Retail Pro, Inc.
Form 10-Q
May 30, 2008

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

FORM 10-Q

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

For the quarterly period ended December 31, 2007

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

For the transition period from ________________________________ to ____________________________

Commission File Number: 0-23049

RETAIL PRO, INC.
(Formerly known as Island Pacific, 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)
3252 Holiday Court, Suite 226, La Jolla, CA (Address of principal executive offices)	92037 (Zip Code)

(858) 550-3355
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one:)

Large accelerated filer o Accelerated

filer o Non-accelerated filer x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

Common stock, $0.0001 Par Value – 61,340,195 shares as of May 29, 2008.

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ITEM 1. FINANCIAL STATEMENTS

RETAIL PRO, INC. AND SUBSIDIARIES
(Formerly known as Island Pacific, Inc.)
CONSOLIDATED CONDENSED BALANCE SHEETS
(in thousands, except share amounts)

	December 31, 2007 (Unaudited)	March 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 2,659	$ 565
Accounts receivable, net of allowance for doubtful accounts of $449 and $386, respectively	2,718	2,913
Other receivables	98	136
Note receivable	3,000	-
Prepaid expenses and other current assets	399	261
Total current assets	8,874	3,875
Property and equipment, net	303	307
Goodwill, net	13,511	22,984
Other intangible assets, net	8.197	12,574
Deferred royalties and related maintenance inter-co’s	1,168	-
Other assets	411	315
Total assets	$ 32,464	$ 40,055
Liabilities and stockholders' equity		
Current liabilities:		
Notes payable	$ 675	$ 3,537
Current portion of long-term debt	6,562	7,185
Accounts payable	3,230	1,286
Accrued audit fees	69	300
Accrued interest and financing costs	685	1,202
Accrued employment expenses	1,251	1,029
Accrued accounts payable	2,302	801
Other Accrued expenses	1,758	-
Deferred revenue	3,452	5,599
Income taxes payable	127	127
Total current liabilities	20,111	21,066
Debt due to stockholders, less current maturities	2,515	2,515
Convertible debentures, less current maturities	-	2,520
Deferred revenue	1,498	1,126
Accrued price protection	1,737	1,736
Deferred rent	212	206

Total liabilities		26,073		29,169
Stockholders' equity				
Preferred stock, $0.0001 par value; 5,000,000 shares authorized;		-		-
Common stock, $.0001 par value; 250,000,000 shares authorized; 60,043,297 and 59,842,047 shares issued and outstanding, respectively		6		6
Additional paid-in capital		92,963		92,859
Accumulated Deficit		(86,578)		(81,979)
Total stockholders' equity		6,391		10,886
Total liabilities and stockholders' equity	$	32,464	$	40,055

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

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RETAIL PRO, INC. AND SUBSIDIARIES
(Formerly known as Island Pacific, Inc.)
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Three Months Ended December 31, 2007	Three Months Ended December 31, 2006	Nine Months Ended December 31, 2007	Nine Months Ended December 31, 2006
	(Unaudited)		(Unaudited)	
Revenues:				
Product	$ 3,043	$ 3,102	$ 9,290	$ 9,650
Services	438	358	1,223	1,049
Net sales	3,481	3,460	10,513	10,699
Cost of revenues:				
Product	927	946	2,617	2,672
Services	285	203	677	643
Cost of sales	1,212	1,149	3,294	3,315
Gross Profit	2,269	2,311	7,219	7,384
Expenses:				
Application development	839	647	2,660	1,550
Depreciation and amortization	79	83	225	251
Selling, general and administrative	3,789	2,551	9,260	7,114
Total expenses	4,707	3,281	12,145	8,915
Loss from operations	(2,438)	(970)	(4,926)	(1,531)
Other income (expense):				
Other expense	(1)	(15)	(6)	27
Interest expense	(808)	(414)	(2,003)	(1,193)
Finance charges	(342)	(1,990)	(1,593)	(5,072)
Loss on foreign exchange	(10)	(2)	(16)	(2)
Other expenses	(1,161)	(2,421)	(3,618)	(6,240)
Loss from continuing operations before income taxes	(3,599)	(3,391)	(8,544)	(7,771)
Provision for income taxes (benefits)	-	-	-	-
Loss from continuing operations	(3,599)	(3,391)	(8,544)	(7,771)

