PARK CITY GROUP INC
Form 10KSB
September 29, 2008

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U. S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

# FORM 10-KSB

Annual Report Under
Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the fiscal year ended
June 30, 2008

Commission file number
000-03718

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

| Nevada | 37-1454128 |
|---|---|
| (State or other jurisdiction of incorporation) | (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

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

| Title of each Class | Name of each exchange on which registered |
|---|---|
| Common Stock, $.01 Par Value | Over-the-Counter Bulletin Board |

Outstanding as of September 26, 2008
9,282,373 Shares

Check whether the issuer (1) 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. (1) [ XX ] Yes [ ] No ; (2) [XX] yes [ ] No.

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form , and no disclosure will 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-KSB or any amendment to this Form 10-KSB. [X]

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

The issuer’s revenues for the year ended June 30, 2008 were $3,344,973.

The aggregate market value of the stock held by non-affiliates of the registrant is approximately $13,569,901, calculated using a price of $2.75 per share on September 26, 2008.



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ON FORM 10-KSB
YEAR ENDED JUNE 30, 2008

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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-KSB 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 expressi 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-KSB 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 disclaims 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 1. Description of Business

Background Information

Park City Group develops and markets patented computer software and profit optimization consulting services that are intended to help its retail customers to reduce their inventory and labor costs; the two largest controllable expenses in the retail industry. The technology has its genesis in the operations of Mrs. Fields Cookies co-founded by Randall K. Fields, CEO of Park City Group, Inc. Industry leading customers such as The Home Depot, Anheuser Busch Entertainment, Perdue, Monterey Mushrooms, Pacific Sunwear, Wawa and Tesco Lotus benefit from the Company's software. Because the product concepts originated in the environment of actual multi-unit retail chain ownership, the products are strongly oriented to an operations' 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 August 7, 2002, Fields Technologies, Inc., (OTCBB:FLDT) changed its name from Fields Technologies, Inc., to Park City Group, Inc., and reincorporated in Nevada. 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 subsidiary. In this Annual Report Form 10KSB when the terms "we", "Company" or "Park City Group" are used, it is referring to the Park City Group, Inc., a Delaware corporation, as well as to Fields Technologies, Inc., the Delaware Corporation, which was reincorporated in Nevada under the name of the Park City Group, Inc. The stock trades under the symbol (OTC BB: PCYG).

The principal executive offices 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.

General

The Company develops and licenses its software applications identified as "Fresh Market Manager", "Supply Chain Profit Link", and "ActionManager®" to supermarkets, convenience stores and other retailers. The Company also provides implementation and profit optimization consulting services for its application products.

Supermarket

The supermarket industry is under increased competitive pressure from value retailers such as Wal-Mart, Costco, Target, and others. One of the strategies that traditional supermarkets are implementing is 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 have been forced to become 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.

Convenience Store

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 have begun 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 increased 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 operations burdens.

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Supplier

As stated above, supermarkets and convenience stores are increasingly dependent upon perishable departments and optimized inventory for increased profitability. Suppliers are increasingly pressured by retailers to provide economic incentives or assistance. Park City Group has developed Supply Chain Profit link to enable suppliers to provide that assistance.

Specialty Retail

Specialty retailers are faced with a shrinking labor force and 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. Park City Group 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.

Products

The Company's primary products are Fresh Market Manager, Action Manager and Supply Chain Profit Link. These products are designed to aid the retailer to manage inventory, labor and suppliers.

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. Although the supermarket and convenience store industries have invested substantial sums on Point-of-Sale, scanning systems, etc., those systems are, almost without exception, limited to proving price look-up functions rather than decision support functions. These industries are a classic representation of "data rich" and "information poor". Park City Group is capitalizing on that environment to bring together information from disparate legacy applications and databases to provide an end-to-end integrated merchandising, production planning, demand forecasting and perpetual inventory system to address the industry's perishable department needs.

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 places/receives 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 of the administrative tasks including new hire paperwork and time and attendance. 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.

Supply Chain Profit Link. Supply Chain Profit Link ("SCPL") allows suppliers an opportunity to work with their retail partners on optimizing profits, while reducing stock outs and minimizing shrink (or waste). SCPL provides hourly, daily, or weekly store-by-store item-level movement and profitability information to suppliers and retailers to facilitate decision support. SCPL allows suppliers and retailers opportunities to customize assortment plans,

promotions, and pricing strategies on a store-by-store basis.

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.

Sales and Marketing

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

To date, Park City Group's primary marketing objectives have been to increase awareness of Park City Group's technology solutions and generate sales leads. To this end, Park City Group attends industry trade shows, conducts direct marketing programs, publishes industry trade articles and white papers, participates in interviews, and selectively advertises in industry publications.

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Customers

Our customers include some of the most notable names in retailing, including: Supervalu, Pathmark, Tesco-Lotus, Circle K Midwest/Great Lakes, The Home Depot, Wawa, Williams-Sonoma, and others.

Competition

The market for Park City Group's products and services is very competitive. Park City Group believes 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. Park City Group's ability to continually improve its products, processes and services, as well as its ability to develop new products, enables the Company to meet evolving customer requirements. Park City Group competes with companies such as Workbrain, Radient Systems, Kronos, Tomax, Capgemini, Electronic Data Systems, and others.

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, have increasingly offered 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 ongoing commitment to research and development.

Park City Group's product development strategy is focused on creating common technology elements that can be leveraged in applications across its core markets. 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, Park City Group is currently designing, coding and testing a number of new products and developing expanded functionality of its current products.

Patents and Proprietary Rights

The Company has been awarded nine U.S. patents, eight U.S. trademarks and 37 U.S. copyrights relating to its software technology that are approved and issued. In addition, the Company has two patents currently pending. The Company has 14 international patents and patent applications pending. The patents referred to above are continuously reviewed and renewed as their expiration dates come due. From time to time, the Company may review its portfolio of intellectual property including its patents and either lease or sell it's intellectual property.

Company policy is 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 other confidential and proprietary information. The Company intends to vigorously defend its intellectual property rights to the extent its resources permit.

Future success may depend upon the strength of the Company's intellectual property. Although management believes that the scope of patents/patent applications are sufficiently broad to prevent competitors from introducing devices of similar novelty and design to compete with the Company's current products and that such patents and patent applications are or will be valid and enforceable, there are no assurances that if such patents are challenged, this belief will prove correct. The Company has, however, successfully defended one of these patents in three separate instances

and as such, has some level of confidence in the Company's ability to maintain its patents. In addition, patent applications filed in foreign countries and patents granted in such countries are subject to laws, rules and procedures, which differ from those in the U.S. Patent protection in such countries may be different from patent protection provided by U.S. laws and may not be as favorable.

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, the Company's resources may be diverted from other planned activities, and result in a materially adverse effect on the Company's operations and financial condition.

The Company relies on a combination of patent, copyright, trademark, and other laws to protect its proprietary rights. There are no assurances that the Company's attempted compliance with patent, copyrights, trademark or other laws will adequately protect its proprietary rights or that there will be adequate remedies for any breach of our trade secrets. In addition, should the Company fail to adequately comply with laws pertaining to its proprietary protection, the Company may incur additional regulatory compliance costs.



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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.

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.

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 Internet world wide website maintained by the Securities and Exchange Commission at www.sec.gov.

Employees

As of September 3, 2008, the Company had 36 employees, including 11 software developers and programmers, 9 sales, marketing and account management employees, 8 software service and support employees and 8 accounting and administrative employees. During 2008, the Company contracted with 5 programmers and 2 business analysts in India. The Company is planning to continue to expand its Indian workforce to support sales and implementations in Asia and to provide additional programming resources. All of these employees and contractors work for the Company on a full time basis. The employees are not represented by any labor union.

Item 2. Description of Properties

The Company's principal place of business operations is located at 3160 Pinebrook Road, Park City, Utah 84098. The Company leases approximately 10,000 square feet at this home office location, consisting primarily of office space, conference rooms and storage areas. The telephone number is (435) 645-2000. The website address is http://www.parkcitygroup.com.

Item 3. Legal Proceedings

The Company filed a lawsuit on January 29, 2007 against Application Development Consultants ("ADC") titled Park City Group, Inc. vs. Application Development Consultants case No. 2:07 CV 00048-TS which is pending in the Federal District Court for the District of Utah. The Company claims that ADC infringing upon its patent # 5,299,115. The Company filed its preliminary infringement contention with United States District Court of Utah Central Division. Damages sought by the Company are to be determined at trial. The Company and ADC are currently in the discovery phase of the litigation. The Company will vigorously pursue this matter in defense of its intellectual property.

On June 29, 2007, the Company was served with a complaint from two previous employees titled James D. Horton and Aaron Prevo v. Park City Group, Inc. and Randy Fields, Individually Case No. 070700333, which has been filed in the Second Judicial District Court, Davis County, Utah. The plaintiffs' complaint alleges that certain provisions of their employment agreements were not honored including breach of employer obligations, fraud, unjust enrichment, and breach of contract. The plaintiffs are seeking combined damages for alleged unpaid compensation and punitive

damages of $520,650 and $2,603,250, respectively. The case is currently in the discovery phase and the Company will continue to vigorously defend this matter.

## Item 4. Submission of Matters to a Vote of Security Holders

None

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## PART II

### Item 5. Market for Common Equity and Related Stockholder Matters

Dividend Policy

To date, the Company has not paid dividends on common stock. The Series A Convertible Preferred Stock issued in the June 2007 offering has the right to a 5% cumulative dividend. Prior to June 1, 2010, preferred dividends can be paid in cash or Series A Convertible Preferred Stock at the option of the Company. After June 1, 2010, the holders of the Series A Convertible Preferred Stock may elect to have future dividends paid in cash in the event that during any sixty (60) trading day period commencing on or after June 1, 2010, the average closing price shall be less than or equal to the Series A Convertible Preferred stock conversion price. Our present policy is to retain future earnings (if any) for use in our operations and the expansion of our business.

Share Price History

Common stock (the "Common Stock") is traded in the over-the-counter market in what is commonly referred to as the "Electronic" or "OTC Bulletin Board" or the "OTCBB" under the trading symbol "PCYG." The following table sets forth the high and low bid information of the Common Stock's closing price for the periods indicated. The price information contained in the table was obtained from internet sources considered reliable. Note that such over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, markdown or commission and the quotations may not necessarily represent actual transactions in the Common Stock.

| Fiscal Year 2007 | Low | High |
|---|---|---|
| September 30, 2006 | $2.10 | $5.00 |
| December 31, 2006 | $2.30 | $3.50 |
| March 31, 2007 | $1.75 | $3.25 |
| June 30, 2007 | $2.15 | $3.39 |

| Fiscal Year 2008 | Low | High |
|---|---|---|
| September 30, 2007 | $2.60 | $3.30 |
| December 31, 2007 | $2.80 | $3.40 |
| March 31, 2008 | $2.00 | $3.39 |
| June 30, 2008 | $2.20 | $3.39 |

Holders of Record

At September 26, 2008 there were 650 holders of record of Common Stock and common shares issued and outstanding of 9,282,373. The number of holders of record and shares issued and outstanding was calculated by reference to the stock transfer agent's books.

Purchases of Equity Securities by the Small Business Issuer and Affiliated Purchasers

None

Equity Compensation Plan Information

Equity Compensation Plan Information

| Plan category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|---|---|---|---|
| Equity compensation plans approved by security holders | 0 | 0 | 0 |
| Equity compensation plans not approved by security holders | 95,250 | $2.54 | 44,750 |
| Total | 95,250 | $2.54 | 44,750 |

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The Company has several different Equity Compensation Plans in effect at this time. These include the following:

- In August 2003 the Company authorized 40,000 options for distribution to the employees. These options had a strike price of $2.50.
- In August 2003 the Company authorized 40,000 options for distribution to the senior management. These options had a strike price of $1.50.
- In September of 2005 the Company authorized to pay Senior Management 3 options for every share purchased at $3.50 for one year. Starting October of 2006 Senior Management will get 2 options for every share purchased from the Company at market price or $3.50 which ever is higher.

