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SVI SOLUTIONS INC  
Form S-1  
May 12, 2003

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MAY 12, 2003  
REGISTRATION NO. [\_\_\_\_\_]

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM S-1

REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

SVI SOLUTIONS, INC.  
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE  
-----  
(State or Other Jurisdiction of  
Incorporation or Organization)

33-0896617  
-----  
(I.R.S. Employer Identification  
Number)

7379  
-----  
(Primary Standard Industrial  
Classification Code Number)

5607 PALMER WAY,  
CARLSBAD, CALIFORNIA 92008  
(877) 784-7978

-----  
(Address, Including Zip Code, and Telephone Number, Including Area Code, of  
Registrant's Principal Executive Offices)

-----  
BARRY M. SCHECHTER  
CHAIRMAN OF THE BOARD  
SVI SOLUTIONS, INC.  
5607 PALMER WAY,  
CARLSBAD, CALIFORNIA 92008  
(877) 784-7978  
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code,  
of Agent For Service)

-----  
Copies to:  
Harry J. Proctor, Esq.  
Solomon Ward Seidenwurm & Smith, LLP  
401 B Street, Suite 1200  
San Diego, CA 92101

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: From time to time after this registration statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. [X]

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

### CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED (1)	PROPOSED MAXIMUM OFFERING PRICE PER SHARE (2)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE (2)
Common Stock, \$.0001 par value	38,700,053	N/A	N/A

- (1) The registrant is hereby registering a number of shares of common stock equal to (a) 7,151,795 shares of common stock held by or issuable to Koyah Leverage Partners, L.P., Koyah Partners, L.P., Raven Partners, L.P., Brian Cathcart and Nigel M. Davey, all of whom have registration rights, plus (b) 7,713,480 shares of common stock issuable upon the conversion of convertible debentures and warrants held by Midsummer Investment, Ltd., Omicron Master Trust, Islandia, L.P., MBSJ Investors LLC, Crestview Capital Fund I, L.P., Crestview Fund II, L.P. and Crestview Capital Offshore Fund, Inc., all of whom have registration rights, and 945,000 shares of common stock issuable as payment for interest accrued on the debentures, plus (c) 18,255,073 shares of common stock issuable upon the conversion of Series A Preferred Stock held by Softline, Ltd., which was granted "piggy-back" registration rights, plus (d) 4,000,000 shares issuable upon the exercise of stock options held by Steven Beck and Harvey Braun, plus (e) 634,705 shares held by or issuable to other stockholders who have been extended the opportunity to participate in this offering as a selling shareholder. This number of shares is subject to adjustment to prevent dilution resulting from stock splits, stock dividends or similar events. Therefore, pursuant to Rule 416, this Registration Statement also registers such indeterminate number of shares as may be issuable in connection with stock splits, stock dividends or similar transactions.

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- (2) It is not known how many of such shares of Common Stock will be purchased under this Registration Statement or at what price such shares will be purchased.
- (3) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(c) promulgated under the Securities Act of 1933, as amended (the "Securities Act") based upon the average of the high and low prices of our common stock on May 5, 2003 as reported on the American Stock Exchange, which was \$0.99 per share.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933, AS AMENDED OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

### PROSPECTUS

THE INFORMATION CONTAINED IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PURSUANT TO THIS PROSPECTUS UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES, AND WE ARE NOT SOLICITING AN OFFER TO BUY THESE SECURITIES, IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SVI SOLUTIONS, INC.

38,700,053 SHARES

COMMON STOCK

We are registering 38,700,053 shares of our common stock for resale by the selling stockholders identified in this prospectus on pages 18 and 19. The selling stockholders may sell the shares of common stock described in this prospectus in public or private transactions, on or off the American Stock Exchange, at prevailing market prices, or at privately negotiated prices. The selling stockholders may sell shares directly to purchasers or through brokers or dealers. Brokers or dealers may receive compensation in the form of discounts, concessions or commissions from the selling stockholders. We will not receive any of the proceeds from the sale of the shares by the selling stockholders. The selling stockholders will receive all of the proceeds from the sale of the shares and will pay all underwriting discounts and selling commissions, if any, applicable to the sale of the shares. We will pay the expenses of registration of the sale of the shares.

Our common stock is listed on the American Stock Exchange under the symbol "SVI." The closing sale price of our common stock as reported on the American Stock Exchange on May 5, 2003 was \$1.02 per share. See "Price Range of Common Stock."

INVESTING IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS," BEGINNING ON PAGE 5.

NEITHER THE SECURITIES EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS

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PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is May 9, 2003, subject to completion

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YOU SHOULD RELY ON THE INFORMATION CONTAINED IN THIS PROSPECTUS. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION DIFFERENT FROM THAT CONTAINED IN THIS PROSPECTUS. THE SELLING STOCKHOLDERS ARE OFFERING TO SELL, AND SEEKING OFFERS TO BUY, COMMON STOCK ONLY IN JURISDICTIONS WHERE OFFERS AND SALES ARE PERMITTED. THE INFORMATION CONTAINED IN THIS PROSPECTUS IS ACCURATE ONLY AS OF THE DATE ON THE COVER PAGE OF THIS PROSPECTUS, REGARDLESS OF THE TIME OF DELIVERY OF THIS PROSPECTUS OR ANY SALE OF THE COMMON STOCK. IN THIS PROSPECTUS, "SVI", "WE", "US" AND "OUR" REFER TO SVI SOLUTIONS, INC., UNLESS THE CONTEXT OTHERWISE REQUIRES.

