

Edgar Filing: ISLAND PACIFIC INC - Form 8-K/A

ISLAND PACIFIC INC  
Form 8-K/A  
August 05, 2004

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K/A  
CURRENT REPORT

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

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

ISLAND PACIFIC, INC.

-----  
(Exact Name of Registrant as Specified in its Charter)

Delaware

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

0-23049

33-0896617

-----  
(Commission File Number)

-----  
(IRS Employer Identification No.)

19800 MacArthur Boulevard, Suite 1200, Irvine, California

92612

-----  
(Address of Principal Executive Offices)

-----  
(Zip Code)

(949) 476-2212

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

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

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

(a) Financial Statements of Business Acquired:

The financial statements required by Item 7(a) comprise pages F-1 to F-11 of this report.

(b) Pro Forma Financial Information

The pro forma financial information required by Item 7(b) comprise pages F-12 - F-14 of this report.

(c) Exhibits:

EXHIBIT  
NUMBER

DESCRIPTION  
-----

2.1 Amended and Restated Agreement of Merger and Plan or  
Reorganization dated June 1, 2004 by and among Island Pacific,

## Edgar Filing: ISLAND PACIFIC INC - Form 8-K/A

Inc., Retail Technologies International, Inc., IPI Merger Sub, Inc. IPI Merger Sub II, Inc., Michael Tomczak and Jeffrey Boone, incorporated by reference from the Company's Form 8-K filed on June 14, 2004.

- 2.2 Agreement of Merger dated June 1, 2004 between IPI Merger Sub II, Inc. and Retail Technologies International, Inc., incorporated by reference from the Company's Form 8-K filed on June 14, 2004.
- 3.1 Certificate of Designation dated June 2, 2004, incorporated by reference from the Company's Form 8-K filed on June 14, 2004.
- 4.1 Registration Rights Agreement dated June 1, 2004 by and between Island Pacific, Inc., Michael Tomczak, Jeffrey Boone and Intuit Inc., incorporated by reference from the Company's Form 8-K filed on June 14, 2004.
- 4.2 Form of Voting Agreement, incorporated by reference from the Company's Form 8-K filed on June 14, 2004.
- 10.1 Employment Agreement dated June 1, 2004 by and between Island Pacific, Inc. and Michael Tomczak, incorporated by reference from the Company's Form 8-K filed on June 14, 2004.
- 10.2 Employment Agreement dated June 1, 2004 by and between Island Pacific, Inc. and Jeffrey Boone, incorporated by reference from the Company's Form 8-K filed on June 14, 2004.
- 10.3 Form of promissory notes for Michael Tomczak and Jeffrey Boone.
- 10.4 Form of Amended and Restated promissory notes dated June 1, 2004.
- 10.5 Promissory note dated June 1, 2004, payable to Intuit Inc.
- 10.6 Stock Option Grant Notice dated June 1, 2004 for Michael Tomczak.
- 10.7 Stock Option Grant Notice dated June 1, 2004 for Jeffrey Boone.

2

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders  
Retail Technologies International, Inc.  
Folsom, California

We have audited the balance sheets of Retail Technologies International, Inc. as of December 31, 2003 and 2002 and the related statements of operations, shareholders' equity, and cash flows for the two years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company

## Edgar Filing: ISLAND PACIFIC INC - Form 8-K/A

Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Retail Technologies International, Inc. as of December 31, 2003 and 2002, and the results of their operations and their cash flows for the two years in the period ended December 31, 2003, in conformity with U.S. generally accepted accounting principles.

/s/ SINGER LEWAK GREENBAUM & GOLDSTEIN LLP

Los Angeles, California  
February 20, 2004

F-1

### FINANCIAL STATEMENTS

#### RETAIL TECHNOLOGIES INTERNATIONAL, INC. Balance Sheets December 31, 2003 and 2002

|   | 2003         |
|---|--------------|
| <b>ASSETS</b>   |              |
| Current assets  |              |
| Cash and cash equivalents   | \$ 1,093,089 |
| Accounts receivable, net of allowance for doubtful accounts of<br>\$265,181 and \$207,621, respectively | 2,379,285    |
| Inventory   | --           |
| Prepaid expenses  | 246,654      |
| Total current assets  | 3,719,028    |
| Property and equipment, net   | 391,412      |
| Non-compete agreement, net  | 49,012       |
| Total assets  | \$ 4,159,452 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |              |
| Current Liabilities:  |              |
| Current maturities of notes payable   | \$ 560,584   |
| Current maturities of capital lease obligations   | 5,880        |
| Accounts payable  | 225,979      |
| Accrued expenses  | 923,838      |
| Deferred revenue  | 1,772,302    |
| Settlement agreement  | 200,786      |
| Income tax payable  | 351,440      |
|   | -----        |

Edgar Filing: ISLAND PACIFIC INC - Form 8-K/A

|  |              |
|--|--------------|
| Total current liabilities  | 4,040,809    |
| Notes payable due to related parties   | 200,000      |
| Notes payable, less current maturities   | 1,612,416    |
| Capital lease obligations, less current maturities   | 6,880        |
| Deferred revenue   | 906,457      |
| Settlement agreement, less current maturities  | 127,724      |
| Total liabilities  | 6,894,286    |
| Commitments and contingencies  |              |
| Shareholders' equity (deficit):  |              |
| Preferred Stock, no par value; 1,445,000 shares authorized and outstanding;<br>Series A              | 500,000      |
| Common stock, no par value, 25,000,000 shares authorized;<br>7,055,000 shares issued and outstanding | 211,650      |
| Stock subscriptions  | (211,650)    |
| Retained deficit   | (3,234,834)  |
| Total shareholders' equity (deficit)   | (2,734,834)  |
| Total liabilities and shareholders' equity (deficit)   | \$ 4,159,452 |

The accompany notes are an integral part of these financial statements.