Income (loss) from discontinued operations net of taxes		(90)		1,535		2,152		2,191
Gain from the sale of discontinued operations		1,792		-		1,792		-
Net loss available to common stockholders	$	(1,897)	$	(1,856)	$	(4,600)	$	(5,580)
Basic and diluted loss per share:								
Net loss available to common stockholders from continuing operations	$	(0.06)	$	(0.06)	$	(0.015)	$	(0.12)
Net gain available to common stockholders from discontinued operations	$	0.03	$	0.03	$	0.07	$	0.04
Basic and diluted weighted-average common shares outstanding		60,439,140		62,267,024		60,051,624		66,417,210

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

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RETAIL PRO, INC. AND SUBSIDIARIES
(Formerly known as Island Pacific, Inc.)
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(in thousands, except share amounts)

	Nine Months Ended December 31,			
		2007 (Unaudited)		2006 (Unaudited)
Cash flows from operating activities:				
Net loss	$	(4,600)	$	(5,580)
Adjustments to reconcile net loss to net cash used for operating activities:				
Depreciation and amortization		795		828
Amortization of debt discount		1,579		2,555
Gain on sale of discontinued operations		(1,792)		-
Provision for allowance for doubtful accounts, net of recoveries		63		4
Stock-based compensation		104		113
Changes in assets and liabilities net of effects from acquisitions:				
Accounts receivable and other receivables		131		(740)
Prepaid expenses and other assets		(1,364)		(754)
Accounts payable and accrued expenses		4,677		539
Deferred revenue		(1,775)		367
Net cash used by continuing operations		(2,182)		(1,160)
Net cash provided by discontinued operations		3,799		2,696
Net cash provided (used) by operating activities		1,617		1,536
Cash flows from investing activities:				
Purchases of furniture and equipment		(385)		(145)
Proceeds from sale of discontinued operations		10,170		-
Capitalized software development costs		(1,724)		(1,376)
Net cash provided (used) by investing activities		8,061		(1,625)
Cash flows from financing activities:				
Proceeds from term notes and contracts		-		1,356
Payments on term notes		(7,584)		(550)
Net cash provided (used) by financing activities		(7,584)		1,286
Effect of exchange rate changes on cash		-		(30)
Net decrease in cash and cash equivalents		2,094		791
Cash and cash equivalents, beginning of period		565		542
Cash and cash equivalents, end of period	$	2,659	$	1,333

Supplemental disclosure of cash flow information:				
Interest paid	$	701	$	1,192
Income taxes paid		-		-
Supplemental disclosure of non-cash investing and financing activities:				
Issued 200,000 shares of common stock and a warrant to purchase 200,000 shares of common stock related to the termination of a product distribution agreement	$	20	$	-

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

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RETAIL PRO, INC. AND SUBSIDIARIES
(Formerly known as Island Pacific, Inc.)
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
December 31, 2007

NOTE 1 - ORGANIZATION AND BASIS OF PREPARATION

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with generally accepted accounting principles applicable to interim financial statements. Accordingly, they do not include all of the information and notes required for complete financial statements. In the opinion of management, all adjustments necessary to present fairly the financial position, results of operations and cash flows at December 31, 2007 and for all the periods presented have been made.

On October 31, 2007 the Company announced the signing of a definitive Asset Purchase Agreement (“Agreement”) to sell its Island Pacific Retail Management Solutions (IPMS) business unit with the “Island Pacific” name and related trademarks, service marks, trade names and all goodwill associated with the name “Island Pacific”. The Agreement transaction closed on December 20, 2007. This operation is considered to be discontinued as defined under Financial Accounting Standard No. 144 (“FAS No. 144”), “Accounting for the Impairment or Disposal of Long-Lived Assets” and require specific accounting and reporting for this quarter which differs from the approach used to report the Company’s results in prior quarters. It also requires a restatement of comparable prior periods to conform to the required presentation.

The Company’s financial statements reflect the accounting and disclosure requirements of FAS No. 144 which mandates the segregation of operating results for the current quarter and comparable prior quarters of the current year and the balance sheet related to the operation to be sold from those related to ongoing operations. Accordingly, the consolidated condensed statements of income for the three and nine month periods ending December 31, 2007 and 2006 reflect this segregation as a gain or loss from discontinued operations. The segregation of the total assets of the operation to be sold is disclosed in the accompanying footnotes to the consolidated condensed financial statements (see Note 13).

The Company has evaluated the determination of its reporting segments as a result of the changes in its organizational structure and the classification of IPMS (“the Retail Management segment”) to discontinued operations during the third quarter of 2008 in accordance with Financial Accounting Standards No. 131 (“FAS No. 131’), Disclosures about Segments of an Enterprise and related Information”. The Company has determined it has two reportable segments for continuing operations, Store Solutions and Multi-Channel Retail.

