

PARK CITY GROUP INC  
Form 10-K  
September 25, 2012

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

FORM 10-K

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

For the fiscal year ended June 30, 2012  
or

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

000-03718  
(Commission file number)

PARK CITY GROUP, INC.  
(Exact name of registrant as specified in its charter)

Nevada  
State or other jurisdiction of incorporation

37-1454128  
(IRS Employer Identification No.)

3160 Pinebrook Road, Park City, Utah 84098  
(Address of principal executive offices)

(435) 645-2000  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Title of each Class	Name of each exchange on which registered
Common Stock, \$0.01 Par Value	Over-the-Counter Bulletin Board

Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$0.01 par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
 Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  
 Yes  No

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.

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Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer (Do not check if a smaller reporting company)	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes  No

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the issuer as of December 31, 2011, which is the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$14,998,000(at a closing price of \$3.05 per share).

As of September 21, 2012, 12,239,257 shares of the Company's \$0.01 par value common stock were outstanding.

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ON FORM 10-K  
YEAR ENDED JUNE 30, 2012

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Exhibit 31

Certifications of the Principal Executive Officer and Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32

Certifications pursuant to 18 U.S.C. Sec. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements. The words or phrases “would be,” “will allow,” “intends to,” “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” or similar expressions are intended to identify “forward-looking statements.” Actual results could differ materially from those projected in the forward looking statements as a result of a number of risks and uncertainties, including the risk factors set forth below and elsewhere in this Report. See “Risk Factors” and “Management's Discussion and Analysis of Financial Condition and Results of Operations.” Statements made herein are as of the date of the filing of this Form 10-K with the Securities and Exchange Commission and should not be relied upon as of any subsequent date. Unless otherwise required by applicable law, we do not undertake, and specifically disclaim any obligation, to update any forward-looking statements to reflect occurrences, developments, unanticipated events or circumstances after the date of such statement.

PART I

ITEM I. BUSINESS

Overview

Park City Group, Inc. (the “Company”) is a Software-as-a-Service (“SaaS”) provider that brings unique visibility to the consumer goods supply chain, delivering actionable information that ensures product is on the shelf when the consumer expects it. Our service increases our customers’ sales and profitability while enabling lower inventory levels for both retailers and their suppliers.

Our services are delivered principally through proprietary software products designed, developed, marketed and supported by the Company. These products are designed to facilitate improved business processes among all key constituents in the supply chain, starting with the retailer and moving back to suppliers and eventually raw material providers. In addition, the Company has built a consulting practice for business process improvement that centers around the Company’s proprietary software products and through establishment of a neutral and “trusted” third party relationship between retailers and suppliers. The principal markets for the Company's products are multi-store retail and convenience store chains, branded food manufacturers, suppliers and distributors and manufacturing companies.

Historically, the Company offered applications and related maintenance contracts to new customers for a one-time, non-recurring up front license fee. Although not completely abandoning the license fee and maintenance model, since the acquisition of Prescient Applied Intelligence, Inc. ("Prescient") in January 2009, the Company has focused its strategic initiatives and resources to marketing and selling prospective customers a subscription for its product offerings. In support of this strategic shift toward a subscription-based model, the Company has scaled its contracting process, streamlined its customer on-boarding and implemented a financial package that integrates multiple systems in an automated fashion. As a result, subscription based revenue has grown from \$203,000 for the 2008 fiscal year to \$7.0 million this year. During that same period our revenue has transitioned from a 6% subscription revenue and 94% license and other revenue basis to 70% subscription revenue and 30% license and other revenue basis.

The Company is incorporated in the state of Nevada. The Company’s 98.76% and 100% owned subsidiaries, Park City Group, Inc. and Prescient, respectively, are incorporated in the state of Delaware. All intercompany transactions and balances have been eliminated in consolidation.

The principal executive offices of the Company are located at 3160 Pinebrook Road, Park City, Utah 84098. The telephone number is (435) 645-2000. The website address is <http://www.parkcitygroup.com>.