Issuance of Securities

We issued shares of our common and preferred stock in unregistered transactions during fiscal year 2008 and subsequently. All of the shares of common and preferred stock issued were issued in non registered transactions in reliance on Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"). We report shares issued on an annual basis. The shares of common and preferred stock issued subsequent to June 30, 2007 were issued as follows:

In October 2007, the Company issued 8,199 shares of Series A Convertible preferred stock to preferred stock holders in lieu of cash dividends of $81,990.

In January 2008, the Company issued 7,341 shares of preferred stock to preferred stock holders in lieu of cash dividends of $73,410 in accordance with the provisions of the issuance of 584,000 shares of its Series A Convertible Preferred Stock that occurred in June 2007.

In February 2008, the Company issued 3,919 shares of common stock to board members in lieu of cash compensation of $12,500.

In February 2008, the Company issued 7,142 shares of common stock to members of management in accordance with certain employment agreements. At issuance these shares had a market value of $22,676.

In April 2008, the Company issued 9,753 shares of Series A Convertible preferred stock to preferred stock holders in lieu of cash dividends of $97,530.

In July 2008, the Company issued 31,314 shares of common stock to Robert Allen in a non-public offering in exchange for $100,002.

In July 2008, The Company issued 20,000 shares of common stock to James Gillis in a non-public offering in exchange for $53,600.

In August 2008, the Company issued 7,520 shares of common stock to board members in lieu of cash compensation of $20,000.

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## Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operation for the Years Ended June 30, 2008 and June 30, 2007

The following discussion and analysis provides information that management believes is relevant to an assessment and understanding of the consolidated results of operations and financial condition. The terms “Company”, “we”, “our” or “us” are used in this discussion to refer to Park City Group, Inc. (formerly Fields Technologies, Inc.) along with Park City Group, Inc.'s wholly owned subsidiary, Fresh Market Manager, LLC, on a consolidated basis, except where the context clearly indicates otherwise.

### Overview

The principal business is the design, development, marketing and support of proprietary software products along with ongoing operational consulting practice. These software products are designed to be used in retail and grocery businesses having multiple locations by assisting individual store locations and corporate management with managing daily business operations and communicating results of those operations in a timely manner.

Through June 30, 2008 the Company has accumulated aggregate consolidated losses totaling $24,982,411 which includes a net loss applicable to common shareholders of $3,199,016 and $3,011,627 for the years ended June 30, 2008, and 2007, respectively.

### Management’s Discussion and Analysis
### Years Ended June 30, 2008 and 2007

#### Total Revenue

During the year ended June 30, 2008, the Company had total revenues of $3,344,973 when compared to $2,592,166 for the year ended June 30, 2007, a 29% increase. This $752,807 increase in total revenues for the year ended June 30, 2008 when compared with June 30, 2007 is the result of (1) an increase of subscription revenues of $113,777 a 127% increase over prior year, (2) an increase in professional services of $120,265, and (3) an increase in license sales of $576,437 a 110% increase over prior year.

#### License Revenue

License fees were $1,101,904 and $525,503 for fiscal year ended 2008 and 2007, respectively, a 110% increase. This $576,437 increase in license revenue for the year ended June 30, 2008 when compared with the same period June 30, 2007 was primarily attributable to a $700,000 software license sale in the fiscal quarter ended June 30, 2008 that did not occur in the same period then ended in 2007. Historically, the Company has realized the majority of its annual revenues through non-recurring software license fees. For the year ended, June 30, 2008 and 2007, 33% and 20% of total revenue were based on one-time non-recurring license revenue, respectively. In fiscal 2007, the Company substantially changed its business initiative from a licensed based approach to a monthly subscription based approach. While this software as a service (SAAS) initiative is designed to reduce its historical reliance on one-time license fees, management acknowledges that from time to time it will still recognize a large portion of its revenues from license sales. Furthermore, management believes that offering its suite of products and services in more affordable units on a subscription basis will likely reduce proportionately the one-time license fees to overall revenue.

#### Maintenance and Support Revenue

Maintenance and support revenues decreased by 4% to $1,455,344 in 2008 from $1,513,016 in 2007. The $57,672 decrease in maintenance and support revenue for the year ended June 30, 2008 when compared with the same period ending June 30, 2007 is due to the following: 1) a $74,300 decrease that was the result of a Fresh Market Manager maintenance customer who elected not to renew its maintenance contract 2) an increase in maintenance fees associated with higher renewal prices based on contract provisions; 3) the addition of a new maintenance contract in

fourth quarter 2008 in the amount of approximately $11,560.

Subscription Revenue

Subscription revenues were $203,028 and $89,251 in 2008 and 2007 respectively; an increase of 127%. This $113,777 increase in June 30, 2008 when compared with the same period ended June 30, 2007 was the result of the Company changing its business initiative from a license based approach to a monthly subscription model. Management believes that by focusing efforts to marketing its products on a monthly subscription basis, the Company will increase its recurring revenues while reducing its historical reliance on license fees. The Company anticipates both an expansion of its existing customer base and further growth and expansion in new customers who are anticipated to expand software and services on a subscription basis in Fiscal 2009.

Professional Services Revenue

Professional services revenue increased by 26% to $584,661 in the year ending June 30, 2008 when compared to $464,396 in the same period ended at June 30, 2007. This $120,265 increase in professional services revenue for the year ended, June 30, 2008 when compared to the same period ended June 30, 2007 was due to the completion of a large project for one existing customer. This project was completed in the quarter ended June 30, 2008. This increase was partially offset by higher services that occurred in 2007 that did not occur at that same level in 2008.



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Cost of Services and Product Support Expense
Cost of Services and Product Support expenditures were $2,419,227 and $1,717,793 for the years ended June 30, 2008 and 2007, respectively; a 41% increase. This increase of $701,434 for the year ended June 30 ,2008 when compared with the same period ended June 30, 2007 is attributable to the completion of three capitalized projects in Fiscal Year 2007 that have reduced the specific costs capitalized in accordance with SFAS 86 "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed." The comparative reduction of costs capitalized for research and development was approximately $341,000. Additionally, the Company continues to expand its development workforce in India.

Sales and Marketing Expense
Sales and marketing expenses were $1,843,912 and $1,508,276 for the year ended June 30, 2008 and 2007, respectively, a 22% increase over the previous year. In conjunction with the release of a significant enhancement (Service Release 5 "SR5" and Service Release 6 "SR6") for its FMM suite of products in 2007 and 2008, and the subscription offering of its SCPL tool, the Company has proportionally increased its sales and marketing resources. As a result, the Company has deployed additional sales staff and outside consultants to target its current customer base and prospects to expand the market awareness of its subscription based offering.

General and Administrative Expense
General and administrative expenses were $2,073,214 and $2,002,552 for 2008 and 2007, respectively, a 4% increase. This $70,662 increase when comparing expenditures for the year ending June 30, 2008 with the same period at June 30, 2008 is attributable to an increase in healthcare costs of $11,303 and an increase in compensation expenses of approximately $150,000. This additional expense is partially offset by approximately $90,000 in reduced outsourced investor relations and administrative services fees.

Depreciation and Amortization Expense
Depreciation and Amortization expenses were $505,539 and $368,636 for 2008 and 2007, respectively, an increase of 37%. This increase of $136,903 for the year ended June 30, 2008 when compared to the same period ended as of June 30, 2007 is attributable to the following; 1) the acquisition of certain additional property plant and equipment during the fiscal year 2008 2) an increase in capitalized software costs for significant enhancements to one of the Company's new products that was released during fiscal year 2008.

Other Income and Expense
Net interest income was $29,035 and net interest expense was $114,650 for 2008 and 2007, respectively, a 125% an increase in interest income. This $143,685 difference is attributable to favorable interest rates obtained at a bank on restricted cash to offset a note payable to a bank. Additionally, the company had other income from patent activities of $600,000 in 2008 while in 2007 other income was attributable to a gain on derivate liability of $88,785 and a gain on marketable securities of $18,386.

Financial Position, Liquidity and Capital Resources
Years Ended June 30, 2008 and 2007

Net Cash Flows From Operating Activities
Net cash used in operations for the year ended June 30, 2008, was $2,870,775 compared to $2,948,063 for the year ended June 30, 2007. The $77,288 decrease in net cash used in operations for the year ended June 30, 2008 when compared to the same period in 2007 was the result of 1.) a decrease in receivables 2.) a decrease in deferred revenue 3.) and, a lower level of accounts payable .

Net Cash Flows From Investing Activities

Net cash flows provided by investing activities for the year ended June 30, 2008 was $490,157 compared to cash flows used in investing activities of $2,538,650 for the year ended June 30, 2007. This $3,028,807 comparable increase in cash flows from investing activities June 30, 2008 when compared to the same period in 2007 was the result of 1) the Company securing a $1.94 million certificate of deposit in order to collateralize a note payable held by its bank during fiscal year 2007 during 2007 which did not occur in 2008; 2) a decrease of approximately $341,000 in capitalization of software costs for enhancements to one of the Company's new products that was completed and released earlier in fiscal 2008; 3) proceeds from the sale of two of the Company's patents; and 4) a reduction of property plant and equipment purchases made during fiscal year 2008 when compared to purchases during fiscal year 2007 associated with the relocation of the Company's corporate facilities.

Net Cash Flows From Financing Activities

Net cash used in financing activities totaled $27,243 for the year ended June 30, 2008 when compared to cash flows provided by financing activities of $5,243,077 for the year ended June 30, 2007. As previously stated, the Company issued 584,000 shares of its Series A Convertible Preferred Stock in June of 2007. See Note 14 for the terms and conditions of the Series A Convertible Preferred Stock. In 2008, the Company utilized cash for payments on notes payable and capital leases which was partially offset by the receipt of a subscription receivable in the amount of $106,374.

Cash, Cash Equivalents & Restricted Cash

Cash, cash equivalents and restricted cash was $2,805,563 and $5,213,424 at June 30, 2008, and June 30, 2007, respectively This net decrease of $2,407,861 was the direct result of the Company's use of cash to fund operations and transitioning its business to a recurring revenue model and instead of non-recurring license sales.

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Liquidity and Capital Resources

Current assets at June 30, 2008 totaled $3,983,178 a decrease of $2,806,103 when compared to June 30, 2007. The Company had $2,805,563 of cash, cash equivalents and restricted cash as of June 30, 2008 which includes restricted cash in the amount of $1,940,000 that collateralizes a note payable with its bank. The collateralized note bears the same interest as the interest received on its restricted cash. For the year ended, June 30, 2007 the Company had $5,213,424 in cash, cash equivalents and restricted cash.

Current liabilities totaled $3,401,779 and $3,615,929 as of June 30, 2008 and 2007, respectively. The $214,150 comparative decrease in current liabilities was the result of 1) a $39,370 increase in accounts payable, 2) an increase of $123,282 in accrued liabilities 3) decrease of $449,149 in deferred revenue; and, 4) an increase of $72,347 in current portion of capital leases from a new lease obligation in fiscal year 2008.

Working capital at June 30, 2008 was $581,399 when compared to $3,173,352 at June 30, 2007. The decrease in working capital is principally a result of funding operations in fiscal year 2008.

Historically, the Company has financed its operations through operating revenues, loans from directors, officers, stockholders, loans from the CEO and majority shareholder, and private placements of equity securities. Since 2006, the Company has converted all loans and notes payable from its officers and directors to stock. In 2007, due to its increase in financial position, the Company was able to eliminate Riverview Financial Corp as its guarantor and maintains its own collateralization of the note payable for $1.940 million. The Company believes that anticipated revenue growth in combination with strict cost control will allow the Company to meet its minimum operating cash requirements for the next 12 months.

On August 28, 2008, the Company, PAII Transitory Sub, Inc., a Delaware corporation (“Merger Sub”), a wholly-owned subsidiary of the Company and Prescient Applied Intelligence, Inc. (“Prescient”) entered into an Agreement and Plan of Merger (the “Merger Agreement”). The Merger Agreement is incorporated by reference in an 8-K filed with the Securities and Exchange Commission on September 3, 2008.