### PROSPECTUS SUMMARY

THIS SUMMARY HIGHLIGHTS INFORMATION CONTAINED ELSEWHERE IN THIS PROSPECTUS. THIS SUMMARY DOES NOT CONTAIN ALL OF THE INFORMATION YOU SHOULD CONSIDER BEFORE BUYING SHARES IN THIS OFFERING. YOU SHOULD READ THE ENTIRE PROSPECTUS CAREFULLY, INCLUDING "RISK FACTORS" AND OUR FINANCIAL STATEMENTS BEFORE MAKING AN INVESTMENT DECISION.

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

Our offerings consist of the following components:

The ISLAND PACIFIC MERCHANDISE MANAGEMENT suite of applications builds on our long history in retail software design and development and provides our customers with a comprehensive and fully integrated merchandise management solution. Our complete enterprise-level offering of applications and services is designed to assist our customers in maximizing their business potential. The foundation of our application suite is the individual modules that comprise the offering. The core modules are:

- o MERCHANDISING;
- o THE EYE/TM/, DATAMART, PLANNING AND REPORTING TOOL;
- o TRENDS, FORECASTING AND DYNAMIC REPLENISHMENT TOOL;
- o EVENTS;
- o WAREHOUSE;
- o TICKETING;
- o FINANCIALS; AND
- o SALES AUDIT.

The ISLAND PACIFIC DIRECT SOLUTION supports Web-based and traditional mail order and catalog retailing. This application allows our customers to offer multi-channel merchandise management within one integrated application tool set to manage order entry, order processing, customer service, purchasing, inventory planning and forecasting, fulfillment and shipping. The core modules are:

- o CALL CENTER;

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- o CUSTOMER RELATIONSHIP MANAGEMENT (CRM);
- o PLANNING AND FORECASTING; AND
- o FULFILLMENT.

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The SVI STORE SOLUTION suite of applications builds on our long history of providing multi-platform, client server in-store solutions. We market this set of applications under the name "OnePointe," which is a full business to consumer software infrastructure encompassing a range of integrated store solutions. OnePointe is a complete application providing all point-of-sale ("POS") and in-store processor (server) functions for traditional "brick and mortar" retail operations.

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

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

We also develop and distribute retail system training products and general computer courseware and computer skills testing products through our SVI Training Products, Inc. subsidiary. We have agreed to sell this subsidiary and are currently in the process of finalizing this sale transaction.

Our executive offices are located at 5607 Palmer Way, Carlsbad, California 92008, telephone number (877) 784-7978.

### THE OFFERING

-----	-----
Common stock to be offered by the selling stockholders	38,700,053 shares (1)
-----	-----
Common stock outstanding as of March 31, 2003	31,499,632 shares
-----	-----
Use of proceeds	We will not receive any proceeds from the sale of shares of common stock covered by this prospectus.
-----	-----
American Stock Exchange symbol	SVI
-----	-----

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- (1) Includes 7,151,795 shares held by or issuable to Koyah Leverage Partners, L.P., Koyah Partners, L.P., Raven Partners, L.P., Brian Cathcart and Nigel M. Davey, plus (b) 7,713,480 shares of common stock issuable upon the conversion of convertible debentures and warrants held by Midsummer Investment, Ltd., Omicron Master Trust, Islandia, L.P., MBSJ Investors LLC, Crestview Capital Fund I, L.P., Crestview Fund II, L.P. and Crestview Capital Offshore Fund, Inc, all of whom have registration rights, and 945,000 shares of common stock issuable as payment for interest accrued on the debentures, plus (c) 18,255,073 shares of common stock issuable upon the conversion of Series A Preferred Stock held by Softline, Ltd., which was granted "piggy-back" registration rights, plus (d) 4,000,000 shares of common stock issuable upon the exercise of stock options held by Steven Beck and Harvey Braun, plus (e) 634,705 shares held by or issuable to other stock holders who are being provided the opportunity to register shares.

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### SUMMARY CONSOLIDATED FINANCIAL DATA (AMOUNTS IN THOUSANDS)

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

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

	NINE MONTHS ENDED DECEMBER 31,	
	2002	2001
	(unaudited)	
	(in thousands except for per share data)	
<b>STATEMENT OF OPERATIONS DATA:</b>		
Net sales	\$ 16,918	\$ 21,446
Cost of sales	5,997	9,247
	10,921	12,199
Gross profit		
Expenses		
Product development	2,894	2,932
Depreciation and amortization	3,122	4,991
Selling, general and administrative expenses	7,365	10,388
	13,381	18,311
	(2,460)	(6,112)
Loss from operations		
Other income (expense):		
Interest income	1	8
Other income (expense)	8	(35)
Interest expense	(894)	(2,795)
Gain on foreign currency transaction	23	--
	(862)	(2,822)
Total other expense		