F-2

RETAIL TECHNOLOGIES INTERNATIONAL, INC.  
Statements of Operations  
Years ended December 31, 2003 and 2002

|                        | 2003         | 2002         |
|------------------------|--------------|--------------|
|                        | -----        | -----        |
| Sales                  |              |              |
| License                | \$ 6,235,094 | \$ 5,693,350 |
| Equipment and hardware | 196,592      | 397,534      |
| Membership             | 1,953,389    | 1,453,828    |
| Professional services  | 103,915      | 109,082      |
| Other                  | 120,787      | 738,331      |
| Total sales            | 8,609,777    | 8,392,125    |
| Cost of sales          |              |              |
| License                | 398,625      | 470,612      |
| Equipment and hardware | 265,332      | 411,804      |
| Membership             | 98,156       | 66,826       |
| Total cost of sales    | 762,113      | 949,242      |
| Gross profit           | 7,847,664    | 7,442,883    |
| Operating expenses:    |              |              |

Edgar Filing: ISLAND PACIFIC INC - Form 8-K/A

|  |            |              |
|--|------------|--------------|
| Research and development                 | 2,581,563  | 3,607,626    |
| General and administrative               | 2,690,064  | 3,851,476    |
| Selling and marketing                    | 1,445,547  | 1,234,187    |
| Depreciation and amortization            | 319,339    | 343,955      |
|  | -----      | -----        |
| Total operating expenses                 | 7,036,513  | 9,037,244    |
|  | -----      | -----        |
| Income (loss) from operations            | 811,151    | (1,594,361)  |
| Other income (expense):                  |            |              |
| Interest income                          | --         | 4,225        |
| Interest expense                         | (133,392)  | (144,353)    |
| Gain (loss) on sale of assets            | (55,473)   | 7,500,000    |
| Other expenses                           | (53,391)   | --           |
|  | -----      | -----        |
| Total other income (expense)             | (242,256)  | 7,359,872    |
|  | -----      | -----        |
| Income before provision for income taxes | 568,895    | 5,765,511    |
| Provision for income taxes               | 304,339    | 1,291,663    |
|  | -----      | -----        |
| Net income                               | \$ 264,556 | \$ 4,473,848 |
|  | =====      | =====        |

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

F-3

RETAIL TECHNOLOGIES INTERNATIONAL, INC.  
Statements of Shareholders' Equity  
Years ended December 31, 2003 and 2002

|  | Common Stock |              | Treasury    | Treasury       | Pr    |
|--|--------------|--------------|-------------|----------------|-------|
|  | Shares       | Amount       | Stock       | Stock          | S     |
|  | -----        | -----        | -----       | -----          | ----- |
| Balance at January 1, 2002   | 7,487,541    | \$ 1,137,529 |             |                |       |
| Issuance of common stock upon<br>exercise of stock options           | 300          | 240          |             |                |       |
| Repurchase of option shares  | (300)        | (240)        |             |                |       |
| Shares repurchase of outstanding<br>common stock                     |              |              | (7,478,541) | \$ (6,053,153) |       |
| Retirement of treasury stock   | (7,478,541)  | (1,137,529)  | 7,478,541   | 6,053,153      |       |
| Issuance of common stock for notes<br>payable due to related parties | 7,055,000    | 211,650      |             |                |       |
| Preferred stock sale to Intuit Inc.                                  |              |              |             |                |       |

Edgar Filing: ISLAND PACIFIC INC - Form 8-K/A

|                              |           |            |    |       |
|------------------------------|-----------|------------|----|-------|
| Net income                   |           |            |    |       |
| Balance at December 31, 2002 | 7,055,000 | 211,650    | -- | --    |
| Net income                   |           |            |    |       |
| Balance at December 31, 2003 | 7,055,000 | \$ 211,650 | -- | \$ -- |

(continued)

|  | Preferred<br>Amount | Stock<br>Subscriptions | Retained<br>earnings<br>(deficits) | T      |
|--|---------------------|------------------------|------------------------------------|--------|
| Balance at January 1, 2002   |                     |                        | \$ (3,055,354)                     | \$ (1, |
| Issuance of common stock upon<br>exercise of stock options           |                     |                        |                                    |        |
| Repurchase of option shares  |                     |                        | (2,260)                            |        |
| Shares repurchase of outstanding<br>common stock                     |                     |                        |                                    | (6     |
| Retirement of treasury stock   |                     |                        | (4,915,624)                        |        |
| Issuance of common stock for notes<br>payable due to related parties |                     | \$ (211,650)           |                                    |        |
| Preferred stock sale to Intuit Inc.                                  | \$ 500,000          |                        |                                    |        |
| Net income   |                     |                        | 4,473,848                          | 4      |
| Balance at December 31, 2002   | 500,000             | (211,650)              | (3,499,390)                        | (2     |
| Net income   |                     |                        | 264,556                            |        |
| Balance at December 31, 2003   | \$ 500,000          | \$ (211,650)           | \$ (3,234,834)                     | \$ (2  |

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

F-4

RETAIL TECHNOLOGIES INTERNATIONAL, INC.  
Statements of Cash Flows  
Years ended December 31, 2003 and 2002

|   | 2003       |    |
|---|------------|----|
| Cash flows from operating activities:                               |            |    |
| Net income  | \$ 264,556 | \$ |
| Adjustments to reconcile net income to net cash provided (used) For |            |    |

Edgar Filing: ISLAND PACIFIC INC - Form 8-K/A

|   |  |              |    |
|---|--|--------------|----|
| operating activities:                             |  |              |    |
| Depreciation and amortization                     |  | 319,339      |    |
| Gain on sale of intellectual property             |  | --           |    |
| Loss on disposal of property and equipment        |  | 55,473       |    |
| Compensation expense paid with notes payable      |  | --           |    |
| Stock-based compensation                          |  | --           |    |
| Increase in allowance for doubtful accounts       |  | 127,408      |    |
| Changes in assets and liabilities:                |  |              |    |
| Accounts receivable                               |  | (844,272)    |    |
| Inventory   |  | 23,913       |    |
| Prepaid expenses and other assets                 |  | (202,038)    |    |
| Accounts payable                                  |  | (94,897)     |    |
| Accrued expenses                                  |  | 560,662      |    |
| Deferred revenue                                  |  | 600,973      |    |
| Settlement agreement                              |  | (97,153)     |    |
| Income tax payable                                |  | 263,879      |    |
|   |  | -----        |    |
| Net cash provided (used) for operating activities |  | 977,843      |    |
|   |  | -----        |    |
| Cash flows from investing activities:             |  |              |    |
| Purchases of furniture and equipment              |  | (196,773)    |    |
| Proceeds from sale of intellectual property       |  | --           |    |
| Proceeds from sale of property and equipment      |  | 12,307       |    |
| Increase in note receivable                       |  | --           |    |
|   |  | -----        |    |
| Net cash provided (used) for investing activities |  | (184,466)    |    |
|   |  | -----        |    |
| Cash flows from financing activities:             |  |              |    |
| Issuance of common stock, net of redemption       |  | --           |    |
| Sale of preferred stock                           |  | --           |    |
| Repurchase of common stock                        |  | --           |    |
| Repurchase of stock options                       |  | (90,000)     |    |
| Payments on line of credit                        |  | --           |    |
| Proceeds from notes payable - related parties     |  | --           |    |
| Borrowings on obligations under capital lease     |  | 12,760       |    |
| Principal payments on capital lease obligations   |  | --           |    |
| Payments on notes payable                         |  | --           |    |
|   |  | -----        |    |
| Net cash provided (used) for financing activities |  | 12,760       |    |
|   |  | -----        |    |
| Net increase in cash and cash equivalents         |  | 806,137      |    |
| Cash and cash equivalents, beginning of period    |  | 286,952      |    |
|   |  | -----        |    |
| Cash and cash equivalents, end of period          |  | \$ 1,093,089 | \$ |
|   |  | =====        | == |
| Supplemental disclosure of cash flow information: |  |              |    |
| Interest paid                                     |  | \$ 79,800    | \$ |
| Income taxes paid                                 |  | \$ 116,550   | \$ |
| Non-cash investing and financing activities:      |  |              |    |
| Repurchase of common stock with note payable      |  | --           | \$ |
| Repurchase of stock option with note payable      |  | --           | \$ |
| Issuance of notes receivable for common stock     |  | --           | \$ |
| Compensation expense paid with note payable       |  | --           | \$ |