The Company is required, under the Merger Agreement, to make an initial deposit of $ 2,500,000 into escrow at such time as the Securities and Exchange Commission has no further comment of Prescient’s proxy statement/information statement related to the Merger Transaction. The balance of the funds necessary to complete the Merger (approximately $2,300,000) are required to be placed into escrow at least one (1) business day prior to the date of the Prescient’s shareholders’ meeting, anticipated before the end of the calendar year. Prior to the execution of the Merger Agreement, the Company delivered to Prescient a comfort letter from Taglich Brothers, its investment bankers, to the effect that, when and as required under this Agreement, the Company shall have available or have access to funds sufficient to perform its obligations under this Agreement, including the consummation of the Merger.

The required funds for the transaction will be raised through a series of private transactions using a debt instrument containing conversion features into the Company’s common stock, the details of which are currently pending.

The financial statements do not reflect any adjustments should the Company’s operations or anticipated merger not be achieved. Although the Company anticipates that it will meet its working capital requirements and consummate the merger, there can be no assurances that the Company will be able to meet its working capital requirements. Should the Company desire to raise additional equity or debt financing, there are no assurances that the Company could do so on acceptable terms.

Inflation

The impact of inflation may cause retailers to slow spending in the technology area, which could have an impact on the company's sales.

Risk Factors

The Company is subject to certain other risk factors due to the organization and structure of the business, the industry in which it competes and the nature of its operations. These risk factors include the following:

Risks Related To the Company

The Company has incurred losses in the past and there can be no assurance that the Company will operate continually or consistently at a profit in the future. Resulting losses could cause a reduction in operations and could have a detrimental effect on the long-term capital appreciation of the Company's stock.

The Company's marketing strategy emphasizes sales activities for the Fresh Market Manager, ActionManager®, and Supply Chain Profit Link applications to Supermarkets, Convenience Stores, Specialty Retail, and Food Manufacturers. If this marketing strategy fails, revenues and operations will be negatively affected. A reduction in revenues will result in increases in operational losses.

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For the fiscal years ended June 30, 2008 and June 30, 2007, the Company had a net loss of $2,868,179 and $3,011,627 respectively. There can be no assurance that the Company will reliably or consistently operate profitably during future fiscal years. If the Company does not operate profitably in the future the Company's current cash resources will be used to fund the Company's operating losses. If this were to continue, in order to continue with the Company's operations, the Company would need to raise additional capital. Continued losses would have an adverse effect on the long term value of the Company's common stock and an investment in the Company. The Company cannot give any assurance that the Company will ever generate significant revenue or have sustainable profits.

The Company liquidity and capital requirements will be difficult to predict, which may adversely affect the Company's cash position in the future.

In June of 2007, the Company completed the sale of shares of its Series A Convertible Preferred Stock from which it received gross offering proceeds of $5,840,000. Historically, the Company has been successful in raising capital when necessary which includes stock issuances, securing loans from its officers, directors, including the CEO and majority stockholder in order to fund its operations in addition to proceeds collected from sales; however, there can be no assurances that it will be able to do so in the future. The Company anticipates that it will have adequate cash resources to fund its operations for at least the next 12 months. Thereafter, its liquidity and capital requirements will depend upon numerous other factors, including the following:

- The extent to which the Company's products and services gain market acceptance;
- The progress and scope of product evaluations;
- The timing and costs of acquisitions and product and services introductions;
- The extent of the Company's ongoing research and development programs; and
- The costs of developing marketing and distribution capabilities.

If in the future, the Company is required to seek additional financing in order to fund its operations and carry out its business plan, there can be no assurance that such financing will be available on acceptable terms, or at all, and there can be no assurance that any such arrangement, if required or otherwise sought, would be available on terms deemed to be commercially acceptable and in the Company's best interests.

Operating results may fluctuate, which makes it difficult to predict future performance.

Management expects a portion of the Company's revenue stream to come from license sales, maintenance and services charged to new customers, which will fluctuate in amounts because software sales to retailers are difficult to predict. In addition, the Company may potentially experience significant fluctuations in future operating results caused by a variety of factors, many of which are outside of its control, including:

- Demand for and market acceptance of new products;
- Introduction or enhancement of products and services by the Company or its competitors;
- Capacity utilization;
- Technical difficulties, system downtime;

- Fluctuations in data communications and telecommunications costs;
- Maintenance subscriber retention;
- The timing and magnitude of capital expenditures and requirements;
- Costs relating to the expansion or upgrading of operations, facilities, and infrastructure;
- Changes in pricing policies and those of competitors;
- Composition and duration of product mix including license sales, consulting fees, and the timing of software rollouts;
- Changes in regulatory laws and policies, and;
- General economic conditions, particularly those related to the information technology industry.

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Because of the foregoing factors, future operating results may fluctuate. As a result of such fluctuations, it is difficult to predict operating results. Period-to-period comparisons of operating results are not necessarily meaningful and should not be relied upon as an indicator of future performance. In addition, a relatively large portion of the Company's expenses will be fixed in the short-term, particularly with respect to facilities and personnel. Therefore, future operating results will be particularly sensitive to fluctuations in revenues because of these and other short-term fixed costs.

The Company will need to effectively manage its growth in order to achieve and sustain profitability. The Company's failure to manage growth effectively could reduce its sales growth and result in continued net losses.

To achieve continual and consistent profitable operations on a fiscal year on-going basis, the Company must have significant growth in its revenues from the sale of its products and services. If the Company is able to achieve significant growth in future sales and to expand the scope of the Company's operations, and its management, financial, and other capabilities and existing procedures and controls could be strained. The Company cannot be certain that it's existing or any additional capabilities, procedures, systems, or controls will be adequate to support the Company's operations. The Company may not be able to design, implement, or improve its capabilities, procedures, systems, or controls in a timely and cost-effective manner. Failure to implement, improve and expand the Company's capabilities, procedures, systems, or controls in an efficient and timely manner could reduce the Company's sales growth and result in a reduction of profitability or increase of net losses.

The Company's officers and directors have significant control over it, which may lead to conflicts with other stockholders over corporate governance.

The Company's officers and directors, other than the Chief Executive Officer, control approximately 7.79% of the Company's common stock. The Company's Chief Executive Officer, Randall K. Fields, individually, controls 47.36% of the Company's common stock.

Consequently, Mr. Fields, individually, and the Company's officers and directors, as stockholders acting together, will be able to significantly influence all matters requiring approval by the Company's stockholders, including the election of directors and significant corporate transactions, such as mergers or other business combination transactions.

The Company's corporate charter contains authorized, unissued "blank check" preferred stock that can be issued without stockholder approval with the effect of diluting then current stockholder interests.

The Company's certificate of incorporation currently authorizes the issuance of up to 30,000,000 shares of "blank check" preferred stock with designations, rights, and preferences as may be determined from time to time by the Company's board of directors. In June 2007, the Company completed the sale of 584,000 shares of its Series A Convertible Preferred Stock. The Company's board of directors is empowered, without stockholder approval, to issue one or more additional series of preferred stock with dividend, liquidation, conversion, voting, or other rights that could dilute the interest of, or impair the voting power of, the Company's common stockholders. The issuance of an additional series of preferred stock could be used as a method of discouraging, delaying, or preventing a change in control.

Because the Company has never paid dividends on its Common Stock, you should exercise caution before making an investment in the Company.

The Company has never paid dividends on its common stock and does not anticipate the declaration of any dividends pertaining to its common stock in the foreseeable future. The Company intends to retain earnings, if any, to finance the development and expansion of the Company's business. The Company's board of directors will determine future dividend policy at their sole discretion and future dividends will be contingent upon future earnings, if any,

obligations of the stock issued, The Company's financial condition, capital requirements, general business conditions and other factors. Future dividends may also be affected by covenants contained in loan or other financing documents, which may be executed by the Company in the future. Therefore, there can be no assurance that dividends will ever be paid on its common stock.

The Company's business is dependent upon the continued services of the Company's founder and Chief Executive Officer, Randall K. Fields; should the Company lose the services of Mr. Fields, the Company's operations will be negatively impacted.

The Company's business is dependent upon the expertise of its founder and Chief Executive Officer, Randall K. Fields. Mr. Fields is essential to the Company's operations. Accordingly, an investor must rely on Mr. Fields' management decisions that will continue to control the Company's business affairs after the offering. The Company currently maintains key man insurance on Mr. Fields' life in the amount of $10,000,000; however, that coverage would be inadequate to compensate for the loss of his services. The loss of the services of Mr. Fields would have a materially adverse effect upon the Company's business.



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If the Company is unable to attract and retain qualified personnel, the Company may be unable to develop, retain or expand the staff necessary to support its operational business needs.

The Company's current and future success depends on its ability to identify, attract, hire, train, retain and motivate various employees, including skilled software development, technical, managerial, sales, marketing and customer service personnel. Competition for such employees is intense and the Company may be unable to attract or retain such professionals. If the Company fails to attract and retain these professionals, the Company's revenues and expansion plans may be negatively impacted.

The Company's officers and directors have limited liability and indemnification rights under the Company's organizational documents, which may impact its results.

The Company's officers and directors are required to exercise good faith and high integrity in the management of the Company's affairs. The Company's certificate of incorporation and bylaws, however, provide, that the officers and directors shall have no liability to the stockholders for losses sustained or liabilities incurred which arise from any transaction in their respective managerial capacities unless they violated their duty of loyalty, did not act in good faith, engaged in intentional misconduct or knowingly violated the law, approved an improper dividend or stock repurchase, or derived an improper benefit from the transaction. As a result, an investor may have a more limited right to action than he would have had if such a provision were not present. The Company's certificate of incorporation and bylaws also require it to indemnify the Company's officers and directors against any losses or liabilities they may incur as a result of the manner in which they operate the Company's business or conduct the Company's internal affairs, provided that the officers and directors reasonably believe such actions to be in, or not opposed to, the Company's best interests, and their conduct does not constitute gross negligence, misconduct or breach of fiduciary obligations.

Business Operations Risks

If the Company's marketing strategy fails, its revenues and operations will be negatively affected.

The Company plans to concentrate its future sales efforts towards marketing the Company's applications and services. These applications and services are designed to be highly flexible so that they can work in multiple retail and supplier environments such as grocery stores, convenience stores, quick service restaurants, and route-based delivery environments. There is no assurance that the public will accept the Company's applications and services in proportion to the Company's increased marketing of this product line. The Company may face significant competition that may negatively affect demand for its applications and services, including the public's preference for the Company's competitors' new product releases or updates over the Company's releases or updates. If the Company's applications and services marketing strategy fails, the Company will need to refocus its marketing strategy to the Company's other product offerings, which could lead to increased marketing costs, delayed revenue streams, and otherwise negatively affect the Company's operations.

Because the Company is changing the emphasis of its sales activities from an annual license fee structure to a monthly fee structure, the Company's revenues may be negatively affected.

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. Because the Company's one-time licensing fee approach was subject to inconsistent and unpredictable revenues, the Company now offers prospective customers an option for monthly subscription based licensing of these products. The Company's customers may now choose to acquire a license to use the software on an Application Solution Provider basis (also referred to as ASP) resulting in monthly charges for use of the Company's software products and maintenance fees. The Company's conversion from a strategy of one-time, non-recurring licensing based

model to a monthly-based recurring fees based approach is subject to the following risks:

- The Company’s customers may prefer one-time fees rather than monthly fees;
- Because public awareness pertaining to the Company’s Application Solution Provider services will be delayed until the Company begins its marketing campaign to promote those services, the Company’s revenues may decrease over the short term; and
- There may be a threshold level (number of locations) at which the monthly based fee structure may not be economical to the customer, and a request to convert from monthly fees to an annual fee could occur.



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The Company faces competition from competing and emerging technologies that may affect its profitability.

The markets for the Company's type of software products and that of its competitors are characterized by:

- Development of new software, software solutions, or enhancements that are subject to constant change;
- Rapidly evolving technological change; and
- Unanticipated changes in customer needs.
- Because these markets are subject to such rapid change, the life cycle of the Company's products is difficult to predict; accordingly, the Company is subject to the following risks:

- Whether or how the Company will respond to technological changes in a timely or cost-effective manner;
- Whether the products or technologies developed by the Company's competitors will render the Company's products and services obsolete or shorten the life cycle of the Company's products and services; and
- Whether the Company's products and services will achieve market acceptance.