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Loss before provision for income taxes	(3,322)	(8,934)
Provision for income tax benefits	(57)	(2)
	-----	-----
Loss before cumulative effect of a change in accounting principle	(3,265)	(8,932)
Cumulative effect of changing accounting principle - goodwill valuation under SFAS 142	(627)	--
	-----	-----
Loss from continuing operations	(3,892)	(8,932)
Loss from discontinued operations		(1,140)
	-----	-----
Net loss	\$ (3,892)	\$ (10,072)
	=====	=====
Basic and diluted loss per share:		
Loss before cumulative effect of change in accounting principle	(0.11)	(0.23)
Cumulative effect of change in accounting principle	(0.02)	--
	-----	-----
Loss from continuing operations	\$ (0.13)	(0.23)
Loss from discontinued operations	--	(0.03)
	-----	-----
Net loss	(0.13)	(0.26)
	=====	=====
Weighted average common shares	29,257	38,092
BALANCE SHEET DATA:		
Working Capital	\$ (11,109)	\$ (13,371)
Total assets	\$ 38,419	\$ 52,712
Long-term obligations	\$ 99	\$ 12,379
Stockholders' equity	\$ 20,497	\$ 19,003

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

	YEAR ENDED MARCH 31,			
	2002	2001	2000	1999
	-----	-----	-----	-----
	(in thousands except for per share data)			
STATEMENT OF OPERATIONS DATA:				
Net sales	\$ 27,109	\$ 27,713	\$ 26,652	\$ 5,010
Cost of sales	10,036	9,188	6,421	1,401
	-----	-----	-----	-----
Gross profit	17,073	18,525	20,231	3,609



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Application development expenses	4,203	5,333	4,877	---
Depreciation and amortization	6,723	8,616	7,250	1,672
Selling, general and administrative expenses	13,144	18,037	14,817	4,265
Impairment of intangible assets	---	6,519	---	---
Impairment of note receivable received in connection with the sale of IBIS Systems Limited	---	7,647	---	---
	<u>24,070</u>	<u>46,152</u>	<u>26,944</u>	<u>5,937</u>
Loss from operations	(6,997)	(27,627)	(6,713)	(2,328)
Other income (expense):				
Interest income	10	628	1,074	520
Other income (expense)	(46)	63	(206)	828
Interest expense	(3,018)	(3,043)	(1,493)	(1)
Gain on disposals of Softline Limited shares	---	---	---	---
Gain (loss) on foreign currency transaction	(9)	2	(10)	(58)
	<u>(3,063)</u>	<u>(2,350)</u>	<u>(635)</u>	<u>1,289</u>
Income (loss) before provision (benefit for income taxes	(10,060)	(29,977)	(7,348)	(1,039)
Provision (benefit) for income taxes	39	(4,778)	(2,414)	30
	<u>(10,099)</u>	<u>(25,199)</u>	<u>(4,934)</u>	<u>(1,069)</u>
Income (loss) from continuing operations	(10,099)	(25,199)	(4,934)	(1,069)
Income (loss) from discontinued operations	(4,559)	(3,746)	880	6,654
	<u>(14,658)</u>	<u>(28,945)</u>	<u>(4,054)</u>	<u>5,585</u>
Net income (loss)	\$ (14,658)	\$ (28,945)	\$ (4,054)	\$ 5,585
Basic earnings (loss) per share:				
Income (loss) from continuing operations	\$ (0.28)	\$ (0.72)	\$ (0.15)	\$ (0.04)
Income (loss) from discontinued operations	(0.13)	(0.11)	0.03	0.24
	<u>(0.41)</u>	<u>(0.83)</u>	<u>(0.12)</u>	<u>0.20</u>
Net income (loss)	\$ (0.41)	\$ (0.83)	\$ (0.12)	\$ 0.20
Diluted earnings (loss) per share:				
Income (loss) from continuing operations	\$ (0.28)	\$ (0.72)	\$ (0.15)	\$ (0.03)
Income (loss) from discontinued operations	(0.13)	(0.11)	0.03	0.20
	<u>(0.41)</u>	<u>(0.83)</u>	<u>(0.12)</u>	<u>0.17</u>
Net income (loss)	\$ (0.41)	\$ (0.83)	\$ (0.12)	\$ 0.17

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Weighted average common shares:				
Basic	35,698	34,761	32,459	28,600
Diluted	35,698	34,761	32,459	33,071

### BALANCE SHEET DATA:

Working capital	\$ (5,337)	\$ (2,782)	\$ 2,628	\$ 26,387
Total assets	\$ 40,005	\$ 56,453	\$ 94,083	\$ 52,374
Long-term obligations	\$ 8,013	\$ 18,554	\$ 21,586	\$ 2,043
Stockholders' equity	\$ 21,952	\$ 26,993	\$ 53,497	\$ 45,270

(1) Except for the year ended March 31, 2002, certain reclassifications are reflected in the above data since the filing of such annual reports on forms 10KSB and 10K. Such reclassifications did not result in changes in net income (loss), net income (loss) per share or stockholders' equity.

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### RISK FACTORS

THIS OFFERING INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD CAREFULLY CONSIDER THE RISKS DESCRIBED BELOW BEFORE MAKING A DECISION TO BUY OUR COMMON STOCK. IF ANY OF THE FOLLOWING RISKS ACTUALLY OCCURS, OUR BUSINESS COULD BE HARMED. IN THAT CASE, THE TRADING PRICE OF OUR COMMON STOCK COULD DECLINE, AND YOU MAY LOSE ALL OR PART OF YOUR INVESTMENT. YOU SHOULD ALSO REFER TO THE OTHER INFORMATION IN THIS PROSPECTUS, INCLUDING OUR FINANCIAL STATEMENTS AND THE RELATED NOTES. EXCEPT FOR HISTORICAL INFORMATION, THE INFORMATION IN THIS PROSPECTUS CONTAINS "FORWARD-LOOKING" STATEMENTS ABOUT OUR EXPECTED FUTURE BUSINESS AND PERFORMANCE. OUR ACTUAL OPERATING RESULTS AND FINANCIAL PERFORMANCE MAY PROVE TO BE VERY DIFFERENT FROM WHAT WE MIGHT HAVE PREDICTED AS OF THE DATE OF THIS PROSPECTUS. THE RISKS DESCRIBED BELOW ADDRESS SOME OF THE FACTORS THAT MAY AFFECT OUR FUTURE OPERATING RESULTS AND FINANCIAL PERFORMANCE.