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

RETAIL TECHNOLOGIES INTERNATIONAL, INC.  
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business - Retail Technologies International, Inc. (the "Company") develops, markets and distributes point of sale and inventory management software. The Company began operations in 1986 and was incorporated in California on January 27, 1987. The Company sells its software solutions primarily by partnering with and distributing its products through a network of domestic and international value added resellers and distributors.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Accounts receivable -- The majority of the Company's accounts receivable is due from companies in the direct commerce sales industry. Credit is extended based on evaluation of a customers' financial condition and, generally, collateral is not required. Accounts receivable are due according to contractual terms and are stated at amounts due from customers net of an allowance for doubtful accounts. Accounts that are outstanding longer than the contractual payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Company's previous loss history, the customer's ability to pay its obligation to the Company, and the condition of the general economy and industry as a whole. The Company writes-off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

Inventory -- Inventory consists primarily of equipment and packaging material recorded at the lower of cost or market using the average cost method.

Property and Equipment -- Property and equipment, including leasehold improvements, is stated at cost. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the related assets as follows:

|                        |               |
|------------------------|---------------|
| Equipment and software | 2.5 - 5 years |
| Furniture and fixtures | 7 years       |
| Leasehold improvements | lease term    |

Non-compete covenant -- The non-compete covenant is stated at cost and amortized using the straight-line method over its estimated useful life of four years.

Software Research & Development - Statement of Financial Accounting Standards ("SFAS") No. 86, Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed, requires companies that produce software to capitalize software development costs when technological feasibility has been established. Company management believes that technological feasibility is not established until a beta version of the product exists and that costs incurred during the period from when a beta version is available until general release



## Edgar Filing: ISLAND PACIFIC INC - Form 8-K/A

are not material and therefore are not capitalized.

Revenue Recognition -- Software license revenue is recognized when a non-cancelable license agreement has been executed, the product has been shipped, fees are fixed and determinable, and collection of the resulting receivable is probable. For certain private label software license revenue, which includes unspecified upgrades and enhancements, when and if developed, amounts are included in deferred revenue and recognized ratably over the term of the arrangement. Membership revenue is derived from the sale of rights to future software upgrades, when and if developed, and is billed in advance and included in deferred revenue and recognized ratably over the contracted period. Revenue is recognized from the sale of equipment upon shipment. Service revenue consists primarily of consulting and training services which is recognized as services are performed. Deferred revenues include unearned amounts received under prepaid membership and other contacts and amounts billed to customers but not yet recognized as revenue.

Income Taxes -- In accordance with SFAS No. 109, Accounting for Income Taxes, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences in the timing of the recognition of certain revenues and the deduction of certain expenses for financial reporting and income tax reporting purposes, based on tax rates currently in effect for such periods when the differences become recoverable and settled.

Advertising -- The Company records expenses for advertising when the liability is incurred. The amounts expensed for the years ended December 31, 2003 and 2002 were \$165,040 and \$186,457, respectively.

Stock-Based Compensation -- The Company accounts for its stock-based awards to employees using the intrinsic value method under Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Under this method, compensation expense is recorded on the date of grant only if the current fair value exceeds the exercise price. 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 Company has elected to continue to apply the intrinsic value method of accounting described above, and has adopted the disclosure requirements of SFAS 123, as amended.

Certain Significant Risks and Uncertainties -- Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash, cash equivalents and accounts receivable. Cash and cash equivalents, consisting of business checking and money market accounts are held at several financial institutions. The Company considers all highly liquid debt instruments purchased with a remaining maturity of 90 days or less to be cash equivalents. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. As of December 31, 2003 and 2002, the uninsured portion of these balances held at financial institutions aggregated to \$732,893 and \$208,452, respectively. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents. The Company performs ongoing credit evaluations of customers and generally does not require its customers to provide collateral or other security to support accounts receivable.

## Edgar Filing: ISLAND PACIFIC INC - Form 8-K/A

The Company participates in a dynamic industry and believes that changes in any of the following areas could have a material adverse effect on the Company's future financial position or results of operations; advances and trends in new technologies; competitive pressures in the form of new products or price reductions on existing products; changes in overall demand for products and services offered by the Company; changes in strategic partnerships or other factors; risks associated with changes in domestic and international economic and/or political conditions or regulations; litigation or claims against the Company based on intellectual property, patent, product, regulatory or other factors; and the Company's ability to attract and retain employees necessary to support its growth.

### NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2003 and 2002 consisted of the following:

|  | 2003       |       |
|--|------------|-------|
|  | -----      | ----- |
| Equipment and software                         | \$ 813,750 | \$    |
| Furniture and fixtures                         | 90,359     |       |
| Leasehold improvements                         | 21,128     |       |
|  | -----      | ----- |
|  | 925,237    |       |
| Less accumulated depreciation and amortization | 533,825    |       |
|  | -----      | ----- |
| Total  | \$ 391,412 | \$    |
|  | =====      | ===== |

Depreciation and amortization expense for the years ended December 31, 2003 and 2002 was \$319,339 and \$343,955, respectively.