#### Recent Developments

##### ReposiTrak™

On February 14, 2012 the Company announced a partnership with Levitt Partners, an internationally known health care and food safety-consulting firm. The Company's association with Levitt Partners resulted in the formation of Global Supply Chain Systems, Inc. ("Global Supply"), which will provide a targeted solution for improving supply chain visibility for food and drug safety. The solution, ReposiTrak™, is powered by the Company's technology and was developed in response to the passage of the Food Safety and Modernization Act in January of 2011. ReposiTrak™ enables grocery, supermarkets, packaged goods manufacturers, food processing facilities, drug stores and drug manufacturers, as well as logistics partners, to track and trace products and components to products throughout the food, drug and dietary supplement supply chains. In the event of a product recall, the solution quickly identifies the supply chain path taken by the recalled product or product component, and allows for the removal of affected products in a matter of minutes, rather than weeks. Additionally, ReposiTrak™ reduces risk of further contamination in the supply chain by identifying backward chaining sources and forward chaining recipients of affected products in near real time. On August 8, 2012, the Company announced that Global Supply had begun the first two implementations of ReposiTrak™ at a global grocery retailer and a major grocery wholesaler.

##### CVS Pharmacy, Inc.

On July 31, 2012, the Company announced a three-year service agreement to provide selected scan-based trading services to CVS Pharmacy, Inc. ("CVS") through May 2015. The agreement reflects the Company's focus on increasing the number of retailers that use its software on a subscription basis, and marks the Company's progress towards contracting with major retailers outside of the grocery industry.

The Company expects the subscription revenue potential generated from these relationships to be significantly larger than any of the Company's existing client hubs within the grocery industry.

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### Company History

The technology has its genesis in the operations of Mrs. Fields Cookies co-founded by Randall K. Fields, the Company's Chief Executive Officer. The Company began operations utilizing patented computer software and profit optimization consulting services that help its retail clients reduce their inventory and labor cost - the two largest controllable expenses in the retail industry. Because the product concepts originated in the environment of actual multi-unit retail chain ownership, the products are strongly oriented to an operation's bottom line results.

The Company was incorporated in the State of Delaware on December 8, 1964 as Infotec, Inc. From June 20, 1999 to approximately June 12, 2001, it was known as Amerinet Group.com, Inc. In 2001, the name was changed from Amerinet Group.com to Fields Technologies, Inc. On June 13, 2001, the Company entered into a "Reorganization Agreement" with Randall K. Fields and Riverview Financial Corporation whereby it acquired substantially all of the outstanding stock of Park City Group, Inc., a Delaware corporation, which became a 98.67% owned subsidiary. Operations are conducted through this subsidiary, which was incorporated in the State of Delaware in May 1990.

On July 25, 2002, Fields Technologies, Inc. changed its name from Fields Technologies, Inc. to Park City Group, Inc., through a merger with Park City Group, Inc., a Nevada corporation, which was organized for that purpose and was also the surviving entity in the merger. Therefore, both the parent-holding company (Nevada) and its operating subsidiary (Delaware) are named Park City Group, Inc. Park City Group, Inc. (Nevada) has no other business operations other than in connection with its subsidiaries, including Prescient.

On January 13, 2009, the Company acquired 100% of Prescient Applied Intelligence, Inc. ("Prescient"). Prescient is a leading provider of on-demand solutions for the retail marketplace, including both retailers and suppliers. Its solutions capture information at the point of sale, provide greater visibility into real-time demand and turn data into actionable information across the entire supply chain. The Company's condensed consolidated financial statements contain the results of operations of Prescient.

### Software-as-a-Service Delivery Model

Historically, the Company offered applications and related maintenance contracts to new customers for a one-time, non-recurring up front license fee and provided an option for annually renewing their maintenance agreements. As a result of the Prescient merger, Prescient's reliance on subscription based revenue and the Company's shift away from offering its solutions for a one-time licensing fee, the Company is now principally offering prospective customers monthly subscription based licensing of its products. Although not completely abandoning the license fee and maintenance model, the Company continues to focus its strategic initiatives on increasing the number of retailers, suppliers and manufacturers that use its software on a subscription basis.