#### BUSINESS RISKS

WE INCURRED LOSSES FOR THE FIRST NINE MONTHS OF THE FISCAL YEAR 2003 AND IN FISCAL YEARS 2002, 2001 AND 2000.

We incurred losses of \$3.9 million in the first nine months ended December 31, 2002, compared to losses of \$10.1 million for the first nine months ended December 31, 2001. We incurred losses of \$14.7 million, \$28.9 million and \$4.1 million in the fiscal years ended March 31, 2002, 2001 and 2000, respectively. The losses in the past two years have generally been due to difficulties completing sales for new application software licenses, the resulting change in sales mix toward lower margin services, and debt service expenses. We will need to generate additional revenue to achieve profitability in future periods. Failure to achieve profitability, or maintain profitability if achieved, may have a material adverse effect on our business and stock price.

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

At December 31, 2002 and December 31, 2001, we had negative working capital of \$11.1 million and \$13.4 million, respectively. At March 31, 2002 and March 31, 2001, we had negative working capital of \$5.3 million and \$2.8 million, respectively. We have had difficulty meeting operating expenses, including interest payments on debt, lease payments and supplier obligations. We have at times deferred payroll for our executives offices, and borrowed from related parties to meet payroll obligations. We have extended payment terms with our trade creditors wherever possible.

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

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

Our net sales decreased by 21% in the first nine months ended December 31, 2002, compared to the first nine months ended December 31, 2001. Our net sales decreased by 2% in the fiscal year ended March 31, 2002 compared to the fiscal year ended March 31, 2001. Net sales for the fiscal year ended March 31, 2001 decreased 4% compared to the fiscal year ended March 31, 2000. We experienced a substantial decrease in application license software sales, which typically carry a much higher margin than other revenue sources. We must improve new application license sales to become profitable. We have taken steps to refocus our sales strategy on core historic competencies, but our typically long sales cycles make it difficult to evaluate whether and when sales will improve. We cannot be sure that the decline in sales has not been due to factors which might continue to negatively affect sales.

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

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

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

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

Our software applications are complex and perform or directly affect mission-critical functions across many different functional and geographic areas of the retail enterprise. In many cases, our customers must change established business practices when they install our software. Our sales staff must dedicate significant time consulting with a potential customer concerning the substantial technical and business concerns associated with implementing our products. The purchase of our products is often discretionary, so lengthy sales efforts may not result in a sale. Moreover, it is difficult to predict when a license sale will occur. All of these factors can adversely affect our business, financial condition and results of operations.

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

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

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

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

- o THE SIZE AND TIMING OF INDIVIDUAL ORDERS, PARTICULARLY WITH RESPECT TO OUR LARGER CUSTOMERS;
- o GENERAL HEALTH OF THE RETAIL INDUSTRY AND THE OVERALL ECONOMY;
- o TECHNOLOGICAL CHANGES IN PLATFORMS SUPPORTING OUR SOFTWARE PRODUCTS; AND
- o MARKET ACCEPTANCE OF NEW APPLICATIONS AND RELATED SERVICES.

In particular, we usually deliver our software applications when contracts are signed, so order backlog at the beginning of any quarter may represent only a portion of that quarter's expected revenues. As a result, application license revenues in any quarter are substantially dependent on orders booked and delivered in that quarter, and this makes it difficult for us to accurately predict revenues. We have experienced, and we expect to continue to experience, quarters or periods where individual application license or services orders are significantly

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larger than our typical application license or service orders. Because of the nature of our offerings, we may get one or more large orders in one quarter from a customer and then no orders the next quarter.

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

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

- o THE EXTENT OF MARKETING AND SALES EFFORTS NECESSARY TO PROMOTE AND SELL OUR APPLICATIONS AND SERVICES;
- o THE TIMING AND EXTENT OF OUR DEVELOPMENT EFFORTS; AND
- o THE TIMING OF PERSONNEL HIRING.

IT IS DIFFICULT TO EVALUATE OUR PERFORMANCE BASED ON PERIOD TO PERIOD

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### COMPARISONS OF OUR RESULTS.