### NOTE 3 - NON-COMPETE AGREEMENT

In a previous year, the Company entered into a settlement agreement with a former employee consisting of a combined option forfeiture and covenant not-to-compete, covering the four year period from January 1 2001 to December 31 2004. The amount of the non-compete agreement as of December 31 2003 and 2002 respectively, was as follows:

|                               | 2003       |       |
|-------------------------------|------------|-------|
|                               | -----      | ----- |
| Cost                          | \$ 196,000 | \$    |
| Less accumulated amortization | 146,988    |       |
|                               | -----      | ----- |
|                               | \$ 49,012  | \$    |
|                               | =====      | ===== |

Amortization expense for the years ended December 31, 2003 and 2002 was \$48,996 and \$51,773, respectively.

Edgar Filing: ISLAND PACIFIC INC - Form 8-K/A

NOTE 4 - NOTES PAYABLE

Notes payable at December 31, 2003 and 2002 consisted of the following:

Note payable, to a former shareholder, secured by Company stock, payable in monthly installments of \$2,813 including interest at 4.0% per annum beginning January 31, 2004 through November 30, 2007 with a balloon payment due on December 31, 2007. Interest only payments are to be made monthly for the year ended December 31, 2003

Note payable, to a former option holder, secured by Company stock, payable in monthly installments of \$5,350 including interest at 4.50% per annum beginning January 31, 2004 through November 30, 2007 with a balloon payment due on December 31, 2007. Interest only payments are to be made monthly for the year ended December 31, 2003

Note payable, to a former option holder, secured by Company stock, payable in monthly installments of \$5,350 including interest at 4.50% per annum beginning January 31, 2004 through November 30, 2007 with a balloon payment due on December 31, 2007 Interest only payments are to be made monthly for the year ended December 31, 2003

Note payable, to a former option holder, secured by Company stock, payable in monthly installments of \$5,350 including interest at 4.50% per annum beginning January 31, 2004 through November 30, 2007 with a balloon payment due on December 31, 2007. Interest only payments are to be made monthly for the year December 31, 2003

Note payable, to a former shareholder, secured by Company stock, payable in monthly installments of \$7,919 including interest at 4.50% per annum beginning January 31, 2004 through November 30, 2007 with a balloon payment due on December 31, 2007. Interest only payments are to be made monthly for the year ended December 31, 2003

Note payable, to a former shareholder, secured by Company stock, payable in monthly installments of \$5,350 including interest at 4.50% per annum beginning January 31, 2004 through November 30, 2007 with a balloon payment due on December 31, 2007. Interest only payments are to be made monthly for the year ended December 31, 2003

Total notes payable

Less: current maturities

Long-term portion of notes payable

F-7

Future annual minimum payments for the notes payable at December 31, 2003 are summarized as follows:

| Year Ending December 31: |            |
|--------------------------|------------|
| 2004                     | \$ 510,555 |
| 2005                     | 510,555    |
| 2006                     | 510,555    |
| 2007                     | 878,115    |
|                          | -----      |
| Total                    | 2,409,780  |

## Edgar Filing: ISLAND PACIFIC INC - Form 8-K/A

|                        |              |
|------------------------|--------------|
| Less: interest portion | 236,780      |
|                        | -----        |
|                        | \$ 2,173,000 |
|                        | =====        |

Notes payable due to related parties - Notes payable due to officers, at 5% interest per annum as of December 31, 2003 and 2002 are \$200,000 (see note 14).

### NOTE 5 - CAPITAL LEASE OBLIGATION

At December 31, 2003, The Company has an outstanding capital lease obligation from a financial institution with a balance of \$12,760 which bears interest at a rate of 12.1% per annum. \$5,880 of this amount is classified as a current liability. The Company had no outstanding capital lease obligations at December 31, 2002.

Future annual minimum payments for the capital lease obligation at December 31, 2003 are summarized as follows:

|   |           |
|---|-----------|
| Year Ending December 31:                    |           |
| 2004  | \$ 6,985  |
| 2005  | 6,985     |
| 2006  | 1,164     |
|   | -----     |
| Total minimum lease payments                | 15,134    |
| Less amount representing interest           | 1,792     |
|   | -----     |
| Present value of net minimum lease payments | \$ 13,342 |
|   | =====     |

Interest expense on the capital lease obligation was \$1,524 and \$0 for the years ended December 31, 2003 and 2002, respectively.

### NOTE 6 - ACCRUED EXPENSES

Accrued expenses at December 31, 2003 and 2002 consist of the following:

|                                | 2003       | 2002       |
|--------------------------------|------------|------------|
|                                | -----      | -----      |
| Payroll and payroll taxes      | \$ 708,566 | \$ 333,267 |
| Accrued miscellaneous expenses | 164,075    | 29,909     |
| Customer deposits              | 51,197     | --         |
|                                | -----      | -----      |
|                                | \$ 923,838 | \$ 363,176 |
|                                | =====      | =====      |

### NOTE 7 - SETTLEMENT AGREEMENT

In a previous year, the Company entered into a Settlement Agreement, valued at \$412,350, with a former employee consisting of a combined option forfeiture agreement and covenant not-to-compete. Under the terms of the Settlement Agreement, the former employee was entitled to monthly payments of \$10,000 from January 2001 to December 31, 2004. During 2001, the Company entered into an agreement with the former employee allowing for the deferral of several monthly

## Edgar Filing: ISLAND PACIFIC INC - Form 8-K/A

payments, bearing interest at 10%, which extended the loan to July 2005. As of December 31, 2003 and 2002, the amount outstanding is \$175,049 and \$272,202, respectively, of which \$107,325 and \$97,153, respectively, is classified as current.

In February 2004, the Company entered into a Settlement and Release agreement with a former employee who was terminated in 2002. Pursuant to the agreement, the Company agreed to pay this employee a lump sum of \$82,500 in severance and \$961 for expense reimbursement. In addition, the Company agreed to make future bonus payments of up to \$70,000, if and when certain milestones are achieved prior to March 2005. As of December 31, 2003 and 2002, the Company has accrued \$153,461 related to the agreement, of which \$93,461 and \$0 is classified as current in 2003 and 2002, respectively. \$93,461 was paid in February 2004.

### NOTE 8 - STOCK OPTION PLANS

Under the 1998 Stock Option Agreements, (the "Agreements") and the 2001 Stock Option Plan ("the 2001 Plan"), the Company granted options to purchase up to 2,951,163 shares of common stock to eligible employees at prices not less than the fair value of the common stock at the grant date. Options granted under the plans vest ratably over four years and expire 10 years from the date of grant. Pursuant to the management buyout agreement on December 6, 2002, (see note 14) the Company entered into an agreement with the 1998 stock option holders to repurchase their outstanding options, and subsequently options to purchase 1,102,458 shares of common stock were cancelled during the year ended December 31 2002. In connection with the cancellation of these options, the Company issued promissory notes totaling \$803,000 to the previous option holders and recorded a compensation expense of \$893,000 during the year ended December 31 2002.