If the Company is unable to adapt to constantly changing markets and to continue to develop new products and technologies to meet the Company's customers' needs, the Company's revenues and profitability will be negatively affected.

The Company's future revenues are dependent upon the successful and timely development and licensing of new and enhanced versions of its products and potential product offerings suitable to the Company's customer's needs. If the Company fails to successfully upgrade existing products and develop new products, and those new products do not achieve market acceptance, the Company's revenues will be negatively impacted.

The Company faces risks with attracting new first-time license clients from a limited global prospect pool.

The Company's software licensing is currently reliant upon a limited number of national and international prospect companies who require the Company's unique product and services as a result of consolidation in the global number of retailers specifically in the grocery and retail industries. As a consequence, future revenue may be significantly impacted if the Company is unable to attract new license customers from this limited prospect pool.

The Company expects that as a result of further industry consolidation and the limited customer pool from which the Company can attract new software license prospects, a small number of the Company's new customers may continue to account for a substantial portion of current, non-recurring license revenues in future reporting periods. In fiscal 2008, the Company's new license customer accounted for 64% of total non-recurring license revenue and 33% of total revenue for fiscal 2008.

Historically, a substantial portion of the Company's annual revenue has been derived from a one-time, non-recurring licensing fee for utilization of the Company's patented software

Historically, a large portion of the Company's customers rely on the Company's patented software for utilization during the normal course and scope of their business operations. New customers are charged a license fee based on a "blanket" license agreement fee for a particular software product or an initial license fee that is based on a store by store opening basis. Although results vary from period to period, in fiscal 2008, new non-recurring initial license fee revenue equaled $1,101,940 or 33% of total revenue. Historically, over 94% of new, first-time license customers will not purchase products, license agreements, or services at the same financial level in future periods as they do in the first year of installation. While the company is not substantially dependent on any one particular customer for providing a continued revenue stream, the Company is dependent on attracting new first-time license clients in order to meet the Company's operating and capital cash flow needs since the initial fee represents, in most cases, a substantial portion of

revenue. If the Company cannot attract new first-time license customers, the Company's remaining recurring revenue streams may not provide sufficient financial resources to support capital and operating needs.

The ability to attract new software license customers will depend on a variety of factors, including the relative success of marketing strategies and the performance, quality, features, and price of current and future products. Accordingly, if the Company cannot attract new customer licensing accounts or existing customer needs for the Company's product and services decrease, revenues and operating results will be negatively impacted.

The Company faces risks associated with the loss of maintenance and other revenue

The Company has experienced the loss of long term maintenance customers as a result of the reliability of its product. Some customers may not see the value in continuing to pay for maintenance that they do not need or use, and in some cases, customers have decided to replace the Company's applications or maintain the system on their own. The Company continues to focus on these maintenance clients by providing new functionality and applications to meet their business needs. The Company also may lose some maintenance revenue due to consolidation of industries or customer operational difficulties that lead to their reduction of size. In addition, future revenues will be negatively impacted if the Company fails to add new maintenance customers that will make additional purchases of the Company's products and services.

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The Company faces risks associated with its new Supply Chain Profit Link product.

Because this is a new product offering there are risks associated with it, such as:

§ It may be difficult for the Company to predict the amount of service and technological resources that will be needed by new SCPL customers, and if the Company underestimates the necessary resources, the quality of its service will be negatively impacted thereby undermining the value of the product to the customer.

§ The Company lacks the experience with this new product and its market acceptance to accurately predict if it will be a profitable product.

§ Technological issues between the Company and the customer may be experienced in capturing data, and these technological issues may result in unforeseen conflicts or technological setbacks when implementing the software. This may result in material delays and even result in a termination of the engagement with the customer.

§ The customer's experience with SCPL, if negative, may prevent the Company from having an opportunity to sell additional products and services to that customer.

§ If the customer does not use the product as the Company recommends and fails to implement any needed corrective action(s), it is unlikely that the customer will experience the business benefits from the software and may therefore be hesitant to continue the engagement as well as acquire any additional software products from the Company.

§ Delays in proceeding with the implementation of the SCPL product by a new customer will negatively affect the Company's cash flow and its ability to predict cash flow.

The Company faces risks associated with proprietary protection of the Company's software.

The Company's success depends on the Company's ability to develop and protect existing and new proprietary technology and intellectual property rights. The Company seeks to protect the Company's software, documentation and other written materials primarily through a combination of patents, trademarks, and copyright laws, trade secret laws, confidentiality procedures and contractual provisions. While the Company has attempted to safeguard and maintain the Company's proprietary rights, there are no assurances that the Company will be successful in doing so. The Company's competitors may independently develop or patent technologies that are substantially equivalent or superior to the Company's.

Despite the Company's efforts to protect its proprietary rights, unauthorized parties may attempt to copy aspects of the Company's products or obtain and use information that the Company regards as proprietary. In some types of situations, the Company may rely in part on "shrink wrap" or "point and click" licenses that are not signed by the end user and, therefore, may be unenforceable under the laws of certain jurisdictions. Policing unauthorized use of the Company's products is difficult. While the Company is unable to determine the extent to which piracy of the Company's software exists, software piracy can be expected to be a persistent problem, particularly in foreign countries where the laws may not protect proprietary rights as fully as the United States. The Company can offer no assurance that the Company's means of protecting its proprietary rights will be adequate or that the Company's competitors will not reverse engineer or independently develop similar technology.

The Company incorporates a number of third party software providers' licensed technologies into its products, the loss of which could prevent sales of the Company's products or increase the Company's costs due to more costly substitute products.

The Company licenses technologies from third party software providers, and such technologies are incorporated into the Company's products. The Company anticipates that it will continue to license technologies from third parties in the future. The loss of these technologies or other third-party technologies could prevent sales of the Company's products and increase the Company's costs until substitute technologies, if available, are developed or identified, licensed and successfully integrated into the Company's products. Even if substitute technologies are available, there can be no guarantee that the Company will be able to license these technologies on commercially reasonable terms, if at all.

The Company may discover software errors in its products that may result in a loss of revenues or injury to the Company's reputation in the software industry.

Non-conformities or bugs ("errors") may be found from time to time in the Company's existing, new or enhanced products after commencement of commercial shipments, resulting in loss of revenues or injury to the Company's reputation. In the past, the Company has discovered errors in the it's products and as a result, has experienced delays in the shipment of products. Errors in the Company's products may be caused by defects in third-party software incorporated into the Company's products. If so, the Company may not be able to fix these defects without the cooperation of these software providers. Since these defects may not be as significant to the software provider as they are to us, the Company may not receive the rapid cooperation that may be required. The Company may not have the contractual right to access the source code of third-party software, and even if the Company does have access to the code, the Company may not be able to fix the defect. Since the Company's customers use the Company's products for critical business applications, any errors, defects or other performance problems could result in damage to the Company's customers' business. These customers could seek significant compensation from us for their losses. Even if unsuccessful, a product liability claim brought against us would likely be time consuming and costly.

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Some competitors are larger and have greater financial and operational resources that may give them an advantage in the market.

Many of the Company's competitors are larger and have greater financial and operational resources. This may allow them to offer better pricing terms to customers in the industry, which could result in a loss of potential or current customers or could force us to lower prices. Any of these actions could have a significant effect on revenues. In addition, the competitors may have the ability to devote more financial and operational resources to the development of new technologies that provide improved operating functionality and features to their product and service offerings. If successful, their development efforts could render the Company's product and service offerings less desirable to customers, again resulting in the loss of customers or a reduction in the price the Company can demand for the Company's offerings.

The Company is in the process of acquiring and merging with Prescient Applied Intelligence, Inc. (OTC BB: PPID) If the merger is not consummated, this could result in a loss of the Company's escrow deposits.

On August 28, 2008, the Company and Prescient Applied Intelligence, Inc. executed an Agreement and Plan of Merger ("Merger Transaction"), pursuant to which the Company intends to merge Prescient with and into a wholly-owned subsidiary of the Company. The Company is required, under the Merger Agreement, to make an initial deposit of $2,500,000 into escrow at such time as the Securities and Exchange Commission has no further comment of Prescient's proxy statement/information statement related to the Merger Transaction. In the event the Company fails to complete the Merger or breaches any provision of the Agreement, after an opportunity to cure in some cases, after the initial escrow deposit (i) the amount that has been placed into escrow, will be transferred to Prescient and become its property; and (ii) Prescient will be able to purchase from the Company, at a purchase price of $.001 per share, 100% of the Series E Preferred Stock that it owns. This would result in a forfeit of all of the Company's escrow deposit.

In the event the Company's failure or breach, as described above, occurs after the balance of the funds necessary to complete the Merger (approximately $2,300,000) have been placed into escrow (i) the total amount that has been placed into escrow (approximately $4.8 million), will be transferred to Prescient and become its property; and (ii) Prescient will be able to purchase from the Company at a purchase price of $.001 per share, 50% of the Series E Preferred Stock that it owns.

Risks Relating To The Company's Common Stock

If the Company fails to remain current on its reporting requirements, the Company could be removed from the OTC Bulletin Board, which would limit the ability of broker-dealers to sell the Company's securities and the ability of stockholders to sell their securities in the secondary market.

Companies trading on the OTC Bulletin Board, like us, must be reporting issuers under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and must be current in reports required under Section 13 to maintain price quotation privileges on the OTC Bulletin Board. If the Company fails to remain current on its reporting requirements, the Company could be removed from the OTC Bulletin Board. As a result, the market liquidity for the Company's securities could be severely and adversely affected by limiting the ability of broker-dealers to sell the Company's securities and the ability of stockholders to sell their securities in the secondary market.

The Company's common stock is subject to the "penny stock" rules of the SEC and the trading market in the Company's securities is limited, which makes transactions in the Company's stock cumbersome and may reduce the value of an investment in the Company.

The Securities and Exchange Commission has adopted Rule 15g-9 under the Exchange Act, which establishes the definition of a "penny stock," for the purposes relevant to the Company, as any equity security that has a market price of less than $5.00 per share or an exercise price of less than $5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require:

§ that a broker or dealer approve a person's account for transactions in penny stocks; and

§ the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

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In order to approve a person's account for transactions in penny stocks, the broker or dealer must:

- § obtain financial information and investment experience objectives of the person; and
- § make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of valuating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the Commission relating to the penny stock market, which, in highlight form:

- § sets forth the basis on which the broker or dealer made the suitability determination; and
- § that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

Generally, brokers may be less willing to execute transactions in securities subject to the "penny stock" rules. This may make it more difficult for investors to dispose of the Company's common stock and cause a decline in the market value of the Company's stock.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities, and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

The limited public market for the Company's securities may adversely affect an investor's ability to liquidate an investment in the Company.

Although the Company's common stock is currently quoted on the OTC Bulletin Board (OTCBB), there is limited trading activity. The Company can give no assurance that an active market will develop, or if developed, that it will be sustained. If you acquire shares of the Company's common stock, you may not be able to liquidate the Company's shares should you need or desire to do so.

Future issuances of the Company's shares may lead to future dilution in the value of the Company's common stock, will lead to a reduction in shareholder voting power, and may prevent a change in Company control.

The shares may be substantially diluted due to the following:

- § Issuance of common stock in connection with funding agreements with third parties and future issuances of common and preferred stock by the Board of Directors; and
- § The Board of Directors has the power to issue additional shares of common stock and preferred stock and the right to determine the voting, dividend, conversion, liquidation, preferences and other conditions of the shares without shareholder approval.

Stock issuances may result in reduction of the book value or market price of outstanding shares of common stock. If the Company issues any additional shares of common or preferred stock, proportionate ownership of common stock and voting power will be reduced. Further, any new issuance of common or preferred shares may prevent a change in control or management.

Compliance with the rules established by the SEC pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 will be complex. Failure to comply in a timely manner could adversely affect investor confidence and the Company's stock

price.