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

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

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

### OUR DEBT COULD ADVERSELY AFFECT US.

As of April 1, 2003, our debt is as follows:

- o \$3.5 MILLION IN CONVERTIBLE DEBENTURES ISSUED ON MARCH 31, 2003 TO MIDSUMMER INVESTMENT, LTD., OMICRON MASTER TRUST, AND ISLANDIA, L.P. DUE IN FULL IN MAY 2005, WITH MONTHLY REDEMPTIONS TO COMMENCE IN FEBRUARY 2004.
- o \$400,000 IN CONVERTIBLE DEBENTURES ISSUED ON APRIL 1, 2003 TO MBSJ INVESTORS LLC DUE IN FULL IN OCTOBER 2005, WITH MONTHLY REDEMPTIONS TO COMMENCE IN FEBRUARY 2004.
- o \$300,000 IN CONVERTIBLE DEBENTURES ISSUED ON MAY 7, 2003 TO CRESTVIEW CAPITAL FUND I, L.P., CRESTVIEW CAPITAL FUND II, L.P., AND CRESTVIEW CAPITAL OFFSHORE FUND, INC., WITH MONTHLY REDEMPTIONS TO COMMENCE IN FEBRUARY 2004.
- o \$1.25 MILLION IN CONVERTIBLE NOTES REISSUED IN JULY 2002 TO ENTITIES RELATED TO ICM ASSET MANAGEMENT, INC. DUE SEPTEMBER 30, 2003.
- o \$500,000 IN A CONVERTIBLE NOTE ISSUED TO UNION BANK OF CALIFORNIA NA ON MARCH 31, 2003, DUE MARCH 31, 2004.

The substantial amount of our indebtedness impacts us in a number of ways:

- o WE HAVE TO DEDICATE A PORTION OF CASH FLOW FROM OPERATIONS TO PRINCIPAL AND INTEREST PAYMENTS ON THE DEBT, WHICH REDUCES FUNDS AVAILABLE FOR OTHER PURPOSES.
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- o WE MAY NOT HAVE SUFFICIENT FUNDS TO PAY PRINCIPAL AND/OR INTEREST PAYMENT WHEN THEY BECOME DUE, WHICH COULD LEAD TO A DEFAULT.

These are just some factors pertaining to our debt that generally place us at a disadvantage to our less leveraged competitors. Any or all of these factors could cause our stock price to decline.

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

Our cash from operations has not been sufficient to meet our

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

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

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

We may need to raise capital to discharge our aged payables and grow our business. We will also likely need to raise capital to pay our \$1.25 million convertible note obligations to the entities related to ICM Asset Management, Inc. due in full in September 2003, our \$3.5 million convertible debenture obligations due in full in May 2005, with monthly redemptions commencing in February 2004, our \$400,000 convertible debenture obligations due in full in October 2005, with monthly redemptions commencing in February 2004, and our \$500,000 convertible note obligation due in full in March 2004. We may also need to raise further capital to:

- o SUPPORT UNANTICIPATED CAPITAL REQUIREMENTS;
- o TAKE ADVANTAGE OF ACQUISITION OR EXPANSION OPPORTUNITIES;
- o CONTINUE OUR CURRENT DEVELOPMENT EFFORTS;
- o DEVELOP NEW APPLICATIONS OR SERVICES; OR
- o ADDRESS WORKING CAPITAL NEEDS.

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

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

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

Goodwill, capitalized software, non-compete agreements and other intangible assets represent approximately 84% of our total assets as of December 31, 2002 and represent more than our stockholders' equity. We may have to impair or write-off these assets, which will cause a charge to earnings and could cause

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our stock price to decline.

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

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

Fluctuations in currency exchange rates affect the prices of our applications and services and our expenses, and foreign currency losses will negatively affect profitability or increase losses. Approximately 12% of our net sales were in the United Kingdom in the nine-month period ending December 31, 2002. Approximately 17%, 22% and 37% of our net sales were outside North America, principally in Australia and the United Kingdom, in the fiscal years ended March 31, 2002, 2001 and 2000, respectively. Many of our expenses related to foreign sales, such as corporate level administrative overhead and development, are denominated in U.S. dollars. When accounts receivable and accounts payable arising from international sales and services are converted to U.S. dollars, the resulting gain or loss contributes to fluctuations in our operating results. We do not hedge against foreign currency exchange rate risks.

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

Toys "R" Us, Inc. ("Toys") accounted for 31% and 47% of our net sales for the nine months ended December 31, 2002 and 2001, respectively. Toys accounted for 42%, 29% and 15% of our net sales for the fiscal years ended March 31, 2002, 2001 and 2000, respectively. While we have a development agreement with this customer, Toys has the right to terminate the agreement without cause with limited advance notice. A reduction, delay or cancellation of orders from Toys would significantly reduce our revenues and force us to substantially curtail operations. We cannot provide any assurances that Toys or any of our current customers will continue at current or historical levels or that we will be able to obtain orders from new customers.

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

We are heavily dependent on Barry M. Schechter, our Chairman, Harvey Braun, our Chief Executive Officer, and Steven Beck, our President and Chief Operating Officer. Mr. Schechter has an employment agreement with us, which expires September 30, 2003 and may be terminated on 14 days notice. We do not have any written employment agreements with Mr. Braun or Mr. Beck. We also believe our future success will depend largely upon our ability to attract and retain highly-skilled software programmers, managers, and sales and marketing personnel. Competition for personnel is intense, particularly in international markets. The software industry is characterized by a high level of employee mobility and aggressive recruiting of skilled personnel. We compete against numerous companies, including larger, more established companies, for our personnel. We may not be successful in attracting or retaining skilled sales, technical and managerial personnel. The loss of key employees or our inability to attract and retain other qualified employees could negatively affect our financial performance and cause our stock price to decline.