In March 2003, the Company adopted the 2003 Stock Incentive Plan (the "2003 Plan"), which provides the granting of stock options to employees, director and consultants of the Company. Options granted under the 2003 Plan may be either incentive stock options ("ISOs") or non-qualified stock options ("NSOs"). ISOs may be granted only to employees of the Company or a parent or a subsidiary of the Company. NSOs may be granted to employees, directors and consultants.

F-8

The Company has authorized the grant of options up to 1,500,000 shares of the Company's voting common stock. As of December 31, 2003, there were 684,500 shares available for future issuance under the 2003 Plan. All ISOs granted have ten year terms and vest and become fully exercisable at the end of four years of continued employment. In cases where ISOs are granted to employees that own more than 10% of the Company stock, the term of the ISOs is five years.

The following table summarizes stock option transactions as of December 31, 2003 and 2002:

|                                      | Options   |    | Weighted<br>Average<br>Exercise<br>Price Per<br>Share |
|--------------------------------------|-----------|----|---|
|                                      | -----     |    | -----   |
| Options outstanding, January 1, 2002 | 1,593,458 | \$ | 0.39  |
| Exercised                            | (300)     | \$ | 0.80  |

Edgar Filing: ISLAND PACIFIC INC - Form 8-K/A

|  |             |    |      |
|--|-------------|----|------|
| Canceled                               | (612,500)   | \$ | 0.02 |
| Repurchased and canceled               | (1,012,458) | \$ | 0.02 |
| Forfeited                              | (17,200)    | \$ | 0.80 |
| Granted                                | 49,000      | \$ | 0.80 |
|  | -----       |    |      |
| Options outstanding, December 31, 2002 | --          | \$ | --   |
| Granted                                | 862,000     | \$ | 0.03 |
| Forfeited                              | (46,500)    | \$ | 0.03 |
|  | -----       |    |      |
| Options outstanding December 31, 2003  | 815,500     | \$ | 0.03 |
|  | =====       |    |      |

Of those options outstanding at December 31, 2003 and 2002, none of the options are currently exercisable. Outstanding options have a weighted-average remaining contractual life of approximately 9.05 years at December 31, 2003.

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations in accounting for its employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense has been recognized.

The Company has adopted the disclosure requirements of SFAS 123. The fair value of the employee stock options was estimated at the date of grant using the minimum value method available for privately-held companies. Under this method, the option value is determined as the excess of the fair value of the stock at the date of grant over the present value of both the exercise price lump sum and the expected dividend yields of 0%, each discounted at the risk-free rate of 3.375% over the expected 5-year life of option, with no volatility, in the year ended December 31, 2003.

The following table presents pro forma disclosures required by SFAS 148 of net income (loss) as if the fair-value method had been applied to all outstanding and unvested employee awards in the years ended December 31, 2003 and 2002:

|   | 2003       | 2002         |
|---|------------|--------------|
|   | -----      | -----        |
| Net income as reported  | \$ 264,556 | \$ 4,473,848 |
| Less: stock-based compensation expense,<br>net of related tax effects | --         | --           |
|   | -----      | -----        |
| Pro forma net income  | \$ 264,556 | \$ 4,473,848 |
|   | =====      | =====        |

NOTE 9 - INCOME TAXES

The provision (benefit) for income taxes for the years ended December 31, 2003 and 2002 consisted of the following components:

|          | 2003       | 2002         |
|----------|------------|--------------|
|          | -----      | -----        |
| Current: |            |              |
| Federal  | \$ 303,539 | \$ 1,290,863 |

Edgar Filing: ISLAND PACIFIC INC - Form 8-K/A

|                                      |            |              |
|--------------------------------------|------------|--------------|
| State                                | 800        | 800          |
| Total                                | 304,339    | 1,291,663    |
| Deferred:                            |            |              |
| Federal                              | --         | --           |
| State                                | --         | --           |
| Total                                | --         | --           |
| Provision (benefit) for income taxes | \$ 304,339 | \$ 1,291,663 |

F-9

Significant components of deferred tax assets and liabilities at December 31, 2003 and 2002 are as follows:

|   | 2003        | 2002        |
|---|-------------|-------------|
| Current deferred tax assets                     |             |             |
| Tax credit and net operating loss carryforwards | \$ 70,322   | \$ 125,051  |
| Accrued expenses                                | 274,027     | 220,196     |
| Deferred revenue                                | 622,107     | 516,783     |
| Allowance for bad debts                         | 113,604     | 88,945      |
| Net current deferred tax assets                 | 1,080,060   | 950,975     |
| Non-current deferred tax assets                 |             |             |
| Deferred stock compensation                     | 703,772     | 703,772     |
| Other   | --          | 1,033       |
| Total non-current deferred tax assets           | 703,772     | 704,805     |
| Non-current deferred tax liabilities            |             |             |
| Intangible assets                               | (13,280)    | --          |
| Fixed assets                                    | (62,406)    | (57,718)    |
| State taxes                                     | (141,587)   | (148,632)   |
| Total non-current deferred tax liability        | (217,273)   | (206,350)   |
| Net non-current deferred tax asset              | 486,499     | 498,455     |
| Net deferred tax asset                          | 1,566,559   | 1,449,430   |
| Valuation allowance                             | (1,566,559) | (1,449,430) |
| Net deferred tax liability                      | \$ --       | \$ --       |

The difference between the actual provision (benefit) and the amount

## Edgar Filing: ISLAND PACIFIC INC - Form 8-K/A

computed at the statutory United States federal income tax rate of 34% for the years ended December 31, 2003 and 2002 is attributable to the following:

|  | 2003   | 2002    |
|--|--------|---------|
|  | -----  | -----   |
| Provision (benefit) computed at statutory rate | 34.0%  | 34.0%   |
| Other  | 2.6%   | (2.2)%  |
| Current year tax credits                       | (8.7)% | (3.8)%  |
| State tax (net of federal benefit)             | 5.5%   | 5.1%    |
| Change in valuation allowance                  | 20.6%  | (10.7)% |
|  | -----  | -----   |
| Total provision for income taxes               | 54.0%  | 22.4%   |
|  | =====  | =====   |

At December 31, 2003 and 2002, the Company had California tax net operating loss carryforwards of approximately \$268,000 and \$268,000, respectively. The California tax net operating loss carryforwards will be available for utilization until 2013.

