENDS THAT CERTAIN MATTERS DISCUSSED IN THIS REPORT ARE "FORWARD-LOOKING STATEMENTS" INTENDED TO QUALIFY FOR THE SAFE HARBOR FROM LIABILITY ESTABLISHED BY THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. THESE FORWARD-LOOKING STATEMENTS CAN GENERALLY BE IDENTIFIED BY THE CONTEXT OF THE STATEMENT WHICH MAY INCLUDE WORDS SUCH AS THE COMPANY ("IPI," "WE" OR "US") "BELIEVES," "ANTICIPATES," "EXPECTS," "FORECASTS," "ESTIMATES" OR OTHER WORDS SIMILAR MEANING AND CONTEXT. SIMILARLY, STATEMENTS THAT DESCRIBE FUTURE PLANS, OBJECTIVES, OUTLOOKS, TARGETS, MODELS, OR GOALS ARE ALSO DEEMED FORWARD-LOOKING STATEMENTS. THESE FORWARD-LOOKING STATEMENTS ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE FORECASTED OR ANTICIPATED AS OF THE DATE OF THIS REPORT. CERTAIN OF SUCH RISKS AND UNCERTAINTIES ARE DESCRIBED IN CLOSE PROXIMITY TO SUCH STATEMENTS AND ELSEWHERE IN THIS REPORT INCLUDING ITEM 2, "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS." STOCKHOLDERS, POTENTIAL INVESTORS AND OTHER READERS ARE URGED TO CONSIDER THESE FACTORS IN EVALUATING THE FORWARD-LOOKING STATEMENTS AND ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON SUCH FORWARD-LOOKING STATEMENTS OR CONSTRUE SUCH STATEMENTS TO BE A

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

THE FOLLOWING DISCUSSION SHOULD BE READ IN CONJUNCTION WITH OUR CONSOLIDATED FINANCIAL STATEMENTS AND THE RELATED NOTES AND OTHER FINANCIAL INFORMATION APPEARING ELSEWHERE IN THIS FORM 10-Q. READERS ARE ALSO URGED TO CAREFULLY REVIEW AND CONSIDER THE VARIOUS DISCLOSURES MADE BY US WHICH ATTEMPT TO ADVISE INTERESTED PARTIES OF THE FACTORS WHICH AFFECT OUR BUSINESS, INCLUDING WITHOUT LIMITATION THE DISCLOSURES MADE UNDER THE CAPTION "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS," AND THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES INCLUDED IN OUR ANNUAL REPORT FILED ON FORM 10-K FOR THE YEAR ENDED MARCH 31, 2004, AND THE DISCLOSURES UNDER THE HEADING "RISK FACTORS" IN THE FORM 10-K, AS WELL AS OTHER REPORTS AND FILINGS MADE WITH THE SECURITIES AND EXCHANGE COMMISSION.

OVERVIEW

We are a provider of software solutions and services to the retail industry. We provide solutions that help retailers understand, create, manage and fulfill consumer demand. We derive the majority of our revenues from the sale of application software licenses and the provision of related professional and support services. Application software license fees are dependent upon the sales volume of our customers, the number of users of the application(s), and/or the number of locations in which the customer plans to install and utilize the application(s). As the customer grows in sales volume, adds additional users and/or adds additional locations, we charge additional license fees. We typically charge for support, maintenance and software updates on an annual basis pursuant to renewable maintenance contracts. We typically charge for professional services including consulting, implementation and project management services on an hourly basis.

In recent periods, we have sustained a relatively flat period in terms of revenues and have suffered operating and net losses, largely attributable to general economic and competitive conditions. In this regard, we have taken a number of steps designed to improve our operations, including:

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

We believe that these actions will position us to achieve revenue growth and profitability.

RECENT DEVELOPMENTS

- In June 2004, we completed the acquisition of RTI. See "Acquisition of RTI" below.