The financial information included in this quarterly report should be read in conjunction with the consolidated financial statements and related notes thereto in our Form 10-K for the year ended March 31, 2007.

The results of operations for the three and nine months ended December 31, 2007 and 2006 are not necessarily indicative of the results to be expected for the full year.

NOTE 2 - GOING CONCERN UNCERTANTITY

We incurred a loss of $1.9 million for the three months ended December 31, 2007, have a recent history of losses and have not been able to achieve profitability. The recent losses have generally been due to difficulties completing sales for new application software licenses, deferral of gross profit from contracts in process to future periods, a change in sales mix toward lower margin services, and debt service expenses. We will need to generate additional revenue and reduce expenses to achieve profitability in future periods. In that regard, we are implementing a strategic plan to integrate our product lines and unify our processes and operations. This plan is a continuation of the Company’s drive towards profitability.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2007 and March 31, 2007 consisted of the following (in thousands):

	December 31, (unaudited)	March 31 (unaudited)
Computer and office equipment and purchased software	$ 1,357	$ 3,000
Furniture and fixtures	155	308
Leasehold improvements	67	332
	1,.579	3,640
Less accumulated depreciation and amortization	1,276	3,333
Total	$ 303	$ 307

Depreciation expense for the three months ended December 31, 2007 and 2006 was $55 thousand and $74 thousand, respectively. Depreciation expense for the nine months ended December 31, 2007 and 2006 was $158 thousand and $245 thousand, respectively.

NOTE 4 - GOODWILL AND OTHER INTANGIBLES

At December 31, 2007 and March 31, 2007, goodwill and other intangibles consist of the following (in thousands):

	December 31, 2007 (unaudited)			March 31, 2007		
	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net
Goodwill	$ 13,511	-	$ 13,511	$ 28,993	$ (6,009)	$ 22,984
Other intangibles:						
Amortized intangible assets						
Software technology	8,921	(2,622)	6,299	30,818	(20,267)	10,551
Customer relationships	1,836	(771)	1,065	1,836	(646)	1,190
Unamortized intangible trademark	833	-	833	833	-	833
	11,590	(3,393)	8,197	33,487	(20,913)	12,574
Total goodwill and other intangibles	$ 25,101	(3,393)	$ 21,708	$ 62,480	$ (26,922)	$ 35,558

Software and customer relationships are amortized on a straight-line basis over their useful lives, seven and ten years, respectively. The goodwill and the trademark have indefinite useful lives and are not subject to amortization.

Amortization expense (unaudited) for the three months and for the nine months ended December 31, 2007 and 2006 consists of the following (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2007	2006	2007	2006
Amortization of Capitalized Software Development Costs Included in Cost of Revenues	$ 193	$ 193	$ 578	$ 578
Amortization of Other Intangible Assets	42	42	125	125
	$ 235	$ 235	$ 703	$ 703

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NOTE 5 – DEFERRED ROYALTIES AND RELATED MAINTENANCE

On May 21, 2007, we entered into a contract for $409 thousand with Oracle USA, Inc. to buyout the royalties that would apply to embedding the Oracle Business Intelligence Application Package in Version 9 of our Retail Pro® software. We also purchased a one-year support contract for $78 thousand. On May 22, 2007, we entered into a contract for $550 thousand with Oracle USA, Inc. to buyout the royalties that would apply to the embedding of Oracle database software in upgrades to Version 9 of our Retail Pro® software from earlier versions. We also purchased a two-year support contract for $209 thousand.

The royalty buyouts will be amortized as upgrades are delivered and the support contract will be amortized commencing with the General Release of Version 9 in January 2008 over a forty one month period, the remaining terms of the royalty buyout agreements.