The Company also has California research and development tax credit carryforwards of approximately \$47,000 and \$101,000 for 2003 and 2002, respectively. The California credits may be carried forward indefinitely.

### NOTE 10 - COMMITMENTS AND CONTINGENCIES

Leases -- In March 2003, the Company entered into a sub-lease agreement to lease its principal operating facility. The lease expires January 4, 2006 and monthly rental payments are \$22,255. Under this lease, the Company is responsible for certain maintenance costs, taxes and insurance. Prior to March 2003, the Company leased its principal operating facility under a non-cancelable operating lease agreement which expired in April 2003. Monthly lease payments equaled \$16,125. Under this lease, the Company was responsible for certain maintenance costs, taxes and insurance.

Future annual minimum lease payments for the operating lease at December 31, 2003 are summarized as follows:

|                          |    |         |
|--------------------------|----|---------|
| Year Ending December 31: |    |         |
| 2004                     | \$ | 267,057 |
| 2005                     |    | 267,057 |
| 2006                     |    | 2,927   |
|                          |    | -----   |
|                          | \$ | 537,041 |
|                          |    | =====   |

Rent expense was \$264,507 and \$195,787 for the years ended December 31, 2003 and 2002, respectively.

Defined Contribution Retirement Plan - The Company maintains a 401(k) profit sharing plan covering substantially all its employees. The employees may voluntarily contribute up to 15% of their wages to the plan on a tax-deferred basis. Employer contributions are discretionary. The employer contributions for the years ending December 31, 2003 and 2002 were \$0 and \$0, respectively.

### NOTE 11 - SHAREHOLDERS' EQUITY



## Edgar Filing: ISLAND PACIFIC INC - Form 8-K/A

Shareholders' equity consists of the following:

COMMON STOCK -- There are twenty-five million (25,000,000) shares of common stock, no par value, authorized with 7,055,000 shares outstanding as of December 31, 2003 and 2002. In connection with the management buyout in December 2002, the Company reacquired 7,487,541 shares of its common stock for a total cost of \$6,053,153.

PREFERRED SERIES A STOCK -- At December 31, 2003 and 2002, one million four hundred forty-five thousand (1,445,000) shares of preferred stock, no par value, were authorized and outstanding. The preferred stock was issued in connection with the sale of intellectual property to a third party (see Note 12).

F-10

### NOTE 12 - SALE OF INTELLECTUAL PROPERTY AND PREFERRED STOCK

On December 6, 2002, the Company sold certain intellectual property for \$7,500,000 to a third party. In connection with the sale, the Company also sold certain property and equipment for proceeds of \$43,859 and 1,445,000 shares of series A preferred stock at \$0.346 per share, for \$500,000 respectively. The Company has recognized a total gain of \$7,500,000 on the sale of the intellectual property and property and equipment due to the tangible assets being fully depreciated as of the date of sale. The third party also entered into employment agreements with several of the Company's employees and also a covenant not-to-compete with one of the original stockholders.

In connection with the sale of the intellectual property, the third party granted back to the Company the right to sell various license agreements. Under the terms of these agreements, the Company is obligated to pay royalties equal to 75% of the sales made to certain customers. The terms of the license agreements vary depending on the agreement with the minimum term being approximately three years.

### Note 13 - MANAGEMENT BUYOUT AGREEMENT

Concurrent with the sale of the intellectual property and preferred stock, on December 6, 2002, the management of the Company repurchased all of the 7,478,541 shares of common stock outstanding for a total cost of \$6,053,153. In connection with the share repurchase, the Company issued notes payables of \$2,373,000 to the former shareholders. All of the shares of common stock were subsequently retired. In addition, options to purchase 1,102,458 shares of common stock were also repurchased from the stockholders for a total of \$893,000, for which notes payables of \$803,000 were issued and remain outstanding at December 31 2003 and 2002 respectively. All stock options repurchased were subsequently cancelled.

A total of 7,055,000 shares of common stock were then issued to two of the officers in exchange for notes receivables amounting to \$211,650 (see note 14). In connection with the change of control and under the terms of their employment agreements, the officers received \$100,000 each in bonuses for which notes payables of \$100,000 for each remain outstanding at December 31 2003 and 2002, respectively (see note 14).

### NOTE 14 - RELATED PARTIES

Affiliated Companies -- At December 31, 2001, the Company had outstanding note receivable from LinkSource, with interest at 6.7% in the amount of \$46,500, which was fully reserved. This receivable was written off in full during the year ended December 31, 2002. The founder and former CEO of the Company was an

## Edgar Filing: ISLAND PACIFIC INC - Form 8-K/A

investor and director of LinkSource. The Company had no transactions with LinkSource in 2003 or 2002. At December 31, 2003 and 2002, there were no outstanding balances related to LinkSource.

Notes receivable from officers -- On December 20, 2002, the Company issued 7,055,000 shares of common stock to two officers and shareholders in exchange for notes receivable of \$211,650. Interest on the principal balance of \$105,825 of each note is computed from the date of issuance at a rate of 5% compounded annually and will continue to accrue until paid. The notes are due at the time of a change in control or the transfer of the officers' common stock holdings.

Under the terms of their employment agreements, certain bonuses were payable to two officers and shareholders in the event of a change of control of the Company. Pursuant to the management buyout in December 2002, the officers were granted a bonus of \$100,000 each. The Company issued two promissory notes that bear interest at 5% per annum and are due on the earlier of a further change in control or the transfer of their common stock holdings.

### NOTE 15 - MAJOR CUSTOMERS

The Company had sales to a customer of approximately \$997,771 and \$963,703 in the years ended December 31, 2003 and 2002, respectively, accounting for approximately 12% and 11% of total sales, respectively. The related account receivable balances at December 31, 2003 and 2002 were \$520,686 and \$371,257, respectively, which constituted 19% and 20% of the total accounts receivable balances outstanding at December 31, 2003 and 2002, respectively.

### NOTE 16 - SUBSEQUENT EVENT

Pursuant to an agreement dated June 1, 2004, the Company executed a Restated Agreement of Merger and Plan of Reorganization with Island Pacific, Inc. ("Island Pacific") pursuant to which the Company will be acquired by Island Pacific for a purchase price of approximately \$10.0 million, consisting of 2,517,232 shares of Island Pacific's Series B convertible preferred stock, 1,546,733 shares of Island Pacific's common stock and \$3.1 million in notes payable. In addition, Island Pacific assumed approximately \$2.3 million in debt owed to the former stockholders of the company in connection with the management buyout agreement and the Company's 2003 Stock Option Plan. The outstanding stock options at June 1, 2004 were converted into Island Pacific stock options at a conversion rate of 1.5562.