- Upon completion of RTI's acquisition, Michael Tomczak, RTI's CEO and President, was appointed our President, Chief Operating Officer and director and Jeffrey Boone, RTI's Chief Technology Officer, was appointed our CTO. Mr. Tomczak replaced Steve Beck, who was serving as our president and Mr. Page, who was serving as our COO. Mr. Boone replaced Mr. Page as our CTO. Mr. Beck served as our President from April 2003 to June 2004 and our COO from April 2003 to February 2004. Mr. Page served as our CTO from January 2004 to June 2004 and as our COO from February 2004 to June 2004.

- Harvey Braun resigned from the board of directors and the position of CEO in May 2004.

- Mr. Beck resigned from the board of directors and the position of executive officer in July 2004. Donald Radcliffe, who previously served as our director from May 1998 to October 2003, was appointed to replace Mr. Beck.

- In July, we sold and issued a secured convertible note for a gross proceed of $7.0 million. See "Indebtedness - Laurus" below.

ACQUISITION OF RTI

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

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

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

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

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

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

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

RECENT ACCOUNTING PRONOUNCEMENTS

None.

QUARTER ENDED JUNE 30, 2004 COMPARED TO QUARTER ENDED JUNE 30, 2003

NET SALES

Net sales decreased by $0.2 million, or 4%, to $5.3 million in the quarter ended June 30, 2004 from $5.5 million in the quarter ended June 30, 2003. The decrease is due to a $1.3 million decrease in modification and services sales on the Toys "R" Us, Inc. ("Toys") contract, which was completed in the fiscal year ended March 31, 2004, a $0.4 million decrease in software license revenue and $0.6 million decrease in services revenue; offset in part by $1.2 million in revenues from Page Digital, $0.7 million in revenues from RTI and $0.2 increase in hardware sales.

COST OF SALES/GROSS PROFIT

Cost of sales increased by $0.1 million, or 6%, to $1.8 million in the quarter ended June 30, 2004 from $1.7 million in the quarter ended June 30, 2003. Gross profit as a percentage of net sales decreased to 65% in the quarter ended June 30, 2004 from 70% in the prior comparative period. The increase in cost of sales and the decrease in gross profit as a percentage of net sales were due to increase in hardware and support services revenues which have lower margins and decrease in software license revenues, which has higher margins.

APPLICATION DEVELOPMENT EXPENSE

Application development expense increased by $1.1 million, or 1100%, to $1.2 million in the quarter ended June 30, 2004 from $0.1 million in the quarter ended June 30, 2003. The increase is primarily due to $0.6 million decrease in capitalization of development costs for new products and our continuing efforts in enhancing and improving our existing products. We've made significant investments in our new products in fiscal 2004 and the first quarter of fiscal 2005. Most of these new products were completed in the quarter ended June 30, 2004.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased by $0.5 million, or 56%, to $1.4 million in the quarter ended June 30, 2004 from $0.9 million in the quarter ended June 30, 2003. The increase is due to additions of fixed assets and intangible assets from acquisitions of Page Digital in the fourth quarter of fiscal 2004 and RTI in the first quarter of fiscal 2005.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased by $1.7 million, or 61%, to $4.5 million in the quarter ended June 30, 2004 from $2.8 million in the quarter ended June 30, 2003. The increase is mainly due to the additions of selling, general and administrative expenses of $0.5 million from the acquisition of Page Digital and $0.6 million from the acquisition of RTI. In addition, the increase is due to increasing our efforts and spending in marketing and sales activities and professional fees related to the acquisition of RTI and financing activities.

INCOME (LOSS) FROM OPERATIONS

Loss from operations which included depreciation and amortization expense, was $3.6 million for the quarter ended June 30, 2004, compared to an income from operations of $0.01 million for the quarter ended June 30, 2003.

INTEREST EXPENSE

Interest expense was $0.3 million in the quarters ended June 30, 2004 and 2003.

PROVISION FOR INCOME TAXES

No provision was made at June 30, 2004 due to the availability of tax losses. Provision for income taxes for the quarter ended June 30, 2003 produced an income of $0.6 million. The income tax refund of $0.6 million at June 30, 2003 resulted from the amendment of prior years' income tax returns to carry back net operating losses incurred in the prior years.