Our on-demand, software-as-a-service delivery model enables our proprietary software solutions to be implemented, accessed and used by our customers remotely. Our solutions are hosted and maintained by us, thus significantly reducing costs by eliminating for our customers the time, risk and headcount associated with installing and maintaining applications within their own information technology infrastructures. As a result, we believe our solutions require significantly less capital to build and require less initial investment in third-party software, hardware and implementation services, and have lower ongoing support costs versus traditional enterprise software. The SaaS model also allows advanced information technology infrastructure management, security, disaster recovery and other best practices. Since we manage updates and upgrades to our solution on behalf of our customers, we are able to implement improvements to our solutions in a more rapid and uniform way, enabling us to take advantage of operational efficiencies.

### Target Industries Overview



The Company develops and offers its software to supermarkets, convenience stores and other retailers. As a result of the acquisition of Prescient, we have expanded our offerings to include supply chain solutions focused on large manufacturers, distributors and suppliers in the consumer products industry. The Company also provides professional consulting services targeting implementation, assessments, profit optimization and support functions for its application and related products.

#### Supermarkets

The supermarket industry is under increased competitive pressure from mass market retailers such as Wal-Mart, Costco, Target, and other channels including extreme value (dollar stores), limited assortment (ALDI/Save-a-lot), and convenience (Sheetz, 7/11) stores. One of the strategies traditional supermarkets are implementing is to improve the demographic “mix” of products to match the unique needs of those consumers who shop at individual stores. Mix is most difficult to manage for those products that are delivered by Direct Store Delivery (DSD) suppliers such as carbonated beverages, bread, dairy, greeting cards, magazines and salty snacks. The Company’s software provides newfound visibility to the retailer as to specific item deliveries, in-stock status with item and category productivity. In addition, supermarkets are growing sales and consumer loyalty by developing and distributing their own brand or private label for all key categories within their stores. This proliferation of new items is creating a new set of challenges for both retailers and suppliers as they battle to find space to accommodate the new private label items at the expense of the incumbent or national brand supplier. The Company’s software and consulting services provide visibility tools to facilitate the decision making process by providing a shared and trusted view to information that helps the parties optimize item selection and shelf presence. Furthermore, supermarkets are under pressure to increase the quantity and quality of their perishable offerings. Perishable departments, such as bakery, meat and seafood, dairy, and deli have historically been loosely managed, but now are a focus for profitability improvement. The Company’s software and consulting services and change management resources are designed to address this specific business problem, increasing the profitability of perishable products at the department and store level.

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### Convenience Stores

For convenience stores, recent trends of contracting gasoline sales margins and declining tobacco sales further increases the need for improved cost controls, focus on product mix and better decision support. To intensify the focus on these issues, other industry segments such as value retailers and grocery stores are cutting into the convenience store stronghold by offering gasoline, a product that once was almost solely offered by convenience store retailers. In response to declining gasoline sales and profits, the C-Store industry is pushing into fresh food as an avenue of increasing sales and profitability. Only the most progressive convenience store operations have automated systems to help store managers, leaving the majority of the operators without any technology to ease their administrative and operational burdens.

### Suppliers

As stated above, supermarkets and convenience stores are increasingly focused on product and margin mix, improving sales through reduced out of stocks and increasing collaboration with their suppliers. Suppliers are increasingly pressured by retailers to provide consumer insights, innovative products that differentiate both the supplier and retailer while providing economic incentives or assistance. The Company's solutions enable suppliers to work with their retail partners to get alignment between their objectives of increasing sales through expanded distribution of their product offering and the objectives of the retailer to increase sales, reduce inventory carrying risk and minimizing out of stocks. Additionally, the Company is able to share the retailer scan sales data with the supplier to assist them in improving forecasts and production planning by leveraging the most reliable demand signal in daily sales by store and item.

### Specialty Retailers

Specialty retailers and their suppliers are faced with many of the same replenishment and forecasting challenges as other retailers, with the added complexity of managing an ever increasing imported versus domestic manufacturing model. The added manufacturing and transportation lead-time puts an increased premium on both accurate and timely forecasting. The Company has developed a suite of applications to facilitate collaborative analysis and forecasting. The specialty retailers are faced with strong competition for qualified managers and staff. Managers are time-constrained due to increased labor and inventory demands, margins are increasingly tight due to higher labor and lease costs and customer satisfaction demands are higher than ever before. The Company has developed a range of applications that enable managers in specialty retail to improve their labor scheduling efficiency and reduce their total paperwork and administrative workload.