NOTE 6 - CONVERTIBLE DEBENTURES AND TERM NOTES

CONVERTIBLE DEBENTURES

Convertible debentures at December 31, 2007 and March 31, 2007 consist of the following (in thousands):

	December 31 (unaudited)	March 31
9% convertible debentures, due May 2007	$ 913	$ 913
Convertible term note, bearing interest at the prime rate plus 2%, due July 2007, net of unamortized debt discount of $0 and $570, respectively	2,067	6,218
Convertible term notes, bearing interest at the prime rate plus 1%, due June 2008, net of unamortized debt discount of $617 and $1,626, respectively	3,582	2,574
	6,562	9,705
Less: current maturities	6,562	7,185
Long-term portion of convertible notes	$ -	$ 2,520

TERM NOTES

Term Notes at December 31, 2007 and March 31, 2007 consist of the following (in thousands):

	December 31, (Unaudited)	March 31,
Note payable, bearing interest at the prime rate plus 2%, due April 30, 2007	$ 675	$ 675
Note payable, bearing interest at the prime rate plus 2%, due June 30, 2007	-	2,625
Non-interest bearing Note payable, due June 30, 2007	-	237
	$ 675	$ 3,537

NOTE 7 - DEFERRED REVENUE

Deferred revenue as of December 31, 2007 and March 31, 2007 consists of the following (in thousands):

	December 31, (unaudited)	March 31
Contracts in Process	$ -	$ 236
Prepaid Support Service	4,585	5,861
Customer Deposits	365	628
	4,950	6,725
Less: Current Portions	3,452	5,599
Long-Term Deferred Revenue	$ 1,498	$ 1,126

NOTE 8 – SHARE-BASED COMPENSATION

Effective April 1, 2005, we commenced accounting for stock-based compensation in accordance with the provision of SFAS No. 123(R), "Share-Based Payment", issued in December 2004 as a revision of SFAS No. 123 and requiring that the cost resulting from share based payments be recognized in the financial statements using a fair value measurement. The share-based payments arise from the grant of stock options from one of the Company plans, and compensation is recorded using a closed-form option-pricing model which assumes that the option exercises occur at the end of the contractual term and that the expected volatility, expected dividends, and risk-free interest rates are constant over the option's term. We account for the cost of stock-based compensation on a straight-line basis over the requisition service period for the entire award.

Share based compensation included in Selling, General and Administrative Expenses in the three months ended December 31, 2007 and 2006 was $46 thousand and $607 thousand, respectively. Share based compensation included in Selling, General and Administrative Expenses in the nine months ended December 31, 2007 and 2006 was $192 thousand and $834 thousand, respectively.

NOTE 9 - EQUITY TRANSACTIONS

In the three months ended December 31, 2007, we had the following equity transaction:

- On October 15, 2007 we issued 466,667 and 100,000 shares of common stock as director fees with a fair market value of $51,334 and $8,000 respectively.

NOTE 10 - LOSS PER SHARE

Basic loss per common share is calculated by dividing net loss by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per common shares ("diluted EPS") reflect the potential dilutive effect, determined by the treasury method, of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. Loss per share for the three and nine months ended December 31, 2007 and 2006 is calculated as follows (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2007	2006	2007	2006
Net loss available to common stockholders from continuing operations	$ (3,599)	$ (3,391)	$ (8,544)	$ (7,771)
Net gain available to common stockholders from discontinued operations	$ 1,792	$ 1,535	$ 3,944	$ 2,377
Basic and diluted weighted average shares	60,439	62,267	60,052	66,417
Basic and diluted loss per share from continuing operations	$ (0.06)	$ (0.06)	$ (0.15)	$ (0.12)
Basic and diluted gain per share from discontinued operations	$ 0.03	$ 0.03	$ 0.07	$ 0.04

The following potential common shares have been excluded from the computation of diluted net loss per share at December 31, 2007 and 2006, because the effect would have been anti-dilutive:

	December 31,	
	2007	2006
Outstanding options under our stock option plans	11,756,697	9,538,302
Outstanding options granted outside our stock option plans	28,910,295	28,540,000
Warrants issued in conjunction with private placements	-	-
Warrants issued for services rendered	1,009,565	1,049,565
Warrants issued in conjunction with convertible debentures	16,092,048	17,795,098
Series A Convertible Preferred Stock	-	-
Convertible debt	35,896,010	59,501,075
Total	93,654,665	116,424,040

NOTE 11 - BUSINESS SEGMENTS AND GEOGRAPHIC DATA

We are a leading provider of software solutions and services that have been developed specifically to meet the needs of the retail industry. We provide high value innovative solutions that help retailers understand, create, manage and fulfill consumer demand. Our solutions help retailers improve the efficiency and effectiveness of their operations and build stronger, longer lasting relationships with their customers.