F-11

### PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### ISLAND PACIFIC, INC. AND SUBSIDIARIES

#### INTRODUCTION TO PRO FORMA CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

Pursuant to an agreement dated June 1, 2004, Island Pacific, Inc. ("Island Pacific") acquired Retail Technologies International, Inc. ("RTI") from Michael Tomczak and Jeffrey Boone (the "Shareholders") and Intuit Inc. ("Intuit") in a merger transaction.

Pursuant to the Amended Merger Agreement, the Merger (as defined below) was completed with the following terms: (i) Island Pacific 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 its common stock and newly designated Series B convertible preferred stock ("Series B

## Edgar Filing: ISLAND PACIFIC INC - Form 8-K/A

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 its common stock is less than \$0.76 at the time the shares of its 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 Island Pacific, 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, Island Pacific 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 Island Pacific filing an amendment to its certificate of incorporation with the Delaware Secretary of State increasing the authorized number of shares of its 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 Island Pacific's capital stock and that they will vote their shares of Island Pacific's capital stock in favor of the Certificate of Amendment and the Amended Merger Agreement and transactions contemplated therein.

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

The accompanying unaudited pro forma condensed consolidated balance sheet contains the following:

1. Consolidated balance sheet of Island Pacific and its subsidiaries as of March 31, 2004, including Page Digital Incorporated ("Page Digital"), and
2. Balance sheet of RTI as of March 31, 2004.

## Edgar Filing: ISLAND PACIFIC INC - Form 8-K/A

The pro forma condensed consolidated balance sheet uses the purchase method of accounting and is based on the assumptions set forth in the notes to the statement.

The accompanying unaudited pro forma condensed consolidated statement of operations for the twelve months ended March 31, 2004 contains the following:

1. Consolidated statement of operations of Island Pacific and its subsidiaries for the twelve months ended March 31, 2004, including the operations of Page Digital from February 1, 2004 to March 31, 2004,
2. Statement of operations of Page Digital for the period of April 1, 2003 to January 31, 2004, which assumes the acquisition of Page Digital occurred on April 1, 2003, and
3. Statement of operations of RTI for the twelve months ended March 31, 2004, which assumes the acquisition of RTI occurred on April 1, 2003.

The pro forma condensed consolidated statements of operations use the purchase method of accounting and are based on the assumptions set forth in the notes to this statement.

Island Pacific is in the process of determining how the purchase price will be allocated to the net assets acquired and accordingly, the accompanying pro forma condensed consolidated financial statements represent a preliminary estimate of the allocation. The actual purchase price allocation may vary significantly.

These pro forma condensed consolidated financial statements are not necessarily indicative of future operations or the actual results which would have occurred had the transaction been consummated on the date indicated or that may be achieved in the future.

The unaudited pro forma condensed consolidated financial statements should be read in conjunction with the historical consolidated financial statements of the Company and the notes to such statements included in Island Pacific's Form 10-K for the fiscal year ended March 31, 2004, as well as the historical financial statements of RTI included in this Form 8-K/A.

F-12

Island Pacific, Inc. and Subsidiaries  
Pro Forma Condensed Consolidated Balance Sheet (Unaudited)  
As of March 31, 2004  
(in thousands)

|   | Island<br>Pacific | RTI    |    | Pro forma<br>Adjustments |
|---|-------------------|--------|----|--------------------------|
|   | -----             | -----  |    | -----                    |
| <b>ASSETS</b>                             |                   |        |    |                          |
| <b>Current assets</b>                     |                   |        |    |                          |
| Cash                                      | \$ 2,108          | \$ 524 | \$ | --                       |
| Accounts receivable, net                  | 4,572             | 1,850  |    | --                       |
| Other receivables                         | 143               | --     |    | --                       |
| Inventories                               | 46                | --     |    | --                       |
| Current portion of non-compete agreements | 668               | --     |    | --                       |
| Current portion of note receivable        | 36                | --     |    | --                       |
| Prepaid expenses and other current assets | 472               | 97     |    | --                       |

Edgar Filing: ISLAND PACIFIC INC - Form 8-K/A

|  |                  |                 |                  |
|--|------------------|-----------------|------------------|
| Total current assets                                   | 8,045            | 2,471           | --               |
| Note receivable, less current maturities, net          | 126              | --              | --               |
| Property and equipment, net                            | 821              | 533             | --               |
| Goodwill, net  | 20,469           | --              | 6,381            |
| Other intangibles, net                                 | 22,099           | 37              | 5,708            |
| Other assets   | 202              | 30              | --               |
| <b>Total assets</b>                                    | <b>\$ 51,762</b> | <b>\$ 3,071</b> | <b>\$ 12,089</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>            |                  |                 |                  |
| <b>Current liabilities</b>                             |                  |                 |                  |
| Current portion of long-term debts                     | \$ 146           | \$ 1,872        | \$ 650           |
| Current portion of notes payable to officers           | --               | --              | 269              |
| Current portion of capital leases                      | 169              | 6               | --               |
| Accounts payable                                       | 1,255            | 131             | --               |
| Accrued expenses                                       | 3,016            | 721             | --               |
| Deferred revenue                                       | 2,657            | 1,758           | --               |
| Current portion of settlement agreements               | --               | 138             | --               |
| Income taxes payable                                   | --               | 187             | --               |
| <b>Total current liabilities</b>                       | <b>7,243</b>     | <b>4,813</b>    | <b>919</b>       |
| Convertible debentures, less current maturities        | 2,160            | --              | --               |
| Capital lease obligations, less current maturities     | 89               | 6               | --               |
| Notes payable  | --               | --              | 448              |
| Notes payable due to officers, less current maturities | --               | 200             | 2,490            |
| Deferred revenue                                       | --               | 906             | --               |
| Settlement agreements, less current maturities         | --               | 42              | --               |
| Deferred rent  | 70               | --              | --               |
| <b>Total liabilities</b>                               | <b>9,562</b>     | <b>5,967</b>    | <b>3,857</b>     |
| <b>Stockholders' equity</b>                            |                  |                 |                  |
| Preferred stock  | 14,100           | 500             | 5,209            |
| Common stock   | 5                | 212             | (212)            |
| Stock subscription receivables                         | --               | (212)           | 212              |
| Additional paid in capital                             | 72,813           | --              | 1,169            |
| Retained earnings (deficit)                            | (44,718)         | (3,396)         | 1,854            |
| <b>Total stockholders' equity</b>                      | <b>42,200</b>    | <b>(2,896)</b>  | <b>8,232</b>     |
| <b>Total liabilities and stockholders' equity</b>      | <b>\$ 51,762</b> | <b>\$ 3,071</b> | <b>\$ 12,089</b> |