Rules adopted by the SEC pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 require the Company to perform an annual assessment of its internal controls over financial reporting, certify the effectiveness of those controls and secure an attestation of the Company's assessment by its independent registered public accountants. The standards that must be met for management to assess the internal controls and secure an attestation from its independent registered public accountant over financial reporting as now in effect are new and complex, and require significant documentation, testing and possible remediation to meet the detailed standards. The Company may encounter problems or delays in completing activities necessary to make an assessment of the Company's internal controls over financial reporting and secure an attestation from its independent registered public accountant. Due to the Company's limited personnel resources and lack of experience, it may encounter problems or delays in completing the implementation of any requested improvements and receiving an attestation of the assessment by its independent registered public accountants. If the Company cannot perform the assessment or certify that its internal controls over financial reporting are effective, and if the Company's independent registered public accountants are unable to provide an unqualified attestation on such assessment, investor confidence and share value may be negatively impacted.

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Critical Accounting Policies

This Management's Discussion and Analysis of Financial Condition and Results of Operations discuss the Company's Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States.

We commenced operations in the software development and professional services business during 1990. The preparation of our financial statements requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and assumptions, including those related to inventory, income taxes, revenue recognition and restructuring initiatives. We anticipate that management will base its estimates and judgments on historical experience of the operations we may acquire and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management believes the following critical accounting policies, among others, will affect its more significant judgments and estimates used in the preparation of our Consolidated Financial Statements.

Income Taxes. In determining the carrying value of the Company's net deferred income tax assets, the Company must assess the likelihood of sufficient future taxable income in certain tax jurisdictions, based on estimates and assumptions, to realize the benefit of these assets. If these estimates and assumptions change in the future, the Company may record a reduction in the valuation allowance, resulting in an income tax benefit in the Company's Statements of Operations. Management evaluates the realizability of the deferred income tax assets and assesses the valuation allowance quarterly.

Goodwill and Other Long-Lived Asset Valuations. Goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the statements. Other intangible assets will continue to be amortized over their useful lives.

Revenue Recognition. The Company derives revenues from four primary sources, software licenses, maintenance and support services, professional services and software subscription. New software licenses include the sale of software runtime license fees associated with deployment of the Company's software products. Software license maintenance updates and product support are typically annual contracts with customers that are paid in advance or specified as terms in the contract. This provides the customer access to new software releases, maintenance releases, patches and technical support personnel. Professional service sales are derived from the sale of services to design, develop and implement custom software applications. Subscription is derived from the sale of Supply Chain Profit Link, a category management product that is sold on a subscription basis.

License fees revenue from the sale of software licenses is recognized upon delivery of the software unless specific delivery terms provide otherwise. If not recognized upon delivery, revenue is recognized upon meeting specified conditions, such as, meeting customer acceptance criteria. In no event is revenue recognized if significant Company obligations remain outstanding. Customer payments are typically received in part upon signing of license agreements, with the remaining payments received in installments pursuant to the agreements. Until revenue recognition requirements are met, the cash payments received are treated as deferred revenue.

Maintenance and support services that are sold with the initial license fee are recorded as deferred revenue and recognized ratably over the initial service period. Revenues from maintenance and other support services provided

after the initial period are generally paid in advance and are recorded as deferred revenue and recognized on a straight-line basis over the term of the agreements.

Professional Services revenues are recognized in the period that the service is provided or in the period such services are accepted by the customer if acceptance is required by agreement.

Subscription revenues are recognized on a contractual basis, for one or more years. These fees are generally collected in advance of the services being performed and the revenue is recognized ratably over the respective months, as services are provided.

Before the Company recognizes revenue, the following criteria must be met:

1) Evidence of a financial arrangement or agreement must exist between the Company and its customer. Purchase orders, signed contracts, or electronic confirmation are three examples of items accepted by the Company to meet this criterion.

2) Delivery of the products or services must have occurred. The Company treats either physical or electronic delivery as having met this requirement. The Company offers a 60-day free trial on beginning a subscription engagement and revenue is not recognized during this time. After the free trial ends the Company recognizes revenue ratably over the subscription period.

3) The price of the products or services is fixed and measurable.

4) Collectability of the sale is reasonably assured and receipt is probable. Collectability of a sale is determined on a customer-by-customer basis. Typically the Company sells to large corporations which have demonstrated an ability to pay. If it is determined that a customer may not have the ability to pay, revenue is deferred until the payment is collected.

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Stock-Based Compensation. Prior to July 1, 2006, as permitted under Statement of Financial Accounting Standards ("SFAS") No. 123, the Company accounted for its stock options, warrants and plans following the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock issued to Employees," and related interpretations. Accordingly, no stock-based compensation expense had been reflected in the Company's statements of operations as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant and the related number of shares granted was fixed at that point in time.

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R), "Share Based Payment." This statement revised SFAS No. 123 by eliminating the option to account for employee stock options under APB No. 25 and requires companies to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards.

Effective July 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R) using the modified prospective application method. Under this transition method, the Company recorded compensation expense on a straight-line basis for the year ended June 30, 2007, for: (a) the vesting of options granted prior to July 1, 2006 (based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and previously presented in the pro-forma footnote disclosures), and (b) stock-based awards granted subsequent to July 1, 2006 (based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R)). In accordance with the modified prospective application method, results for the year ended June 30, 2006 have not been restated.

Capitalization of Software Development Costs. The Company accounts for research and development costs in accordance with several accounting pronouncements, including SFAS No. 2, Accounting for Research and Development Costs, and SFAS No. 86, Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed. SFAS No. 86 specifies that costs incurred internally in researching and developing a computer software product should be charged to expense until technological feasibility has been established for the product. Once technological feasibility is established, all software costs should be capitalized until the product is available for general release to customers. Judgment is required in determining when technological feasibility of a product is established. We have determined that technological feasibility for our software products is reached shortly after a working prototype is complete and meets or exceeds design specifications including functions, features, and technical performance requirements. Costs incurred after technological feasibility is established have been and will continue to be capitalized until such time as when the product or enhancement is available for general release to customers.

Off-Balance Sheet Arrangements

None

## Item 7. Financial Statements

See the index to consolidated financial statements and consolidated financial statement schedules included herein as Item 13.

## Item 8. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

None

Item 8A. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our Management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operations of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of June 30, 2008. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports submitted under the Securities and Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission ("SEC") rules and forms, including to ensure that information required to be disclosed by the Company is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

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(b) Management's Annual Report on Internal Control over Financial Reporting.

We are responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes of accounting principles generally accepted in the United States.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the SEC that permit us to provide only management's report in this annual report.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives.

Our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of our internal control over financial reporting as of June 30, 2008. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2008, our internal control over financial reporting was effective.

(c) Changes in internal controls over financial reporting.

The Company's Chief Executive Officer and Chief Financial Officer have determined that there have been no changes in the Company's internal control over financial reporting during the period covered by this report identified in connection with the evaluation described in the above paragraph that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 8B. Other Information

Not applicable

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## PART III

### Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance With Section 16(a) of the Exchange Act

The Board of Directors and executive officers consist of the persons named in the table below. Vacancies in the Board of Directors may only be filled by the Board of Directors by majority vote at a Board of Director's meeting of which stockholders holding a majority of the issued and outstanding shares of capital stock are present. The directors are elected annually by the stockholders at the annual meeting. Each director shall be elected for the term of one year, and until his or her successor is elected and qualified, or until earlier resignation or removal. The bylaws provide for at least one director. The directors and executive officers are as follows:

| Name | Age | Position – Committee |
|---|---|---|
| Randall K. Fields | 61 | Chief Executive Officer<br>Chairman of the Board and Director |
| Robert Hermanns (1) | 64 | Director, Senior Vice-President Sales |
| John R. Merrill (2) | 38 | Chief Financial Officer and Treasurer |
| Edward L. Clissold (3) | 52 | Secretary |
| Robert W. Allen (4) | 65 | Director and Compensation Committee Chairman |
| Richard S. Krause (5) | 46 | Director, Audit Committee Chairman and Nominating / Governance Committee Chairman |
| James R. Gillis (6) | 55 | Director |

(1) Appointed Director and Senior Vice-President, Sales on 3/15/07
(2) Appointed CFO and Treasurer on 9/10/07
(3) Appointed Secretary on 9/10/07
(4) Appointed Director on 10/01/07
(5) Appointed Director on 1/04/08
(6) Appointed Director on 2/05/08

Randall K. Fields has been the Chief Executive Officer, and Chairman of the Board of Directors since June, 2001. Mr. Fields founded Park City Group, Inc., a software development company based in Park City, Utah, in 1990 and has been its President, Chief Executive Officer, and Chairman of the Board since its inception in 1990. Mr. Fields has been responsible for the strategic direction of Park City Group, Inc. since its inception. Mr. Fields co-founded Mrs. Fields Cookies with his then wife, Debbi Fields. He served as Chairman of the Board of Mrs. Fields Cookies from 1978 to 1990. In the early 1970's Mr. Fields established a financial and economic consulting firm called Fields Investment Group. Mr. Fields received a Bachelor of Arts degree in 1968 and a Masters of Arts degree in 1970 from Stanford University, where he was Phi Beta Kappa, Danforth Fellow and National Science Foundation Fellow.

Robert P. Hermanns joined the Company in March of 2007 as Senior Vice President. Mr. Hermanns is responsible for U.S. customer relations and corporate development and also is an acting member of the Park City Group Board of Directors. Mr. Hermanns has over 40 years experience in all phases of retail and wholesale grocery operations. Mr. Hermanns was President and Chief Executive Officer and Vice Chairman of the Board of Directors of Associated Grocers, Inc. from 2002 through 2005. He is also the former Chief Operating Officer of Weis Markets, a $2 billion NYSE company operating 163 retail food markets in the Mid-Atlantic States. Prior to joining AG and Weis Markets, Mr. Hermanns enjoyed a 30-year career with American Stores Company, an $18 billion food and drug retailer, where

he held a number of executive management positions including Chief Operating Officer for Procurement and Logistics. A graduate of Western Michigan University with a BS degree in Food Marketing, Mr. Hermanns also holds an MBA from the University of Southern California.

John R. Merrill joined Park City Group in August of 2006 as it's' Director of Finance, Accounting & Administration. On September 10, 2007 he was promoted and appointed to Chief Financial Officer and Treasurer. He has over 18 years experience in both the public and private sectors of finance and accounting. Prior to joining Park City Group, he was most recently Chief Financial Officer for Peak Solutions Group a consulting firm focused on providing business solutions for growth oriented small business. From 1998 to 2003, Mr. Merrill was Controller for Clear Channel Communications, Inc., a $19 billion publicly traded broadcasting and outdoor advertising company operating 1,200 radio stations in the United States. Prior to joining Clear Channel, Mr. Merrill was the Controller of the Academies Division of IMG, a $2 billion global leader in professional athlete management whose clients included Tiger Woods, Venus Williams, Pete Sampras and Anna Kournikova. Throughout his career, Mr. Merrill has had significant exposure to various sectors of both sporting goods retail and service industries. Mr. Merrill began his career with KPMG and holds a Bachelors and a Masters degree in Accounting from the University of South Florida.

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Edward L. Clissold was appointed Secretary on September 10, 2007. In January of 2007, Mr. Clissold was hired as an employee of Park City Group, Inc as General Counsel. Formerly, he was in private practice and was the Company's corporate counsel. Mr. Clissold has over 25 years experience in the legal profession and has been affiliated with Park City Group, Inc and its predecessors for over 20 years. He was also General Counsel for Mrs. Fields Cookies, Inc. for approximately 10 years. Mr. Clissold received a Bachelors of Science Degree in Finance from the University of Utah and a Juris Doctorate from Brigham Young University.

Mr. Richard S. Krause joined the Board of Directors in January, 2008. .Mr. Krause is a seasoned executive with many years of experience in senior leadership roles with consumer packaged goods manufacturers and marketers such as Procter & Gamble, Newell Rubbermaid and ConAgra Foods. Mr. Krause has over twenty years of experience in leading organizations through significant milestones and inflection points by creating motivated, highly competitive, and winning cultures. Mr. Krause is currently President and Chief Executive Officer of Elan Nutrition, Inc. (an affiliate of Sun Capital Partners, Inc.) a major manufacturer and formulator of sports-performance, weight management and healthy lifestyle nutrition bars. Prior to this, he was President of Cannon Solutions, Inc., a global operating group with businesses in the merchandising systems, automated distribution and retail technologies sectors serving major brand marketers and retailers. Throughout his career, Mr. Krause has consistently developed and instituted share increasing, cost saving, and revenue building programs for several well-known consumer packaged goods brands.