CUMULATIVE PREFERRED DIVIDENDS

Cumulative dividends on the outstanding preferred stock attributable to the quarter ended June 30, 2004 and 2003 were $0.3 million, respectively.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS

During the quarter ended June 30, 2004, we financed our operations, using cash on hand and, internally generated cash. At June 30, 2004 and March 31, 2004, we had cash of $1.3 million and $2.1 million, respectively.

Operating activities used cash of $1.1 million in the quarter ended June 30, 2004 and $1.3 million in the quarter ended June 30, 2003. Cash used for operating activities in the quarter ended June 30, 2004 resulted from $3.8 million net loss, $0.5 million increase in accounts receivable and other receivables and $0.2 million decrease in accounts payable and accrued expenses; offset in part by $1.9 million increase in deferred revenue and $1.4 million of non-cash depreciation and amortization.

Investing activities provided cash of $0.4 million in the quarter ended June 30, 2004 and used cash of $0.9 million in the quarter ended June 30, 2003. Cash provided by investing activities in the current quarter was primarily from $0.6 million cash from acquisition of RTI; offset in part by capitalization of $0.3 million software development costs.

Financing activities used cash of $0.2 million in the quarter ended June 30, 2004 and provided cash of $8.0 million in the quarter ended June 30, 2003. Cash used for financing activities in the quarter ended June 30, 2004 was primarily $0.2 million payments on notes payable to related parties.

Accounts receivable increased to $6.6 million at June 30, 2004 from $4.6 million at March 31, 2004. The increase is primarily due to increase in current receivables for semi-annual maintenance contracts billed in the quarter ended June 30, 2004 and $1.3 million in receivables from RTI in the current quarter.

We believe that our cash and cash equivalent and funds generated from operations will provide adequate liquidity to meet our normal operating requirements for at least the next twelve months.

INDEBTEDNESS

NATIONAL AUSTRALIA BANK LIMITED

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. The sale was subject to the approval of National Australia Bank, the subsidiary's secured lender. The bank did not approve the sale and the subsidiary ceased operations in February 2002. The bank caused a receiver to be appointed in February 2002 to sell substantially all of the assets of the Australian subsidiary and pursue collections on any outstanding receivables. The receiver proceeded to sell substantially all of the assets for $300,000 in May 2002 to an entity affiliated with former management, and actively pursued the collection of receivables. If the sale proceeds plus collections on receivables were insufficient to discharge the indebtedness to National Australia Bank, we might be called upon to pay the deficiency under our guarantee to the bank. We accrued $187,000 as the maximum amount of our potential exposure as of March 31, 2004. In June 2004, we settled this obligation by paying $69,000 to the bank. As a result, the $118,000 accrual in excess of settlement amount was written off to the consolidated statement of operations as other income in the quarter ended June 30, 2004.

OMICRON/MIDSUMMER

In March 2004, we entered into a Securities Purchase Agreement for the sale of 9% convertible debentures (the "March '04 Debentures") to Omicron Master Trust ("Omicron") for gross proceeds of $1.75 million ("Omicron Debenture") and Midsummer Investments, Ltd. ("Midsummer") for gross proceeds of $1.25 million ("Midsummer Debenture"). With proceeds from the sale of a secured convertible term note to Laurus Master Fund, Ltd. ("Laurus") in July 2004 for $7.0 million, the Omicron Debenture with the principal balance of $1.75 million was paid off in full together with $0.1 million in accrued interest, liquidated damages and prepayment penalty. We also amended the Midsummer Debenture pursuant to Amendment No. 1 to the 9% Convertible Debenture, Due May 15, 2006 Issued to Midsummer and Waiver dated July 30, 2004 as partial consideration for Midsummer consenting to the transaction with Laurus and issued 600,000 shares of common stock to Midsummer as payment for $112,000 in liquidated damages and as partial consideration for for Midsummer consenting to the transaction with Laurus and issued 600,000 shares of common stock to Midsummer as payment for $112,000 in liquidated damages and as partial consideration for its consent to the Laurus Transaction.