We have structured our operations into two strategic business units that are separate reporting structures. The business units are , store solutions and multi-channel retail solutions. Our operations are conducted principally in the United States and the United Kingdom. In addition, we manage long-lived assets by geographic region. The business units are as follows:

- Store Solutions - Through our acquisition of Retail technologies, Inc. (“RTI”), we focused our Store Solutions offerings on “Retail Pro®,” which provides a total solution for small to mid-tier retailers worldwide. Retail Pro® is currently used by approximately 10,000 businesses in over 45,000 stores in 73 countries. The product is translated into eighteen languages making it one of the few quality choices for the global retailer. At its core, Retail Pro® is a high performance, 32-bit Windows application offering point-of-sale, inventory control and customer relations management. Running on WindowsNT, Windows2000, Windows XP Professional and Windows.Net platforms, Retail Pro® combines a fully user-definable graphical interface with support for a variety of input devices (from keyboard to touch screen). Its Retail Business Analytics module includes an embedded Oracle(r) 9i database. Retail Pro® is fast and easy to implement. The software has been developed to be very flexible and adaptable to the way a retailer runs its business.
- Multi-channel Retail Solutions (“Multi-channel Retail”) – Our Multi-Channel Retail application is designed to specifically address direct commerce business processes, which primarily relate to interactions with the end-user. This application was originally designed by Page Digital to manage its own former direct commerce operation, with attention to functionality, usability and scalability. Its components include applications for customer relations management, order management, call centers, fulfillment, data mining and financial management. Specific activities like partial ship orders, payments with multiple tenders, back order notification, returns processing and continuum marketing represent just a few of the more than 1,000 parameterized direct commerce activities that have been built into “Synaro”™, our Multi-Channel Solution and its applications. These components and the interfacing technology are available to customers, systems integrators and independent software developers who may modify them to meet their specific needs.

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

	Three Months Ended December 31, ,		Nine Months Ended December 31,,	
	2007	2006	2007	2006
Net sales from continuing operations:				
Store Solutions	$ 3,121	$ 2,808	$ 9,282	$ 9,043
Multi-channel Retail	360	652	1,231	1,656
Consolidated net sales	$ 3,481	$ 3,460	$ 10,513	$ 10,699
Operating income (loss):				
Store Solutions	$ (597)	$ 113	$ (887)	$ 1,761
Multi-channel Retail	(205)	58	(459)	(49)
Other (see below)	(1,636)	(1,141)	(3,580)	(3,243)
Consolidated operating income (loss)	$ (2,438)	$ (970)	$ (4,926)	$ (1,531)
Other operating loss:				
Depreciation	$ (79)	$ (83)	$ (225)	$ (251)
Administrative costs and other non-allocated expenses	(1,557)	(1,058)	(3,355)	(2,992)
Consolidated other operating loss	$ (1,636)	$ (1,141)	$ (3,580)	$ (3,243)

	December 31, 2007	March 31, 2007
Identifiable assets:		
Retail Management	$ -	$ 16,519
Store Solutions	28,541	19,524
Multi-channel Retail	3,923	3,962
Consolidated identifiable assets	$ 32,464	$ 40,005
Goodwill, Net of amortization		
Retail management	$ -	$ 9,474
Store Solutions	10,489	10,488
Multi-channel Retail	3,022	3,022
Consolidated goodwill	$ 13,511	$ 22,984

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

We currently operate in the United States, United Kingdom and other international areas. The following is a summary of local operations by geographic area (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2007	2006	2007	2006
Net Sales:				
United States	$ 2,375	$ 2,320	$ 6,886	$ 7,067
United Kingdom	66	52	333	136
All Other International	1,040	1,088	3,294	3,496
Total net sales	$ 3,481	$ 3,460	$ 10,513	$ 10,699

	December 31, 2007	March 31, 2007
Long-lived assets:		
United States	$ 22,292	$ 36,175
United Kingdom	-	5
Total long-lived assets	$ 22,292	$ 36,180

NOTE 12 - COMMITMENTS AND CONTINGENCIES

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

Certain of our standard software license agreements contain a limited infringement indemnity clause under which we agree to indemnify and hold harmless our customers and business partners against certain liability and damages arising from claims of various copyright or other intellectual property infringement by our products. These terms constitute a form of guarantee that is subject to the disclosure requirements, but not the initial recognition or measurement provisions of Financial Accounting Standards Board issued FASB Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of the Indebtedness of Others”. We have never lost an infringement claim and our cost to defend such lawsuits has been insignificant.