F-13

PRO FORMA ADJUSTMENTS:

(A) Purchase price of RTI:

|  |          |
|--|----------|
| Issuance of 2,517,233 shares of Series B Convertible Preferred Stock | \$ 5,709 |
| Issuance of 1,546,733 shares of common stock:                        |          |
| Common stock   | --       |
| Paid in capital  | 1,169    |

Edgar Filing: ISLAND PACIFIC INC - Form 8-K/A

|   |           |
|---|-----------|
| Notes payable due to officers   | 2,591     |
| Note payable due to Intuit  | 531       |
|   | -----     |
|   | 10,000    |
| Assumed additional principal on existing notes payable  | 500       |
|   | -----     |
| Purchase price  | \$ 10,500 |
|   | =====     |
| Net assets acquired:  |           |
| Preferred stock   | \$ 500    |
| Common stock  | 212       |
| Stock subscription receivable   | (212)     |
| Retained deficits at March 31, 2003   | (3,381)   |
| Software (10 years life) - estimate   | 5,000     |
| Customer relationships (5 years life) - estimate  | 2,000     |
| Goodwill - estimate   | 6,381     |
|   | -----     |
|   | \$ 10,500 |
|   | =====     |
| (B) Amortization expense for ten months ended January 31, 2004 related to intangible assets resulted from Page Digital acquisition: |           |
| Software  | \$ 241    |
| Customer relationships  | 151       |
|   | -----     |
| Total   | \$ 392    |
|   | =====     |
| (C) Amortization expense for twelve months ended March 31, 2004 related to intangible assets resulted from RTI acquisition:         |           |
| Software  | \$ 500    |
| Customer relationships  | 400       |
|   | -----     |
| Total   | \$ 900    |
|   | =====     |
| (D) Interest expense at 6.5% per annum on notes payable issued in connection with RTI acquisition                                   | \$ 235    |
|   | =====     |
| (F) Current maturities of:  |           |
| Notes payable   | \$ 650    |
| Notes payable to officers   | 269       |
|   | -----     |
|   | \$ 919    |
|   | =====     |

F-14

Island Pacific, Inc. and Subsidiaries  
 Pro Forma Condensed Consolidated Statement of Operations (Unaudited)  
 For the twelve Months Ended March 31, 2004  
 (in thousands, except for per share amounts)

| Island Pacific | Page Digital | RTI   | Pro Adju |
|----------------|--------------|-------|----------|
| -----          | -----        | ----- | -----    |

Edgar Filing: ISLAND PACIFIC INC - Form 8-K/A

|   |    |         |    |         |    |       |    |
|---|----|---------|----|---------|----|-------|----|
| Net sales   | \$ | 21,739  | \$ | 4,202   | \$ | 8,591 | \$ |
| Cost of goods sold  |    | 5,252   |    | 2,269   |    | 886   |    |
|   |    | -----   |    | -----   |    | ----- |    |
| Gross profit  |    | 16,487  |    | 1,933   |    | 7,705 |    |
| Expenses  |    |         |    |         |    |       |    |
| Research and development expenses   |    | 1,043   |    | 1,461   |    | 2,964 |    |
| Depreciation and amortization   |    | 3,896   |    | 169     |    | 57    |    |
| Selling, general and admin. expenses  |    | 14,798  |    | 2,564   |    | 4,429 |    |
|   |    | -----   |    | -----   |    | ----- |    |
| Total expenses  |    | 19,737  |    | 4,194   |    | 7,450 |    |
|   |    | -----   |    | -----   |    | ----- |    |
| Income (loss) from operations   |    | (3,250) |    | (2,261) |    | 255   |    |
| Other income (expense):   |    |         |    |         |    |       |    |
| Interest income   |    | 20      |    | 12      |    | --    |    |
| Other income (expense)  |    | (647)   |    | 12      |    | (139) |    |
| Interest expense  |    | (937)   |    | (21)    |    | (93)  |    |
|   |    | -----   |    | -----   |    | ----- |    |
| Total other income (expenses)   |    | (1,564) |    | 3       |    | (232) |    |
|   |    | -----   |    | -----   |    | ----- |    |
| Income (loss) before income taxes   |    | (4,814) |    | (2,258) |    | 23    |    |
| Provision for income tax benefits   |    | (586)   |    | --      |    | 8     |    |
|   |    | -----   |    | -----   |    | ----- |    |
| Net income (loss)   |    | (4,228) |    | (2,258) |    | 15    |    |
| Cumulative preferred dividends  |    | (1,024) |    | --      |    | --    |    |
|   |    | -----   |    | -----   |    | ----- |    |
| Net loss available to common stockholders   | \$ | (5,252) | \$ | (2,258) | \$ | 15    |    |
|   |    | =====   |    | =====   |    | ===== |    |
| Basic and diluted earnings per share based on net loss available to common stockholders | \$ | (0.13)  |    |         |    |       |    |
| Basic and diluted weighted average shares outstanding                                   |    | 41,450  |    |         |    |       |    |

PRO FORMA ADJUSTMENTS:

|     |   |       |     |
|-----|---|-------|-----|
| (A) | Amortization expense for ten months ended January 31, 2004 related to intangible assets resulted from Page Digital acquisition: |       |     |
|     | Software  | \$    | 241 |
|     | Customer relationships  |       | 151 |
|     |   | ----- |     |
|     | Total   | \$    | 392 |
|     |   | ===== |     |
| (B) | Amortization expense for twelve months ended March 31, 2004 related to intangible assets resulted from RTI acquisition:         |       |     |
|     | Software  | \$    | 500 |
|     | Customer relationships  |       | 400 |
|     |   | ----- |     |
|     | Total   | \$    | 900 |

Edgar Filing: ISLAND PACIFIC INC - Form 8-K/A

(C) Interest expense at 6.5% per annum on notes payable issued  
in connection with RTI acquisition

=====

\$ 235

=====

(D) Issued 1,546,723 shares of common stock in connection with  
RTI acquisition

=====

1,547

=====

F-15

SIGNATURES

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

Island Pacific, Inc.

Date: August 4, 2004

By: /s/ Ran Furman

-----  
Name: Ran Furman  
Title: Chief Financial Officer