The amended Midsummer Debenture matures in May 2006 and bears an interest rate of 9% per annum. Interest only payments, payable, at our option, in cash or shares of common stock, are payable on a monthly basis. The amended Midsummer Debenture is convertible into shares of our common stock at a conversion price of $0.56 per share, subject to adjustment if we offer or sell any securities for an effective per share price that is less than 87% of the then current conversion price, negatively restate any of our financial statement or make any public disclosure that negatively revises or supplements any prior disclosure regarding a material transaction consummated prior to March 15, 2004 or trigger other customary anti-dilution protections. If certain conditions are met, we have the option to redeem the amended Midsummer Debenture at 100% of its face value, plus accrued but unpaid interest.

We must redeem the amended Midsummer Debenture at the initial monthly amount of $50,000 commencing on September 1, 2004 which increases to $62,500 as of February 1, 2005. If the daily volume weighted average price of our common stock on the American Stock Exchange exceeds the then current conversion price by more than 200% for 15 consecutive trading days, we have the option to cause Midsummer to convert the then outstanding principal amount of amended Midsummer Debenture into our common stock at the conversion price then in effect.

We also issued Omicron and Midsummer (the "Purchasers") two warrants as follows: (1) Series A Warrants to purchase up to an aggregate of 1,043,479 shares of our common stock at an exercise price of $1.15 per share, which was reduced to $0.56 per share as a result of the transaction with Laurus, with a five-year term, exercisable at anytime after September 16, 2004, subject to adjustment if the we offer or sell any securities for an effective per share price that is less than the then current exercise price, negatively restate any of our financial statements or make any public disclosure that negatively revises or supplements any prior disclosure regarding a material transaction consummated prior to March 15, 2004 or trigger other customary anti-dilution protections and (2) Series B Warrants to purchase up to 8,500,000 shares of our common stock with an exercise price of $5 per share, these warrants are immediately exercisable and expire on the earlier of the six-month anniversary of the effective date of the registration statement that is required to be filed or 18 months from March 15, 2004, subject to adjustment upon the issuance or sale of securities in a public offering for an effective per share price that is less than the then-current exercise price and upon the trigger of other customary anti-dilution protections.

For a period of one hundred eighty (180) days following the date the registration statement is declared effective ("Effective Date"), each Purchaser has the right, in its sole discretion, to elect to purchase such Purchaser's pro rata portion of additional Debentures and Series A Warrants for an aggregate purchase price of up to $2,000,000 in a second closing (the "Second Closing"). The terms of the Second Closing shall be identical to the terms set forth in the

Purchase Agreement and related documents, except that, the conversion price for the additional debentures and the exercise price for the additional warrants shall be equal to 115% of the average of the daily volume weighted average price of our common stock on the American Stock Exchange for the ten (10) days preceding the Second Closing ("Second Closing Price"). The Series A Warrant coverage for the Second Closing shall be 40% of each Purchaser's subscription amount divided by the Second Closing Price.

For a period of one hundred eighty (180) days following the Effective Date, if the daily volume weighted average price of our common stock for twenty (20) consecutive trading days exceeds $2.00, subject to adjustment, we may, on one occasion, in our sole determination, require the Purchasers to purchase each such Purchaser's pro rata portion of additional debentures and Series A Warrants for an aggregate purchase price of up to $2,000,000. Any such additional investment shall be under the terms set forth in the Purchase Agreement and related documents, except that, the conversion price for the additional Debentures and the exercise price for the additional warrants shall be equal to the then current conversion price and warrant exercise price for the 9% Debentures and warrants purchased on March 15, 2004.

For a period of six (6) months from the Effective Date, the Purchasers have a right of first refusal to participate in certain future financings by us involving the sale of our common stock or equivalent securities. The Purchasers were also granted registration rights under a Registration Rights Agreement dated March 15, 2004, pursuant to which we were required to file a registration statement respecting the common stock issuable upon the conversion of the debentures and exercise of the warrants within thirty (30) days after March 15, 2004, and to use best efforts to have the registration statement declared effective at the earliest date. If a registration statement was not filed within such thirty (30) day period or declared effective within such ninety (90) day period (or within one hundred twenty (120) days in the event of a full review by the SEC), we became obligated to pay liquidated damages to the Purchasers equal to 2% per month of each such Purchasers' subscription amount under the Purchase Agreement plus the value of any warrants issued pursuant to the Purchase Agreement then held by such Purchaser. The registration statement has not been filed as of July 31, 2004; therefore, liquidated damages in the amount of $201,000 in liquidated damages have been recorded and included in accrued expenses at June 30, 2004.