### Benefits of our Solutions and Services

Our Supply Chain services bring unique visibility to the consumer goods supply chain, delivering actionable information that ensures product is on the shelf when the consumer expects it. Our service increases our customers' sales and profitability while enabling lower inventory levels for both retailers and their suppliers.

### Key advantages of our solution include:

- synchronizing retailers and suppliers so they can actually exchange information;
- aligning their financial interests with payment and invoicing protocols and systems;
- enlisting brain power of suppliers to help retailers manage complex businesses;
- providing information to each side to identify and fix out of stocks and overstocks;
- providing forecasting technology to improve store orders;

providing forecasting to help suppliers replenish retailer warehouses;  
providing systems for suppliers to actually manage inventory flow to retailers; and  
helping suppliers with overall demand planning and line sequencing.

Ultimately, the Company's products and services come together to create a true partnership between retailers and suppliers.

## Solutions and Services

### Solutions

The Company's primary solutions are Scan Based Trading, ScoreTracker, Vendor Managed Inventory, Store Level Replenishment, Enterprise Supply Chain Planning Suite, Fresh Market Manager and ActionManager®, all of which are designed to aid the retailer and supplier with managing inventory, product mix and labor while improving sales through reduced out of stocks by improving visibility and forecasting.

Scan Based Trading (SBT). Our SBT solution eliminates supply chain inefficiencies and helps retailers and suppliers get product to the store shelves more quickly, efficiently and profitably. SBT is an advanced commerce practice where the supplier retains ownership of the inventory until it scans at the cash register. Once the retailer and supplier have agreed to begin an SBT relationship, the first step is item and price authorization. This process matches retailer and supplier product data to eliminate invoice discrepancies at the point of sale. Our SBT system receives the scan sales data and maintains it in a repository to ensure that product movement data is available to all members of the trading community. Implementation creates increased demand visibility and improved forecast accuracy. Our SBT solution is offered as a hosted service, so implementation is immediate and always available.

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ScoreTracker. Our ScoreTracker solution gives retailers and suppliers a clear view into critical aspects of their supply chain operations so that they can better serve the consumer. This visibility solution provides analysis of scan sales data by store, by day and by category. Retailers and suppliers better understand what is selling, the velocity at which a product is moving and how profitable it is. In addition, our solution helps analyze shrink and how to use that information to prevent out of stocks. This tool is provided to retailers and suppliers who provide additional data inputs valuable to operating their business such as routes, returns and credits. The ScoreTracker solution enables a true collaborative view to the Key Performance Indicators (KPI's) for both retailers and suppliers. The Company is a neutral third party between the trading partners and the retailer and ScoreTracker delivers a trusted view to performance and actionable insights with respect to improving sales and item performance and reducing operational and shrink costs.

Vendor-Managed Inventory (VMI). VMI programs are gaining in popularity because suppliers have come to realize that VMI offers the opportunity to better align themselves with their trading partners and add value to those relationships. Our VMI solution provides collaborative tools that increase supply chain efficiencies, lower inventory and enhance trading partner relationships. The solution is pre-mapped to the specific requirements of each trading partner for the transfer of electronic data directly into our system. This enables suppliers to analyze retailer-supplied demand information, automatically generate orders for each customer, set inventory policy at the retailer's distribution center and monitor on-going inventory levels, determine which items need to be replenished, and how to ship them most cost-effectively. Our VMI suite has the flexibility and functionality to scale to accommodate new trading partners. Our solution delivers real value for suppliers through fewer out-of-stocks, increased inventory turns, and increased customer satisfaction and loyalty.