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

Our future growth is critically dependent on increased sales to the

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

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

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

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

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

We conduct business in an industry characterized by intense competition. Most of our competitors are very large companies with an international presence. We must also compete with smaller companies which have been able to develop strong local or regional customer bases. Many of our competitors and potential competitors are more established, benefit from greater



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name recognition and have significantly greater resources than us. Our competitors may also have lower cost structures and better access to the capital markets than us. As a result, our competitors may be able to respond more quickly than we can to new or emerging technologies and changes in customer requirements. Our competitors may:

- o INTRODUCE NEW TECHNOLOGIES THAT RENDER OUR EXISTING OR FUTURE PRODUCTS OBSOLETE, UNMARKETABLE OR LESS COMPETITIVE;
- o MAKE STRATEGIC ACQUISITIONS OR ESTABLISH COOPERATIVE RELATIONSHIPS AMONG THEMSELVES OR WITH OTHER SOLUTION PROVIDERS, WHICH WOULD INCREASE THE ABILITY OF THEIR PRODUCTS TO ADDRESS THE NEEDS OF OUR CUSTOMERS; AND
- o ESTABLISH OR STRENGTHEN COOPERATIVE RELATIONSHIPS WITH OUR CURRENT OR FUTURE STRATEGIC PARTNERS, WHICH WOULD LIMIT OUR ABILITY TO COMPETE THROUGH THESE CHANNELS.

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We could be forced to reduce prices and suffer reduced margins and market share due to increased competition from providers of offerings similar to, or competitive with, our applications, or from service providers that provide services similar to our services. Competition could also render our technology obsolete. For a further discussion of competitive factors in our industry, see "Business" under the heading "Competition."

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

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

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

- o FAIL TO RESPOND TO TECHNOLOGICAL CHANGES IN A TIMELY OR COST-EFFECTIVE MANNER;
- o ENCOUNTER APPLICATIONS, CAPABILITIES OR TECHNOLOGIES DEVELOPED BY OTHERS THAT RENDER OUR APPLICATIONS AND SERVICES OBSOLETE OR NON-COMPETITIVE OR THAT SHORTEN THE LIFE CYCLES OF OUR EXISTING APPLICATIONS AND SERVICES;
- o EXPERIENCE DIFFICULTIES THAT COULD DELAY OR PREVENT THE SUCCESSFUL DEVELOPMENT, INTRODUCTION AND MARKETING OF THESE NEW APPLICATIONS AND SERVICES; OR
- o FAIL TO ACHIEVE MARKET ACCEPTANCE OF OUR APPLICATIONS AND SERVICES.

The life cycles of our applications are difficult to estimate, particularly in the emerging electronic commerce market. As a result, new

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applications and enhancements, even if successful, may become obsolete before we recoup our investment.

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

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

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

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

We may become involved in litigation involving patents or proprietary rights. Patent and proprietary rights litigation entails substantial legal and other costs, and we do not know if we will have the necessary financial

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

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

Since we do not possess all of the technical and marketing resources necessary to develop and market our offerings to their target markets, our business strategy substantially depends on our strategic relationships. While some of these relationships are governed by contracts, most are non-exclusive and all may be terminated on short notice by either party. If these relationships terminate or fail to deliver the intended benefits, our development and marketing efforts will be impaired and our revenues may decline. We may not be able to enter into new strategic relationships, which could put us at a disadvantage to those of our competitors which do successfully exploit strategic relationships.

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

Substantially all of our primary computer and telecommunications systems are located in two geographic areas. These systems are vulnerable to damage or interruption from fire, earthquake, water damage, sabotage, flood, power loss, technical or telecommunications failure or break-ins. Our business interruption insurance may not adequately compensate us for our lost business and will not compensate us for any liability we incur due to our inability to provide services to our customers. Although we have implemented network security measures, our systems are vulnerable to computer viruses, physical or electronic break-ins and similar disruptions. These disruptions could lead to interruptions, delays, loss of data or the inability to service our customers. Any of these occurrences could impair our ability to serve our customers and harm our business.

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

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

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

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

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

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

Softline Limited beneficially owns 54.7% of our outstanding common stock, including shares Softline has the right to acquire upon conversion of its Series A Convertible Preferred Stock. Ivan M. Epstein, Softline's Chief Executive Officer, and Robert P. Wilkie, Softline's Chief Financial Officer, serve on our board of directors. If Softline converts its Series A Preferred Stock, it may have effective control over all matters affecting us, including:

- o THE ELECTION OF ALL OF OUR DIRECTORS;
- o THE ALLOCATION OF BUSINESS OPPORTUNITIES THAT MAY BE SUITABLE FOR SOFTLINE AND US;
- o ANY DETERMINATIONS WITH RESPECT TO MERGERS OR OTHER BUSINESS COMBINATIONS INVOLVING US;
- o THE ACQUISITION OR DISPOSITION OF ASSETS OR BUSINESSES BY US;
- o DEBT AND EQUITY FINANCING, INCLUDING FUTURE ISSUANCE OF OUR COMMON STOCK OR OTHER SECURITIES;
- o AMENDMENTS TO OUR CHARTER DOCUMENTS;
- o THE PAYMENT OF DIVIDENDS ON OUR COMMON STOCK; AND
- o DETERMINATIONS WITH RESPECT TO OUR TAX RETURNS.

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

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

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

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

OUR STOCK PRICE HAS BEEN HIGHLY VOLATILE.