Since November 2005, certain of our Retail Pro® software customers had been contacted by Acacia Technologies Group (“Acacia”) regarding alleged infringement of U.S. Patent 4,707,592 (the “592 Patent”) and are requesting indemnification for any infringement claim regarding the `592 Patent which expired in October 2005. We retained patent counsel and, based on his advice, have notified customers in question that it is our position that there is no merit to any potential claim that Retail Pro® software infringes the patent. In direct discussions between our counsel and Acacia, no information was provided indicating that Retail Pro® software infringes the`592 Patent. Acacia had alleged infringement against a number of retailers including a small number of Retail Pro® software users. We are not named in the lawsuit and, although some customers have indicated that they may seek indemnification, no actual lawsuits have been filed against us.

On May 25, 2005, the United States Securities and Exchange Commission ("SEC") notified us that it had begun an informal inquiry relating to the Company. We cooperated completely with the SEC's informal inquiry. On July 20, 2005, the SEC informed us that it had issued a formal order of investigation in this matter. In connection with the investigation, the SEC is seeking information regarding our, and our subsidiaries, financial condition, results of operations, business, accounting policies and procedures, internal controls, issuances of common stock and stock options, sales of common stock and option exercises by insiders, employees and consultants as well as our internal revenue recognition investigation relating to the timing of revenue recognition for certain transactions during the fiscal years ended March 31, 2003, 2004 and 2005. The scope, focus and subject matter of the SEC investigation may change from time to time and we may be unaware of matters under consideration by the SEC. We are cooperating with the SEC in its investigation.

On January 10, 2008, the Company received a "Wells Letter" from the staff of the SEC. The Company has been informed that its Chief Executive Officer, Mr. Barry Schechter, also received a Wells Letter. The Wells Letters stated the staff of the SEC is considering recommending the SEC bring civil injunctive actions against the Company and Mr. Schechter for alleged violations of the federal securities laws. Under the process established by the SEC, the recipients have an opportunity to respond before any action is brought against them. Discussions are ongoing between the staff and the recipients' counsel with respect to the alleged violations and possible resolution of the matter. There is no assurance that a resolution can be reached, or that the ultimate impact will not be material.

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

NOTE 13 – ASSET SALE

On December 21, 2007, pursuant to the terms of an Asset Purchase Agreement effective October 31, 2007 (the “Agreement”), by and between the Company and 3Q Holdings and Affiliates (“3Q”), Retail Pro assigned and sold to 3Q the Island Pacific Merchandising Systems (the “Division”) assets which included all rights, title and interests worldwide of Retail Pro in and to (i) the Division Products, (ii) the Assumed Contracts, (iii) the Division Material, (iv) all Division Intellectual Property rights, (v) all claims of the Division against third parties related to the purchased assets, whether choate or inchoate, known or unknown, contingent or non-contingent, (vi) all data and information that is collected from, or on behalf of customers of the Division who are parties to the Assumed Contracts (the “Customer Base”), (vii) all other tangible or intangible assets of the Division used in the business and necessary for the operation of the Product except for cash for the aggregate purchase price of $16.0 million. As a result of the sale, the Company realized a gain of approximately $1.8 million due primarily to cash received and the immediate recognition of previously un-recognized deferred revenue.

The Company was not reasonably certain that 3Q would be able to secure the financing necessary to close the transaction. In accordance with Statement of Financial Accounting Standards No. 144, “Accounting for the Impairment or Disposal of Long-Lived Asset,” once the 3Q financing was more probable than not, the Company classified the identifiable assets and liabilities of the disposal group as held for sale.

The assets and liabilities included as part of the disposal group are summarized below as follows:

	December 21, 2007		March 31, 2007	
Current assets	$	537	$	1,038
Fixed assets		239		82
Intangible assets		13,024		14,873
Current portion of deferred revenue		(793)		(2,523)
Total carrying value of the disposal group	$	13,007	$	13,470

NOTE 14 - RELATED-PARTY TRANSACTIONS

In connection with the Page Digital acquisition, we assumed a three-party lease agreement for our Colorado offices between CAH Investments, LLC ("CAH"), wholly owned by the spouse of one of our former executive officers, Larry Page, and Southfield Crestone, LLC, whereby Page Digital agreed to lease offices for ten years expiring on December 31, 2011. CAH and Southfield Crestone LLC are equal owners of the leased property. Rent expense related to this lease is $21 thousand and $60 thousand for the three months ended December 31, 2007 and 2006, respectively, and $64 thousand and $148 thousand for the nine months ended December 31,, 2007 and 2006, respectively. A security deposit of $170,000 relating to this lease is included in other long-term assets at December 31, 2007 and March 31, 2007.

NOTE 15 - SUBSEQUENT EVENTS

Securities Purchase Agreement and Secured Term Note