Mr. Robert W. Allen joined the Board of Directors in October, 2007. Mr. Allen is a seasoned executive with many years experience as Chairman, President and Chief Executive Officer of businesses ranging in size from $200 million to $2.5 billion. Mr. Allen has over thirty years experience in the dairy industry, most notably as a catalyst for developing companies and a turn-around agent for troubled companies or divisions. Mr. Allen was most recently Chief Executive Officer of Southern Belle Dairy where he established a leadership team to reposition the company and developed a position in the market place for the branding of its products. Prior to this, he was Executive Vice President of Borden, Inc. where he was recruited to turn around the largest and most trouble division of the Company. He is also the immediate past Chair of Kid Peace International, a $160 million non- profit agency assisting children in crises.

Mr. James R. Gillis joined the Board of Directors in February, 2008 joined its Board of Directors.Mr. Gillis is President, Chief Operating Officer and Co-CEO of Source Interlink Companies, Inc., a premier marketing, merchandising and fulfillment company of entertainment products where he has been instrumental in developing annual revenues in excess of $1.9 billion and over 95 business units in the US. While at Source Interlink, Mr. Gillis has also developed and maintained relationships with public equity investors, hedge funds, stock analysts, investment banks and private equity firms, both domestically and internationally, while creating a marketing infrastructure to provide a portfolio of fully integrated products and services in 110,000 locations for more than 1,000 retail chains. Prior to his tenure with Source, he was President, CEO, and Owner of Brand Manufacturing Corporation, a leading designer and manufacturer of retail display systems. Previously, he was Managing Partner of Aders, Wilcox, Gillis Group, a global developer of trade relationships serving major brand marketers and retailers worldwide.

Our Executive Officers are elected by the Board on an annual basis and serve at the discretion of the Board.

Compliance with Section 16(a)

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors and executive officers, and persons who beneficially own more than 10% of a registered class of the Company's equity securities, to file reports of beneficial ownership and changes in beneficial ownership of the Company's securities with the SEC on Forms 3 (Initial Statement of Beneficial Ownership), 4 (Statement of Changes of Beneficial Ownership of Securities) and 5 (Annual Statement of Beneficial Ownership of Securities). Directors, executive officers and beneficial owners

of more than 10% of the Company's Common Stock are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms that they file. The Company believes that, during the year ended June 30, 2006, the Reporting Persons met all applicable Section 16(a) filing requirements

Code of Ethics and Business Conduct

In August 2008, the Company and its Board of Directors unanimously adopted a new Code of Ethics and Business Conduct. This has replaced the 2005 adopted Code of Ethics and is included by reference herein in Item 13, Exhibit 14.

Committees of the Board of Directors

Our board of directors has an audit committee, a compensation committee and a nominating and corporate governance committee, each of which has the composition and responsibilities described below:

Audit Committee.

The audit committee provides assistance to the board of directors in fulfilling its legal and fiduciary obligations in matters involving our accounting, auditing, financial reporting, internal control and legal compliance functions by approving the services performed by our independent accountants and reviewing their reports regarding our accounting practices and systems of internal accounting controls. The audit committee also oversees the audit efforts of our independent accountants and takes those actions as it deems necessary to satisfy it that the accountants are independent of management. The audit committee currently consists of Richard S. Krause (Chairman), Robert W. Allen, and James R. Gillis, each of whom is a non-management member of our board of directors. Richard S. Krause is also our audit committee financial expert as currently defined under Securities and Exchange Commission rules. We believe that the composition of our audit committee meets the criteria for independence under, and the functioning of our audit committee complies with the applicable requirements of, the Sarbanes-Oxley Act of 2002, the current rules of the Over-the-Counter Bulletin Board Stock Market and Securities and Exchange Commission rules and regulations. We intend to comply with future audit committee requirements as they become applicable to us.



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Compensation Committee.

The compensation committee determines our general compensation policies and the compensation provided to our directors and officers. The compensation committee also reviews and determines bonuses for our officers and other employees. In addition, the compensation committee reviews and determines equity-based compensation for our directors, officers, employees and consultants and administers our stock option plans and employee stock purchase plan. The compensation committee currently consists of Robert W. Allen (Chairman), Richard S. Krause, and James R. Gillis, each of whom is a non-management member of our board of directors. We believe that the composition of our compensation committee meets the criteria for independence under, and the functioning of our compensation committee complies with the applicable requirements of, the Sarbanes-Oxley Act of 2002, the current rules of the Over-the-Counter Bulletin Board Stock Market and Securities and Exchange Commission rules and regulations. We intend to comply with future compensation committee requirements as they become applicable to us.

Nominating and Corporate Governance Committee.

The nominating and corporate governance committee is responsible for making recommendations to the board of directors regarding candidates for directorships and the size and composition of the board. In addition, the nominating and corporate governance committee is responsible for overseeing our corporate governance guidelines and reporting and making recommendations to the board concerning corporate governance matters. The current members of the nominating and governance committee are Richard S. Krause (Chairman), James R. Gillis, and Randall K. Fields. We believe that the composition of our nominating and governance committee meets the criteria for independence under, and the functioning of our nominating and corporate governance committee complies with the applicable requirements of, the Sarbanes-Oxley Act of 2002, the current rules of the Over-the-Counter Bulletin Board Stock Market and Securities and Exchange Commission rules and regulations. We intend to comply with future nominating and corporate governance committee requirements as they become applicable to us.

## Item 10. Executive Compensation

The following table sets forth information concerning the compensation paid to the Company's Chief Executive Officer, and all persons serving as the Company's most highly compensated executive officers other than its chief executive officer, who were serving as executive officers as of June 30, 2008 and whose annual compensation exceeded $100,000 during such year (collectively the "Named Executive Officers").

SUMMARY COMPENSATION TABLE

| Name and Principal Position | Year | Salary ($) | Bonus ($) | Stock Awards ($) (1) | Options Awards ($) (2) | All Other Compensation ($) | Total ($) |
|---|---|---|---|---|---|---|---|
| Randall K. Fields | | | | | | | |
| Chief Executive Officer and Chairman of the Board | 2008 | 350,000 (3) | | | | 52,167 (4) | 402,167 |
| | 2007 | 350,000 (3) | — | — | — | 63,535 (4) | 413,535 |
| | | | | | | | |
| John R. Merrill | | | | | | | |
| Chief Financial Officer | 2008 | 165,000 | | 0 (6) | | | 165,000 |
| | 2007 | 80,000 (5) | 5,000 | 4,602 | — | | 89,602 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| William Dunlavy | | | | | | | |
| Senior Vice-President | 2008 | 37,500 (7) | | 40,000 | | 80,673 (8) | 158,173 |
| | 2007 | 225,000 | — | — | — | — | 225,000 |
| Robert Hermanns | | | | | | | |
| Senior Vice-President Sales | 2008 | 225,000 | | | | 55,855 (9) | |
| | 2007 | 64,167 (10) | — | — | 150,440 | — | 214,607 |

(1) Stock awards consist solely of shares of restricted common stock. Amounts shown do not reflect compensation actually received by the named executive officer. Instead, the amounts shown are the compensation costs recognized by the Company during the fiscal year for stock awards as determined pursuant to FAS 123R.

(2) Amounts shown do not reflect compensation actually received by the named executive officer. Instead, the amounts shown are the compensation costs recognized by the Company during the fiscal year for option awards as determined pursuant to FAS 123R. These compensation costs reflect option awards granted in and prior to fiscal 2007. The assumptions used to calculate the value of option awards are set forth under Note 1.

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(3) A significant part of Mr. Fields compensation is paid to a management company wholly owned by Mr. Fields.
(4) These amounts include premiums paid on Life Insurance policies of $25,344 and $41,452 for 2008 and 2007, respectively; Company car related expenses of $21,476 and $19,081 for 2008 and 2007, respectively; and medical premiums of $5,346 and $3,002 for 2008 and 2007, respectively.
(5) Mr. Merrill joined the Company in August 2006.
(6) Mr. Merrill was granted $100,000 of stock in November, 2007. This stock grant has a vesting period of four years at 25% per annum.
(7) Mr. Dunlavy resigned in August 2007.
(8) This amount includes accrued vacation of $7,213, $2,787 for supplemental work, and $70,673 representing severance of two weeks for each year of service.
(9) Commissions paid to Mr. Hermanns.
(10) Mr. Hermanns joined the Company in March 2007.

Employment Agreements

Park City Group has an employment agreement with its chief executive officer, Randall K. Fields, dated July 1, 2005. The compensation for Mr. Fields, under the terms of the agreement, provides for a portion of the compensation to be provided pursuant to an employment agreement and the balance to be provided pursuant to the terms of a services agreement between the Company and Fields Management, Inc., an executive management services provider, a company wholly owned by Mr. Fields. The term of the two agreements is five years ending June 30, 2008, with automatic one-year renewals. The combined agreements provide for:

- An annual base compensation of $350,000,
- Use of a company vehicle,
- Employee benefits that are generally provided to Park City Group, Inc. employees, and
- A bonus to be determined annually by the Compensation Committee of the Board of Directors.

Park City Group has an employment agreement with its Senior Vice-President of Sales, Robert Hermanns, and dated effective March 15, 2007. This agreement provides Mr. Hermanns with the following compensation:

- Annual base compensation of $220,000,
- Employee benefits that are generally provided to Park City Group, Inc. employees,
- A bonus equal to 1% of annual salary for every 2% increase in gross revenues over the previous year's actual revenue with additional terms set forth in Exhibit 10.16 attached hereto,
- Stock options equal to 2 to 1 for each share of stock purchased.

Park City Group has an employment with its Chief Financial Officer and Treasurer, John Merrill, dated effective September 10, 2007. This agreement provides Mr. Merrill with the following compensation:

- Annual base compensation of $165,000,
- Employee benefits that are generally provided to Park City Group, Inc. employees,
- Stock grants equal to 2 for 1 for each share of stock purchased.

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The following table sets forth information with respect to the value of all outstanding equity awards held by our named executive officers at the end of fiscal 2008.

OUTSTANDING EQUITY AWARDS AT FISCAL 2008 YEAR-END

| | Option Awards | | | | | Stock Awards | | | |
|---|---|---|---|---|---|---|---|---|---|
| Name | Number of Securities Underlying Unexercised Options # Exercisable | Number of Securities Underlying Unexercised Options # Unexercisable | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) | Option Exercise Price ($) | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested (#) | Market Value of Units of Stock That Have Not Vested ($) | Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($) |
| Randall K. Fields | — | — | — | — | — | — | — | — | — |
| | — | — | — | — | — | — | — | — | — |
| John Merrill | — | — | — | — | — | 31,056 | 100,000 | — | — |
| Robert Hermanns | 74,000 | — | — | 2.76 | 6/29/10 | — | — | — | — |

Director Compensation

The outside directors of the Company, James R. Gillis, Richard S. Krause, and Robert W. Allen., receive the following compensation:

Annual cash compensation of $10,000 payable at the rate of $2,500 per quarter. The Company has the right to pay this amount in the form of shares of Company Stock.

Annual options to purchase $20,000 of the Company restricted common stock at the market value of the shares on the date of the grant, which is to be the first day the stock market is open in January of each year.

The following table sets forth information concerning the compensation earned during fiscal 2008 by our current directors:

DIRECTOR COMPENSATION FOR FISCAL 2008

| Name | Fees Earned or Paid in Cash ($) | Stock Awards ($) (1) | Option Awards ($) | Non-equity Incentive Plan Compensation ($) | Nonqualified Deferred Compensation Earnings ($) | All Other Compensation ($) | Total ($) |
|---|---|---|---|---|---|---|---|
| Edward Dmytryk | — | 5,000 | — | — | — | — | 5,000 |
| Thomas Wilson | — | 5,000 | — | — | — | — | 5,000 |
| James R. Gillis | — | — | — | — | — | — | — |
| Richard S. Krause | — | — | — | — | — | — | — |
| Robert W. Allen | — | 2,500 | — | — | — | — | 2,500 |

(1) Stock awards consist solely of stock grants of fully vested Company common stock. Amounts shown do not reflect compensation actually received by the director. Instead, the amounts shown are the compensation costs recognized by the Company during the fiscal year for stock awards as determined pursuant to FAS 123R.