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

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

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

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

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

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

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

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

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

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

We have issued options and warrants to acquire common stock to our

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employees and certain other persons at various prices, some of which are or may in the future have exercise prices at below the market price of our stock. We currently have outstanding options and warrants for 16,130,089 shares. Of these options and warrants, 4,739,337 have exercise prices above the recent market price of \$1.02 per share (as of May 5, 2003), and 11,390,752 have exercise prices at below that recent market price. If exercised, these options and warrants will cause immediate and possibly substantial dilution to our stockholders.

Our existing stock option plan currently has approximately 2,366,405 shares available for issuance as of May 5, 2003. Future options issued under the plan may have further dilutive effects.

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We issued to Toys "R" Us, our major customer, a note convertible into 2,500,000 shares of common stock. This note has a conversion price of \$0.553. This note will have a dilutive effect on stockholders if converted.

We issued to entities related to ICM Asset Management notes that are convertible into 2,083,333 shares of common stock. These notes have a conversion price of \$0.60 per share, which is currently below the recent market price of \$0.95. These notes will have a dilutive effect on stockholders if converted.

We also recently issued to a group of investors debentures that are convertible into 4,103,165 shares of common stock. These debentures have a conversion price of \$1.0236, which is above the recent market price of \$0.95. These debentures will have a dilutive effect on stockholders if converted.

We issued to Union Bank of California, N.A. an unsecured note that is convertible into shares of common stock at a price per share of eighty percent (80%) of the average share closing price of our common stock for the ten trading day period immediately preceding the maturity date of the note. This note will have a dilutive effect on stockholders if converted.

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

### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact our consolidated financial position, results of operations or cash flows. We are exposed to market risks, which include changes in interest rates and changes in foreign currency exchange rate as measured against the U.S. dollar.

#### FOREIGN CURRENCY EXCHANGE RATE RISK

We conduct business in various foreign currencies, primarily in Europe and until February 2002, Australia. Sales are typically denominated in the local foreign currency, which creates exposures to changes in exchange rates. These changes in the foreign currency exchange rates as measured against the U.S. dollar may positively or negatively affect our sales, gross margins and retained earnings. We attempt to minimize currency exposure risk through decentralized sales, development, marketing and support operations, in which substantially all costs are local-currency based. There can be no assurance that such an approach will be successful, especially in the event of a significant and sudden decline in the value of the foreign currency. We do not hedge against foreign currency

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risk. Approximately 12% and 18% of our total net sales were denominated in currencies other than the U.S. dollar for the nine-month period ending December 31, 2002 and 2001, respectively. Approximately 17%, 22%, and 37% of our total net sales were denominated in currencies other than the U.S. dollar for the periods ended March 31, 2002, 2001 and 2000, respectively.

### EQUITY PRICE RISK

We have no direct equity investments.

### FORWARD LOOKING STATEMENTS

THIS PROSPECTUS CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT AND SECTION 21E OF THE EXCHANGE ACT. THESE STATEMENTS RELATE TO FUTURE EVENTS OR OUR FUTURE FINANCIAL PERFORMANCE. IN SOME CASES, YOU CAN IDENTIFY FORWARD-LOOKING STATEMENTS BY TERMINOLOGY SUCH AS THE WORDS MAY, WILL, SHOULD, EXPECT, PLAN, ANTICIPATE, BELIEVE, ESTIMATE, PREDICT, POTENTIAL OR CONTINUE, OR THE NEGATIVES OF SUCH WORDS OR OTHER COMPARABLE TERMINOLOGY. THESE STATEMENTS ARE ONLY PREDICTIONS. ACTUAL EVENTS OR RESULTS MAY DIFFER MATERIALLY. IMPORTANT FACTORS THAT MAY CAUSE ACTUAL RESULTS TO

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DIFFER MATERIALLY FROM THE FORWARD-LOOKING STATEMENTS INCLUDE, BUT ARE NOT LIMITED TO THE ITEMS DISCUSSED UNDER "RISK FACTORS" AND OTHER SECTIONS OF THIS PROSPECTUS.

ALTHOUGH WE BELIEVE THAT THE EXPECTATIONS REFLECTED IN THE FORWARD-LOOKING STATEMENTS ARE REASONABLE, WE CANNOT GUARANTEE FUTURE RESULTS, LEVELS OF ACTIVITY, PERFORMANCE OR ACHIEVEMENTS. WE ARE UNDER NO OBLIGATION TO UPDATE ANY OF THE FORWARD-LOOKING STATEMENTS AFTER THE FILING OF THIS REPORT TO CONFORM SUCH STATEMENTS TO ACTUAL RESULTS OR TO CHANGES IN OUR EXPECTATIONS.

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### SELLING STOCKHOLDERS

We are registering 38,700,053 shares of our common stock for resale by the selling stockholders named below. The term "selling stockholders" includes each stockholder named below and such stockholder's transferees, pledgees, donees or other successors. See "Registration Rights" and below for a more complete description of our agreements with selling stockholders in connection with their registration rights.

### BACKGROUND

In this registration statement, 7,151,795 shares of common stock held by or issuable to Koyah Leverage Partners, L.P., Koyah Partners, L.P., Raven Partners, L.P., Brian Cathcart and Nigel M. Davey are being registered herein pursuant to an investors rights agreement. We previously issued or sold shares of common stock, as well as warrants and convertible notes, to these investors, who are or were related to ICM Asset Management. Pursuant to an investors' rights agreement, we also agreed to file a registration statement for the resale of all shares held by or issuable to these investors. See "Managements' Discussion and Analysis of Financial Condition and Results of Operations - Financing Transactions, ICM Asset Management." Accordingly, we are registering for these investors 3,468,462 shares of common stock, 1,600,000 shares of common stock issuable upon the exercise of their warrants, and 2,083,333 shares of common stock issuable upon the conversion of their convertible notes.