Store Level Replenishment (SLR). Many retailers are shifting the responsibility of replenishing product at the store shelf onto the suppliers who bring that product into the store. Avoiding overstocks and understocks, particularly with highly promoted products such as ice cream or bread, has been a challenge for direct store delivery (DSD) suppliers. Our on-demand SLR solution provides these suppliers visibility into store level movement and activity, and generates replenishment orders based on point of sale data. Suppliers using this solution are able to optimize store-level demand forecasting and replenishment, resulting in fewer out of stocks and lost sales. Retailers benefit by having product on the shelf.

Enterprise Supply Chain Planning Suite (ESCP). Our ESCP suite includes a solution to help users analyze POS data and other demand signals to gain insight into customer demand. Suppliers have visibility into historical data – seasonal events, promotions and buying trends – to facilitate accurate forecasting. Our software assesses how inventory will be impacted, then calculates recommended stocking levels, considers service level goals and develops a time-phased replenishment plan. The solution brings demand data into one place where users can easily manage the complex sets of data and parameters that impact their businesses, including seasonal builds, desired service levels, and manufacturing constraints. ESCP considers consumption rates and inventory levels and automatically calculates time-phase safety stocks and replenishment quantities while being extremely flexible and can be configured to meet the needs of any company's supply chain processes.

The Company also offers a variety of other solutions that address the unique needs of its customers.

Fresh Market Manager. Addressing the inventory issues that plague today's retailers, Fresh Market Manager is a suite of software product applications designed to help manage perishable food departments including bakery, deli, seafood, produce, meat, home meal replacement, dairy, frozen food, and floral. Fresh Market Manager helps identify true cost of goods and provides accurate and actionable profitability data on a corporate, regional, store-by-store and/or item-by-item basis. Fresh Market Manager also produces hour-by-hour forecasts, production plans, perpetual inventory and placed/received orders. Fresh Market Manager automates the majority of the planning, forecasting,

ordering and administrative functions associated with fresh merchandise or products.

ActionManager®. The second most important cost element typically facing today's retailers is labor. ActionManager® addresses labor needs by providing a suite of solutions that forecast labor demand, schedules staff resources and provides store managers with the necessary tools to keep labor costs under control while improving customer service, satisfaction, and sales. ActionManager applications provide an automated method for managers to plan, schedule and administer many administrative tasks including new hire, time and attendance paperwork. In addition to automating most administrative processes, ActionManager provides the local manager with a "dashboard" view of the business. ActionManager also has extensive reporting capabilities for corporate, field and store-level management to enable improved decision support.

ReposiTrak™. On February 14, 2012 the Company announced a partnership with Levitt Partners, an internationally known health care and food safety-consulting firm. The Company's association with Levitt Partners resulted in the formation of Global Supply Chain Systems, Inc. ("Global Supply"), which will provide a targeted solution for improving supply chain visibility for food and drug safety. The solution, ResposiTrak™, is powered by the Company's technology and was developed in response to the passage of the Food Safety and Modernization Act in January of 2011. ResposiTrak™ enables grocery, supermarkets, packaged goods manufacturers, food processing facilities, drug stores and drug manufacturers, as well as logistics partners, to track and trace products and components to products throughout the food, drug and dietary supplement supply chains. In the event of a product recall, the solution quickly identifies the supply chain path taken by the recalled product or product component, and allows for the removal of affected products in a matter of minutes, rather than weeks. Additionally, ReposiTrak reduces risk of further contamination in the supply chain by identifying backward chaining sources and forward chaining recipients of affected products in near real time. On August 8, 2012, the Company announced that Global Supply had begun the first two implementations of ReposiTrak at a global grocery retailer and a major grocery wholesaler.

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### Services

**Business Analytics.** Park City Group's Business Analytics Group offers business-consulting services to suppliers and retailers in the grocery, convenience store and specialty retail industries. The Business Analytics Group mines store-level scan data to develop item-specific recommendations to improve customer satisfaction and profitability.

**Professional Services.** Our Professional Services Group provides consulting services to ensure that our solutions are seamlessly integrated into our customers' business processes as quickly and efficiently as possible. In addition to implementation of our solutions, we have developed a portfolio of service offerings designed to deliver unparalleled performance throughout the lifecycle of the customer's solution. Specific services are tailored to each customer and include the following: implementation, business optimization, technical services, education, business process outsourcing and advisory services. The intent of such services is to support our clients' business operations by enabling them to maximize the speed, effectiveness and overall value of our offerings. We believe the ability to create value for our customers is critical to our long-term success.