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

We allocated the proceeds received from convertible debt with detachable warrants using the relative fair market value of the individual elements at the time of issuance. The amount allocated to the warrants was $720,000 and is being amortized as interest expense over the life of the convertible debentures. We recorded an interest expense of $83,000 and $0 in the quarter ended June 30, 2004 and 2003, respectively.

The outstanding balance of Midsummer Debenture, including accrued interest, is $1.3 million at July 31, 2004.

INTUIT

In connection with the RTI acquisition in June 2004, we issued a promissory note to Intuit for $0.5 million ("Intuit Note"). The Intuit Note is due on June 1, 2006 and payable in monthly installments of $4,000 from June 1, 2004 through December 1, 2004, increasing to $30,000 from January 1, 2005. The Intuit Note earns interest at a rate of 6.5% per annum. The balance of Intuit Note including accrued interest is $0.5 million at July 31, 2004.

RTI NOTEHOLDERS

In connection with the RTI acquisition in June 2004, we assumed RTI's obligations on notes payable totaling $1.8 million and issued additional $0.5

million to the holders of these notes. These notes are secured by common stock of our subsidiary IP Retail Technology International, Inc. (formerly known as IPI Merger Sub II, Inc.; "IP RTI"). The notes are due on May 31, 2005 and payable in monthly installments in aggregate of $197,000 commencing May 31, 2004. These notes earn interest at a rate of 6.5% per annum. The balance of these notes, including accrued interest, is $1.9 million at July 31, 2004.

TOMCZAK/BOONE

In connection with the RTI acquisition in June 2004, we issued promissory notes to RTI's two principals, Michael Tomczak and Jeffrey Boone, totaling $2.6 million ("Officers Notes"). The Officers Notes are due on June 1, 2006 and payable in monthly installments in aggregate of $20,000 from June 1, 2004 through May 1, 2005, increasing to $200,000 from June 1, 2005. The Officers Notes earn interest at a rate of 6.5% per annum. The balance of the Officers Notes is $2.6 million at July 31, 2004.

LAURUS

Pursuant to a Securities Purchase Agreement dated July 12, 2004, we sold and issued to an investor a secured convertible term note ("Note") for gross proceeds of $7.0 million. In addition, we issued to the investor a warrant to purchase up to 3,750,000 shares of our common stock at a price of $0.71 per share ("Warrant"). The investor is aware that we have exceeded our authorized share capital limit of 100,000,000 shares and that we intend to increase our authorized share capital limit to 250,000,000. We submitted a proposal to amend our Certificate of Incorporation to increase our authorized shares of common stock to 250,000,000 to our stockholders at our annual meeting on August 11, 2004. We did not receive sufficient votes to approve the amendment to the Certificate of Incorporation at that time and have adjourned the meeting until August 27, 2004 to provide us time to secure additional votes sufficient to effect such amendment. Our obligations under the Note are secured by all of our assets. All our wholly owned subsidiaries guarantied our obligations under the Note. We also pledged all of our interests in the outstanding stock of our subsidiaries as security for our obligations under the Note.

The Note matures on September 1, 2004 ("Maturity Date"); provided however, the maturity of the Note will be automatically extended to July 12, 2007 upon the stockholders approving an amendment to our Certificate increasing our authorized common stock to 250 million shares and us filing an amendment to our Certificate to effect the increase with the Secretary of State of Delaware by August 31, 2004. We are required to make monthly payments of $212,000 commencing August 1, 2004. In July 2004, the investor agreed to defer the August 1, 2004 payment until Maturity Date.