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In May 2002, we entered into a securities purchase agreement with Softline Limited where we issued and sold 141,000 shares of newly designated Series A Convertible Preferred Stock. The Series A Preferred Stock is convertible into that number of shares of our common stock as determined in accordance with this formula:

$$\text{Number of shares of common stock} = \$100 + \text{amount of all dividends accrued since 1/01/02} \times (\# \text{ of shares of preferred stock}) / \text{conversion price}$$

(the conversion price is initially \$0.80, but increases at the annual rate of 3.5%; dividends accrue on \$100 at the rate of 7.2% per year)

Pursuant to a registration rights agreement, we granted "piggy back" registration rights covering the resale of the shares of our common stock issuable upon conversion of the Series A Preferred Stock. The number of shares being registered by Softline is 18,255,073, which is the number of shares of common stock issuable upon conversion of the Series A Preferred Stock as of January 1, 2003. See "Managements' Discussion and Analysis of Financial Condition and Results of Operations - Financing Transactions, Softline."

In March 2003, we granted registration rights to Midsummer Investment, Ltd., Omicron Master Trust, and Islandia, L.P. with respect to debentures that are convertible into an aggregate of 3,419,304 shares of common stock and warrants to purchase an aggregate 1,572,858 shares of common stock pursuant to a registration rights agreement. Under that agreement, we are required to file a registration statement covering 130% of the shares issuable upon the conversion of the debentures and warrants. We are also registering an aggregate of 819,000 shares issuable as payment for interest accrued on the debentures. The total number of shares to be registered equals 7,308,811. Additional debentures and warrants may be issued to these investors if certain conditions are met. The shares underlying these additional debentures and additional warrants are not included for registration under this prospectus. See "Managements' Discussion and Analysis of Financial Condition and Results of Operations - Financing Transactions, Midsummer/Omicron/Islandia."

In connection with the debentures sold in March 2003, Softline entered into a "lock up" agreement with the purchasers of those debentures under which Softline is limited or restricted in the number of shares Softline may sell during any period of time debentures are still outstanding with respect to Midsummer and/or Omicron.

On April 1, 2003, we granted registration rights to MBSJ Investors LLC with respect to debenture that is convertible into an aggregate of 390,778 shares of common stock and warrants to purchase an aggregate of 156,311 shares of common stock pursuant to a registration rights agreement. Under that agreement, we are required to file a registration rights agreement covering 130% of the shares issuable upon the conversion of the debentures and warrants. We are also registering an aggregate of 72,000 shares issuable as payment for interest accrued on the debentures. See "Managements' Discussion and Analysis of Financial Condition and Results of Operations - Financing Transactions, MBSJ."

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On May 6, 2003, we granted registration rights to Crestview Capital Fund I, L.P., Crestview Capital Fund II, L.P. and Crestview Capital Offshore Fund, Inc. with respect to debentures that are convertible into an aggregate of 293,083 shares of common stock and warrants to purchase an aggregate of 101,112 shares of common stock pursuant to a registration rights agreement. Under that agreement, we are required to file a registration statement covering 130% of the shares issuable upon the conversion of the debentures and warrants. We are also registering an aggregate of 54,000 shares issuable as payment for interest



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accrued on the debentures. Additional debentures and warrants may be issued to these investors if certain conditions are met. The shares underlying these additional debentures and additional warrants are not included for registration under this prospectus. See "Managements' Discussion and Analysis of Financial Condition and Results of Operations - Financing Transactions, Crestview."

In September 2002, we granted each of Steven Beck and Harvey Braun a non-qualified option to purchase up to 2,000,000 shares of common stock at an exercise price of \$0.28 per share. We granted registration rights covering the shares issuable upon the exercise of the options.

In addition, 634,705 shares of common stock, including shares that are issuable upon the exercise or conversion of options and warrants, are being registered for other individuals or entities who are being extended this opportunity to register their shares.

The following table, which reflects stockholdings as of April 1, 2003, is based in part upon information provided by the selling stockholders and sets forth (i) the names of the selling stockholders; (ii) the number of shares of our common stock that the selling stockholders owned prior to the offering for resale of any of the shares or our common stock being registered hereby; (iii) the maximum number of shares of our common stock that may be offered for resale for the accounts of the selling stockholders pursuant to this prospectus; and (iv) the percentage of shares of common stock to be held by the selling stockholders after the offering of the resale shares (assuming all of the resale shares are sold by the selling stockholders).

SELLING STOCKHOLDERS	NUMBER OF SHARES OF SVI COMMON STOCK BENEFICIALLY OWNED (1)	NUMBER OF SHARES OF SVI COMMON STOCK TO BE RESOLD IN THE OFFERING	P STO
Gary Seehoff	39,705	39,705	
Rachel Clicksman	24,000	24,000	
Gary Nash	1,000	1,000	
Steven Beck (3)	2,000,000	2,000,000	
Harvey Braun (3)	2,000,000	2,000,000	
Norman Smith	180,000	180,000	
Barry M. Schechter (4)	4,093,391	20,000	
Softline Limited (5)	27,250,800	18,255,073	
Brian Cathart (6)	44,155	44,155	
Nigel M. Davey (7)	27,013	15,013	