### Technology, Development and Operations

#### Product Development

The products sold by the Company are subject to rapid and continual technological change. Products available from the Company, as well as from its competitors, increasingly offer a wider range of features and capabilities. The Company believes that in order to compete effectively in its selected markets, it must provide compatible systems incorporating new technologies at competitive prices. In order to achieve this, the Company has made a substantial commitment to on-going development.

Our product development strategy is focused on creating common technology elements that can be leveraged in applications across our core markets. Except for its supply chain application, which is based on a proprietary architecture, the Company's software architecture is based on open platforms and is modular, thereby allowing it to be phased into a customer's operations. In order to remain competitive, we are currently designing, coding and testing a number of new products and developing expanded functionality of our current products.

#### Operations

We currently serve our customers from a third-party data center hosting facility. Along with the Company's Statement on Standards for Attestation Engagements (SSAE) No. 16 certification Service Organization Control (SOC2 – formerly SAS 70), the third-party facility is also a SSAE No. 16 – SOC2 certified location and is secured by around-the-clock guards, biometric screening and escort-controlled access, and is supported by on-site backup generators in the event of a power failure. As part of our current disaster recovery arrangements, all of our customers' data is currently backed-up in near real-time. This strategy is designed to protect our customers' data and ensure service continuity in the event of a major disaster. Even with the disaster recovery arrangements, our service could be interrupted.

#### Customers

We sell to business of all sizes. Our customers primarily include food related consumer goods retailers, suppliers and manufacturers. However, the Company is opportunistic and will offer its supply chain solutions to non-food consumer goods related companies as well. None of our retailing or supplier customers accounted for more than ten percent of our revenue in fiscal 2012 or 2011.

Sales, Marketing and Customer Support

Sales and Marketing

Through a focused and dedicated sales effort designed to address the requirements of each of its software and service solutions, we believe our sales force is positioned to understand our customers' businesses, trends in the marketplace, competitive products and opportunities for new product development. Our deep industry knowledge enables the Company to take a consultative approach in working with our prospects and customers. Our sales personnel focus on selling our technology solutions to major customers, both domestically and internationally.

To date, our primary marketing objectives have been to increase awareness of our technology solutions, generate sales leads and develop new customer relationships. In addition, the sales effort has been directed toward developing existing customers by cross-selling Prescient solutions to legacy Park City Group accounts as well as introducing Park City solutions to legacy Prescient customers. To this end, we attend industry trade shows, conduct direct marketing programs, publish industry trade articles and white papers, participate in interviews and selectively advertise in industry publications.

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### Customer Support

Our global customer support group responds to both business and technical inquiries from our customers relating to how to use our products and is available to customers by telephone and email. Basic customer support during business hours is available at no charge to customers who purchase certain Company solutions. Premier customer support includes extended availability and additional services, such as an assigned support representative and/or administrator. Premier customer support is available for an additional fee. Additional support services include developer support and partner support.

### Competition

The market for the Company's products and services is very competitive. We believe the principal competitive factors include product quality, reliability, performance, price, vendor and product reputation, financial stability, features and functions, ease of use, quality of support and degree of integration effort required with other systems. While our competitors are often considerably larger companies in size with larger sales forces and marketing budgets, we believe that our deep industry knowledge and the breadth and depth of our offerings give us a competitive advantage. Our ability to continually improve our products, processes and services, as well as our ability to develop new products, enables the Company to meet evolving customer requirements. We compete with large enterprise-wide software vendors, developers and integrators, B2B exchanges, consulting firms, focused solution providers, and business intelligence technology platforms. Our supply chain solution competitors include supply chain vendors, major enterprise resource planning (ERP) software vendors, mid-market ERP vendors and niche players for VMI and SLR.