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401(k) Retirement Plan.

The Company offers an employee benefit plan under Benefit Plan Section 401(k) of the Internal Revenue Code. On May 1, 2007 the Company modified its trustee and administrator of its 401(k) from Fiserv / Alliance Benefits to Fidelity Investments. Employees who have attained the age of 18 are immediately eligible to participate. The Company, at its discretion, may match employee's contributions at a percentage determined annually by the board of directors. The Company does not currently match contributions.

Indemnification for Securities Act Liabilities

Nevada law authorizes, and the Company's Bylaws and Indemnity Agreements provide for, indemnification of the Company's directors and officers against claims, liabilities, and amounts paid in settlement, and expenses in a variety of circumstances. Indemnification for liabilities arising under the Act may be permitted for directors, officers and controlling persons of the Company pursuant to the foregoing or otherwise. However, the Company has been advised that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

Stock Options and Warrants

The Company has stock option plans that enable it to issue to officers, directors, consultants and employees nonqualified and incentive options to purchase common stock. At June 30, 2008, a total of 95,250 of such options were outstanding with exercise prices ranging from $1.50 to $2.76 per share.

At June 30, 2008 a total of 922,193 warrants to purchase shares of common stock were outstanding. Of those warrants, 128,571 were issued in connection with an equity investment by an officer; 376,485 were issued as a commission for placement of equity securities; and 417,137 were issued in connection with an equity placement. These warrants have exercise prices ranging from $3.50 to $4.00 per share and expire between August 26, 2009 and June 22, 2012.

Compensation Committee Interlocks and Insider Participation

No executive officers of the Company serve on the Compensation Committee (or in a like capacity) for the Company or any other entity.

## Item 11. Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Certain Beneficial Owners

The following table sets forth information regarding shares of our preferred stock beneficially owned as of September 26, 2008 by: (i) each of our officers and directors; (ii) all officers and directors as a group; and (iii) each person known by us to beneficially own five percent or more of the outstanding shares of our preferred stock. Percent ownership is calculated based on 612,535 shares of Series A Convertible Preferred Stock outstanding at September 26, 2008.

| Name | Preferred Stock | % Ownership of Class |
|---|---|---|

| | | |
|---|---|---|
| Hillson Partners LP | 52,818 | 8.62% |
| Meadowbrook Opportunity Fund LLC | 42,255 | 6.90% |
| London Family Trust | 31,690 | 5.17% |

The following table sets forth information regarding shares of our common stock beneficially owned as of September 3, 2008 by: (i) each of our officers and directors; (ii) all officers and directors as a group; and (iii) each person known by us to beneficially own five percent or more of the outstanding shares of our common stock.

| Name | Common Stock | Common Stock Options Exercisable Within 60 Days | Common Stock Purchase Warrant Exercisable Within 60 days | Total Stock and Stock Based Holdings (1) | % Ownership of Class (1) |
|---|---|---|---|---|---|
| Randall K. Fields (2)(4) | 3,976,867 | - | - | 3,978,867 | 42.84% |
| Riverview Financial, Corp (3) | 3,976,867 | - | - | 3,978,867 | 42.84% |
| Robert Hermanns (4) | 63,310 | 74,000 | | 137,310 | 1.47% |
| John R. Merrill (4) | 2,223 | - | - | 2,223 | * |
| Thomas W. Wilson (4) | 238,253 | - | - | 238,253 | 2.57% |
| James R. Gillis (4) | 21,880 | - | - | 21,880 | * |
| Robert W. Allen (4) | 39,194 | - | - | 39,194 | * |
| Richard S. Krause (4) | 1,880 | - | - | 1,880 | * |
| Goldman Capital Management | 514,619 | - | - | 514,619 | 5.54% |

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* Less than 1%

(1) For purposes of this table "beneficial ownership" is determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934, pursuant to which a person or group of persons is deemed to have "beneficial ownership" of any common shares that such person or group has the right to acquire within 60 days after September 26, 2008. For purposes of computing the percentage of outstanding common shares held by each person or group of persons named above, any shares that such person or group has the right to acquire within 60 days after September 26, 2008, are deemed outstanding but are not deemed to be outstanding for purposes of computing the percentage ownership of any other person or group. As of September 26, 2008, there were 9,282,373 shares of our common stock issued and outstanding. There were also outstanding options, and warrants entitling the holders to purchase 74,000 shares of our common stock owned by officers and/or directors of Park City Group.

(2) Includes 3,486,974 shares of common stock held in the name of Riverview Financial Corp. and 2,688 shares of common stock held in the name of Fields Management, Inc. of which Randall K Fields is the beneficial owner.

(3) Includes 487,206 shares of common stock held in the name of Randall K. Fields. Riverview Financial Corp. and 2,688 shares of common stock held in the name of Fields Management, Inc. which is beneficially controlled by Randall K. Fields.

(4) These are the officers and directors of Park City Group.

Change in Control

The Company is not currently engaged in any activities or arrangements that it anticipates will result in a change in control of the Company.

Item 12. Certain Relationships and Related Transactions, and Director Independence

Certain Relationships and Related Transactions

On September 2, 2008, Park City Group, Inc. (the "Company") executed and delivered three promissory notes in an aggregate amount of $2,200,000. Each of such notes is unsecured, due on or before December 1, 2008 and bears interest at the rate of 10% per annum. The lenders and the amount of each note are as follows:

| Lender | Principal Amount |
|---|---|
| Riverview Financial Corp* | $ 1,500,000 |
| Robert K. Allen (Director of Company) | 500,000 |
| Robert Hermanns (Director and Senior Vice President) | 200,000 |
| Total | $ 2,200,000 |

* Riverview Financial Corp is an affiliate of Randal Fields, the CEO and a director of the Company.

The loan proceeds were used by the Company to fund a portion of the purchase price of shares of Series E Preferred Stock of Prescient Applied Intelligence, Inc., a Delaware corporation ("Prescient") purchased by the Company. The purchase transaction was the first step in a plan to acquire Prescient in a merger transaction. The purchase transaction and the merger transaction are described in a Form 8-K filed by the Company on September 3, 2008 and a Schedule 13D filed by the Company with the Securities and Exchange Commission on September 15, 2008.

Director Independence

Our Board of Directors currently consists of Randall K. Fields, Robert P. Hermanns, Robert W. Allen, Richard S. Krause and James R. Gillis. The Board has determined that Robert W. Allen and Richard S. Krause qualify as independent directors.

We maintain separately designated audit, compensation and nominating committees. In applying the independence standards applicable to audit, compensation and nominating committee members, each of the members of such committees are considered independent.

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## Item 13. Exhibits

Exhibits, Financial Statements and Schedules

The Consolidated Financial Statements of the Company and its subsidiaries are filed as part of this Report:

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets as of June 30, 2008 and June 30, 2007
- Consolidated Statements of Operations for the years ended June 30, 2008 and 2007
- Consolidated Statements of Stockholders' Equity for the years ended June 30, 2008 and 2007
- Consolidated Statements of Cash Flows for the years ended June 30, 2008 and 2007
- Notes to Consolidated Financial Statements

| Exhibit Number | Description |
|---|---|
| 2.1 | Agreement and Plan of Merger and Reorganization, Dated August 28, 2008 (1) |
| 2.2 | Form of Stock Purchase Agreement (1) |
| 2.3 | Form of Stock Voting Agreement (1) |
| 2.4 | Form of Promissory Note (2) |
| 3.1 | Article Of Incorporation (3) |
| 3.2 | Certificate Of Amendment (4) |
| 3.3 | Bylaws (3) |
| 3.4 | Certificate of Amendment (5) |
| 4.1 | Certificate of Designation (6) |
| 10.1 | Placement Agent Agreement (7) |
| 10.2 | Warrant To Purchase Common Stock, Dated June 14, 2006 (8) |
| 10.3 | Securities Purchase Agreement (8) |
| 10.4 | Amended Employment Agreement Randall K. Fields (9) |
| 10.5 | Services Agreement with Fields Management, Inc. (9) |
| 10.6 | Commercial Real Estate Lease – Pinebrook (5) |
| 10.7 | Warrant to Purchase Common Stock, Dated June 30, 2006 (5) |
| 10.8 | Employment Agreement with Robert Hermanns (10) |
| 10.9 | Stock Purchase Agreement (6) |
| 10.10 | Warrant to Purchase Common Stock, dated June 1-22, 2007 (6) |
| 10.11 | Warrant to Purchase Common Stock, dated June 22, 2007 (6) |
| 10.12 | Employment Agreement with John Merrill (11) |
| 14.1 | Code of Ethics and Business Conduct |
| 31.1 | Certification of Principal Executive Officer pursuant to Section 302 of Sarbanes Oxley Act of 2002 |
| 31.2 | Certification of Principal Financial Officer pursuant to Section 302 of Sarbanes Oxley Act of 2002 |
| 32.1 | Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350 |

(1) Incorporated by reference from our Fork 8-K dated September 3, 2008.
(2) Incorporated by reference from our Form 8-K dated September 15, 2008.
(3) Incorporated by reference from our Form DEF 14C dated June 5, 2002.
(4) Incorporated by reference from our Form 10-QSB for the year ended Sept 30, 2005.
(5) Incorporated by reference from our Form 10-KSB dated September 29, 2006.
(6) Incorporated by reference from our Form 8-K dated June 27, 2007.
(7) Incorporated by reference from our Form 8-K dated June 14, 2006.
(8) Incorporated by reference from our Form SB-2/A dated October 20, 2006.

(9) Incorporated by reference from our Form 10KSA/A dated October 13, 2006.
(10) Incorporated by reference from our Form 8-K dated March 26, 2007.
(11) Incorporated by reference from out Form 8-K dated September 12, 2007.



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Item 14. Principal Accounting Fees and Services

The Audit Committee has adopted policies and procedures to oversee the external audit process including engagement letters, estimated fees and solely pre-approving all permitted non-audit work performed by HJ & Associates, LLC. The Committee has pre-approved all fees for work performed.

The Audit Committee has considered whether the services provided by HJ & Associates, LLC as disclosed below in the captions "Audit-Related Fee", "Tax Fees" and "All Other Fees" and has concluded that such services are compatible with the independence of HJ & Associates, LLC as the Company's principal accountants.

For the fiscal years 2008 and 2007, the Audit Committee pre-approved all services described below in the captions "Audit Fees", "Audit-Related Fees", "Tax Fees" and "All Other Fees". For fiscal year 2008 and 2007, no hours expended or HJ & Associates, LLC's engagement to audit the Company's financial statements were attributed to work performed by persons other than full-time, permanent employees of HJ & Associates, LLC.

The aggregate fees billed for professional services by HJ & Associates, LLC in fiscal year 2008 and 2007:

| Type of Fees | 2008 | 2007 |
|---|---|---|
| Audit Fees | $ 54,500 | $ 59,900 |
| Audit-Related Fees | - | - |
| Tax Fees | - | - |
| All Other Fees | - | - |
| Total | $ 54,500 | $ 59,900 |

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PARK CITY GROUP, INC.
(Registrant)

Date: September 29, 2008

By /s/ Randall K. Fields

Principal Executive Officer,
Chairman of the Board and Director

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ Randall K. Fields<br>Randall K. Fields | Chief Executive Officer,<br>Chairman of the Board and Director<br>(Principal Executive Officer) | September 29, 2008 |
| /s/ John R, Merrill<br>John R. Merrill | Chief Financial Officer and Treasurer<br>(Principal Financial Officer &<br>Principal Accounting Officer) | September 29, 2008 |
| /s/ Robert W. Allen<br>Robert W. Allen | Director and Compensation<br>Committee Chairman | September 29, 2008 |
| /s/ James R. Gillis<br>James R. Gillis | Director | September 29, 2008 |
| s/ Richard S. Krause<br>Richard S. Krause | Director, Audit Committee Chairman<br>and Nominating / Governance<br>Committee Chairman | September 29, 2008 |

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Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders of
Park City Group, Inc. and Subsidiaries
Park City, Utah

We have audited the accompanying consolidated balance sheets of Park City Group, Inc. and Subsidiaries as of June 30, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Park City Group, Inc. and Subsidiaries as of June 30, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

We were not engaged to examine management's assertion about the effectiveness of Park City Group. Inc. and subsidiaries' internal control over financial reporting as of June 30, 2008 included in the accompanying Form 10-KSB and, accordingly, we do not express an opinion thereon.