The Note accrues interest at a rate per annum (the "Interest Rate") equal to the "prime rate" published in The Wall Street Journal from time to time, plus two percent. Interest under the Note is payable monthly in arrears commencing on August 1, 2004. The Interest Rate is calculated on the last day of each month (the "Determination Date") and is subject to adjustment as follows: (1) if the shares issuable upon conversion of the Note or exercise of the Warrant have been registered with the U.S. Securities and Exchange Commission ("SEC") under the Securities Act of 1933, as amended (the "Securities Act") and the market price of our common stock for the five trading days immediately preceding the Determination Date exceeds the then applicable conversion price for the Note by at least 25%, then the Interest Rate for the succeeding calendar month shall be reduced by 2% for each incremental 25% increase over the then applicable conversion price or (2) if all of the conditions set forth in subparagraph (1) have been satisfied, except that the shares issuable upon conversion of the Note or exercise of Warrant have not been registered, then the Interest Rate for the succeeding calendar month shall be reduced by 1% for each incremental 25% increase over the then applicable conversion price. The initial conversion price under the Note is $0.56 per share, subject to adjustment upon our issuance of securities at a price below the fixed conversion price, a stock split or combination, declaration of a dividend on our common stock or reclassification of our common stock. We have the option to redeem the Note by paying the investor 125% of the principal amount due under the Note together with all accrued and unpaid interest.

The Warrant is immediately exercisable and has a seven year term. We have the right to require exercise of the Warrant in whole or in part if: (1) all of our obligations under the Note have been irrevocably paid in full, (2) the common stock underlying the Warrant has been registered on a registration statement declared effective by the SEC, and such registration statement remains effective, and (3) the average closing price of our common stock for the ten (10) trading days immediately prior to the proposed date of the mandatory exercise of the Warrant is greater than three hundred percent (300%) of the then applicable exercise price.

We are obligated to file a registration statement on Form S-3 (or if Form S-3 is not available another appropriate form) (the "Registration Statement") registering the shares of our common stock issuable upon conversion of the Note or exercise of the Warrant (the "Underlying Shares") pursuant to the Registration Rights Agreement between us and the investor (the "Registration Rights Agreement"). We are required to file the Registration Statement by September 10, 2004 (the "Filing Date") and have the Registration Statement declared effective by the SEC no later than 90 days after it is filed (the "Effectiveness Date"). If the Registration Statement is not filed by the Filing

Date, declared effective by the Effectiveness Date, ceases to be effective for more than 30 days in any calendar year or 10 consecutive calendar days or if our common stock is not listed or traded or is suspended from trading for three consecutive trading days, we are required to pay the investor liquidated damages equal to 2% of original principal balance on the Note for each 30 day period (with partial periods prorated) that such event continues. We are obligated to keep the Registration Statement effective until the earlier of when (1) all of the Underlying Shares have been sold or (2) such time as all of the Underlying Shares can be sold without registration or volume restrictions under Rule 144(k) of the Securities Act (the "Effectiveness Period"). If there is not an effective Registration Statement covering the Underlying Shares at any time during the Effectiveness Period and we propose to file a registration statement for our own account or the account of others, we will be obligated to include the Underlying

Shares on that registration statement.

In accordance with generally accepted accounting principles, we will compute the difference between the conversion price of $0.56 and our stock price on the date of issuance of the Note and record the relative portion as an interest expense in the second quarter of fiscal 2005.

We will also allocate the proceeds received from the Note with detachable warrant using the relative fair market value of the individual elements at the time of issuance and amortize the change over the life of the note.

The balance of the Note, including accrued interest, is $7.0 million at July 31, 2004.

CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual obligations, including purchase commitments at June 30, 2004, and the effect such obligations are expected to have on our liquidity and cash flow in future periods.

		Payment due by period			
Contractual Cash Obligations	Total	Less than 1 year	1-3 years	3-5 years	T
			(in thousands)		
Long-term debt obligations	$16,562	$ 8,155	$ 8,407	$ --	
Capital lease obligations	228	179	49	--	
Operating leases	10,629	2,050	2,222	1,896	
Purchase obligations	946	927	19	--	
Total contractual cash obligations	$28,365	$11,311	$10,697	$ 1,896	

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 Staff Accounting Bulletin ("SAB") 101, "Revenue Recognition", updated by SAB's 103 and 104, "Update of Codification of Staff Accounting Bulletins", and Technical Practice Aids issued from time to time by the American Institute of Certified Public Accountants.

  Software license revenue is generally recognized when a license agreement has been signed, the software product has been delivered ("delivered" constitutes F.O.B. shipping terms when a third party carrier is used), 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 ad