### Patents and Proprietary Rights

The Company relies on a combination of trademark, copyright, trade secret and patent laws in the United States and other jurisdictions as well as confidentiality procedures and contractual provisions to protect our proprietary technology and our name. We also enter into confidentiality agreements with our employees, consultants and other third parties and control access to software, documentation and other proprietary information.

The Company has been awarded nine U.S. patents, eight U.S. registered trademarks and has 37 U.S. copyrights relating to its software technology and solutions. The Company's patent portfolio has been transferred to an unrelated third party, although the Company retains the right to use the licensed patents in connection with its business. However, Company policy is to continue to seek patent protection for all developments, inventions and improvements that are patentable and have potential value to the Company and to protect its trade secrets and other confidential and proprietary information. The Company intends to vigorously defend its intellectual property rights to the extent its resources permit

The Company is not aware of any patent infringement claims against it; however, there are no assurances that litigation to enforce patents issued to the Company to protect proprietary information, or to defend against the Company's alleged infringement of the rights of others will not occur. Should any such litigation occur, the Company may incur significant litigation costs, Company resources may be diverted from other planned activities, and while the outcome of any litigation is inherently uncertain, any litigation result may cause a materially adverse effect on the Company's operations and financial condition. Any intellectual property claims, with or without merit, could be time-consuming and expensive to resolve, could divert management attention from executing our business plan and could require us to alter our technology, change our business methods and/or pay monetary damages or enter into licensing agreements.



## Employees

As of September 21, 2012, the Company has 48 employees, including 11 software developers and programmers, 12 sales, marketing and account management employees, 14 software service and support employees, 4 network operations employees and 7 accounting and administrative employees. During 2012, the Company contracted with five programmers and two business analysts in India. The Company plans to continue expanding its offshore workforce to augment its analytics services offerings, expand its professional services and to provide additional programming resources. The employees are not represented by any labor union.

## Reports to Security Holders

The Company is subject to the informational requirements of the Securities Exchange Act of 1934. Accordingly, it files annual, quarterly and other reports and information with the Securities and Exchange Commission. You may read and copy these reports and other information at the Securities and Exchange Commission's public reference rooms in Washington, D.C. and Chicago, Illinois. The Company's filings are also available to the public from commercial document retrieval services and the website maintained by the Securities and Exchange Commission at [www.sec.gov](http://www.sec.gov).

## Government Regulation and Approval

Like all businesses, the Company is subject to numerous federal, state and local laws and regulations, including regulations relating to patent, copyright, and trademark law matters.

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Cost of Compliance with Environmental Laws

The Company currently has no costs associated with compliance with environmental regulations, and does not anticipate any future costs associated with environmental compliance; however, there can be no assurance that it will not incur such costs in the future.

ITEM RISK FACTORS

1A.

An investment in our common stock is subject to many risks. You should carefully consider the risks described below, together with all of the other information included in this Annual Report on Form 10-K, including the financial statements and the related notes, before you decide whether to invest in our common stock. Our business, operating results and financial condition could be harmed by any of the following risks. The trading price of our common stock could decline due to any of these risks, and you could lose all or part of your investment.

Risks Related to the Company

The Company has incurred substantial indebtedness and there can be no assurance that the Company will be able to pay such indebtedness when it comes due.

The Company's total assets were approximately \$11,936,230 at June 30, 2012 and total liabilities were approximately \$6,626,109 at June 30, 2012, of which \$1,510,275 represented notes payable. In addition, in July 2010, approximately \$4.1 million of indebtedness was converted into Series B Convertible Preferred Stock ("Series B Preferred"). The Series B Preferred are entitled to receive cash dividends out of funds legally available at a rate of 12%, which rate increases to 15% beginning three years after the date of issuance, and 18% beginning five years after the date of issuance. No assurances can be given that the Company will be able to satisfy its obligations when the same become due and payable, or that the Company will be able to pay the cash dividends on the Series B Preferred.

The Company has incurred losses in the past and there can be no assurance that the Company will achieve profitability in the future.

The Company's marketing strategy emphasizes sales to clients acquired as a result of the Prescient Merger, sales of subscription based services instead of annual licenses, and contracting with suppliers ("spokes") to connect to existing retail clients recently acquired by the Company ("