/s/ HJ & Associates, LLC

HJ & Associates, LLC
Salt Lake City, Utah
September 26, 2008

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PARK CITY GROUP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

| Assets | June 30, 2008 | June 30, 2007 |
|---|---|---|
| Current Assets: | | |
| Cash and cash equivalents | $ 865,563 | $ 3,273,424 |
| Restricted cash | 1,940,000 | 1,940,000 |
| Receivables, net of allowance of $68,000 and $26,958, respectively | 1,004,815 | 918,965 |
| Unbilled receivables | 116,362 | 556,170 |
| Prepaid expenses and other current assets | 56,438 | 100,722 |
| Total current assets | 3,983,178 | 6,789,281 |
| Property and equipment, net | 494,459 | 481,533 |
| Other assets: | | |
| Deposits and other assets | 47,667 | 27,738 |
| Capitalized software costs, net | 660,436 | 914,967 |
| Total other assets | 708,103 | 942,705 |
| Total assets | $ 5,185,740 | $ 8,213,519 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | $ 427,582 | $ 388,212 |
| Accrued liabilities | 410,396 | 287,114 |
| Deferred revenue | 480,269 | 929,418 |
| Current portion of capital lease obligations | 143,532 | 71,185 |
| Notes payable | 1,940,000 | 1,940,000 |
| Total current liabilities | 3,401,779 | 3,615,929 |
| Long-term liabilities: | | |
| Capital lease obligations, less current portion | 200,446 | 225,414 |
| Total liabilities | 3,602,225 | 3,841,343 |
| Commitments and contingencies | | |
| Stockholders' equity | | |
| Preferred stock, $0.01 par value, 30,000,000 shares authorized; 605,036 and 584,000 shares of Series A Convertible Preferred issued and outstanding at June 30, 2008 and 2007 respectively | 6,050 | 5,840 |
| Common stock, $0.01 par value, 50,000,000 shares authorized; 9,217,539 and 8,997,703 issued and outstanding at June 30, 2008 and 2007, respectively | 92,176 | 89,977 |
| Additional paid-in capital | 26,467,700 | 26,166,128 |

| | | |
|---|---|---|
| Subscription receivable | - | (106,374) |
| Accumulated deficit | (24,982,411) | (21,783,395) |
| | | |
| Total stockholders' equity | 1,583,515 | 4,372,176 |
| | | |
| Total liabilities and stockholders' equity | $ 5,185,740 | $ 8,213,519 |

See accompanying notes to consolidated financial statements.

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PARK CITY GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Operations
For the Years Ended June 30, 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| Revenues: | | |
| Subscriptions | $ 203,028 | $ 89,251 |
| Maintenance and support | 1,455,344 | 1,513,016 |
| Professional services | 584,661 | 464,396 |
| License fees | 1,101,940 | 525,503 |
| Total revenues | 3,344,973 | 2,592,166 |
| Operating expenses: | | |
| Cost of services and product support | 2,419,227 | 1,717,793 |
| Sales and marketing | 1,843,912 | 1,508,276 |
| General and administrative | 2,073,214 | 2,002,552 |
| Depreciation and amortization | 505,539 | 368,636 |
| Total operating expenses | 6,841,892 | 5,597,257 |
| Loss from operations | (3,496,919) | (3,005,091) |
| Other income (expense): | | |
| Gain on derivative liability | - | 88,785 |
| Gain on marketable securities | - | 18,386 |
| Gain on disposition of assets | (295) | 943 |
| Income from patent activities | 600,000 | - |
| Interest income (expense), net | 29,035 | (114,650) |
| Total other income (expense) | 628,740 | (6,536) |
| Loss before income taxes | (2,868,179) | (3,011,627) |
| (Provision) benefit for income taxes | - | - |
| Net loss | (2,868,179) | (3,011,627) |
| Dividends on Preferred stock | (330,837) | - |
| Net loss applicable to common shareholders | $ (3,199,016) | $ (3,011,627) |
| Weighted average shares, basic and diluted | 9,150,000 | 8,936,000 |
| Basic and diluted loss per share | $ (0.35) | $ (0.34) |

See accompanying notes to consolidated financial statements.

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PARK CITY GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity
For the Years Ended June 30, 2008 and 2007

| | Preferrred Stock Shares | Preferrred Stock Amount | Common Stock Shares | Common Stock Amount | Subscription Receivable | Additional Paid-in Capital | Accumulated Deficit | Total |
|---|---|---|---|---|---|---|---|---|
| Balance, June 30, 2006 | - | $ - | 8,931,312 | $ 89,312 | $ - | $ 20,564,933 | $ (19,172,607) | $ 1,481,638 |
| Cumulative-effect adjustment of adopting FSP EITF 00-19-2 | - | - | - | - | - | - | 400,839 | 400,839 |
| Cancellation of partial shares | - | - | (546) | (4) | - | (168) | - | (172) |
| Stock issued for: | | | | | | | | |
| Compensation | - | - | 29,937 | 299 | - | 71,799 | - | 72,098 |
| Cash, net of offering costs | 584,000 | 5,840 | 37,000 | 370 | (106,374) | 5,379,124 | - | 5,278,960 |
| Share-based compensation | - | - | - | - | - | 150,440 | - | 150,440 |
| Net loss | - | - | - | - | - | - | (3,011,627) | (3,011,627) |
| Balance, June 30, 2007 | 584,000 | 5,840 | 8,997,703 | 89,977 | (106,374) | 26,166,128 | (21,783,395) | 4,372,176 |
| Conversion of Preferred stock | (4,257) | (43) | 14,190 | 142 | - | (99) | - | - |
| Stock issued for: | | | | | | | | |
| Compensation | - | - | 23,965 | 240 | - | 74,936 | - | 75,176 |
| Exercise of warrants | - | - | 181,681 | 1,817 | - | (1,817) | - | - |
| Dividends | 25,293 | 253 | - | - | - | 252,677 | | 252,930 |
| Proceeds from subscription receivable | - | - | - | - | 106,374 | - | - | 106,374 |
| Stock offering costs | - | - | - | - | - | (24,125) | - | (24,125) |
| Preferred dividends - declared | - | - | - | - | - | - | (330,837) | (330,837) |
| Net loss | - | - | - | - | - | - | (2,868,179) | (2,868,179) |
| Balance, June 30, 2008 | 605,036 | $ 6,050 | 9,217,539 | $ 92,176 | $ - | $ 26,467,700 | $ (24,982,411) | $ 1,583,515 |

See accompanying notes to consolidated financial statements.



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PARK CITY GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
For the Years Ended June 30, 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | $ (2,868,179) | $ (3,011,627) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 505,539 | 278,609 |
| Bad debt expense | 41,042 | (47,022) |
| (Gain) loss on derivative liability | - | (88,785) |
| Stock issued for services and expenses | 75,176 | 222,539 |
| Amortization of discounts on debt | - | 97,404 |
| Gain on marketable securities | - | (18,386) |
| Gain on recovery of bad debt | - | (52,344) |
| Gain on sale of property | 295 | (943) |
| Income from patent activities | (600,000) | - |
| Sale of marketable securities | - | 70,730 |
| (Increase) decrease in: | | |
| Trade Receivables | (565,525) | (768,753) |
| Other receivables | 439,808 | (318,530) |
| Prepaids and other assets | 24,355 | 75,185 |
| (Decrease) increase in: | | |
| Accounts payable | 39,370 | 276,076 |
| Accrued liabilities | 62,374 | 51,275 |
| Deferred revenue | (25,030) | 280,732 |
| Accrued interest, related party | - | 5,777 |
| Net cash used in operating activities | (2,870,775) | (2,948,063) |
| Cash Flows From Investing Activities: | | |
| Purchase of property and equipment | (34,787) | (182,297) |
| Capitalization of software costs | (76,001) | (419,393) |
| Restricted Cash | - | (1,940,000) |
| Proceeds from disposal of property | 600,945 | 3,040 |
| Net cash provided by (used in) investing activities | 490,157 | (2,538,650) |
| Cash Flows From Financing Activities: | | |
| Proceeds from issuances of stock | - | 5,835,573 |
| Receipt of subscription receivable | 106,374 | - |
| Stock offering costs | (24,125) | (556,785) |
| Dividends paid | (2,485) | - |
| Payments on notes payable and capital leases | (107,007) | (35,711) |
| Net cash provided by (used in) financing activities | (27,243) | 5,243,077 |
| Net decrease in cash and cash equivalents | (2,407,861) | (243,636) |

| | | | | |
|---|---|---|---|---|
| Cash and cash equivalents at beginning of year | | 3,273,424 | | 3,517,060 |
| | | | | |
| Cash and cash equivalents at end of year | $ | 865,563 | $ | 3,273,424 |
| | | | | |
| Supplemental Disclosure of Cash Flow Information: | | | | |
| Cash paid for income taxes | $ | - | $ | - |
| Cash paid for interest | $ | 127,092 | $ | 157,235 |
| | | | | |
| Supplemental Disclosure of Non-Cash Investing and Financing Activities | | | | |
| Dividends accrued on preferred stock | $ | 75,422 | $ | - |
| Dividends paid with preferred stock | $ | 155,400 | $ | - |
| Property and equipment purchased by capital lease | $ | 154,386 | $ | 310,587 |

See accompanying notes to consolidated financial statements.

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PARK CITY GROUP, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2008 and June 30, 2007

1. Summary of Significant Accounting Policies, Organization and Principles of Consolidation

Business Activity
The Company designs, develops, markets and supports proprietary software products. These products are designed to be used in retail businesses having multiple locations to assist in the management of business operations on a daily basis and communicate results of operations in a timely manner. In addition the Company has built a consulting practice for business improvement that centers around the companies proprietary software products. The principal markets for the Company's products are retail companies, suppliers, branded food manufacturers and display manufacturing companies which have operations in North America and, to a lesser extent, in Europe and Asia.

Principles of Consolidation
The financial statements presented herein reflect the consolidated financial position of Park City Group, Inc. and Subsidiaries. All inter-company transactions and balances have been eliminated in consolidation.

Use of Estimates
The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that materially affect the amounts reported in the consolidated financial statements. Actual results could differ from these estimates. The methods, estimates and judgments the Company uses in applying its most critical accounting policies have a significant impact on the results it reports in its financial statements. The U.S. Securities and Exchange Commission has defined the most critical accounting policies as the ones that are most important to the portrayal of the Company’s financial condition and results, and require the Company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, the Company’s most critical accounting policies include: revenue recognition, allowance for doubtful accounts, capitalization of software development costs and impairment of long-lived assets.

Cash and Cash Equivalents
The Company considers all short-term instruments with an original maturity of three months or less to be cash equivalents.

Concentration of Credit Risk and Significant Customers
The Company maintains cash in bank deposit accounts, which, at times, may exceed federally insured limits. 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.

Financial instruments which potentially subject the Company to concentration of credit risk consist primarily of trade receivables. In the normal course of business, the Company provides credit terms to its customers. Accordingly, the Company performs ongoing credit evaluations of its customers and maintains allowances for possible losses which when realized have been within the range of management's expectations. The Company does not require collateral from its customers.

The Company's accounts receivable are derived from sales of products and services primarily to customers operating multi-location retail and grocery stores. At June 30, 2008 and June 30, 2007, net accounts receivable includes amounts due from customers totaling $1,004,815 and $918,965, respectively.

During the years ended June 30, 2008 and June 30, 2007, the Company received revenues from new customers of approximately $850,000 and $505,000, respectively and revenues of approximately $2.5 million and $2.1 million, respectively from existing customers for continued support and additional license sales.

During the years ended June 30, 2008 and 2007, the Company had sales to major customers that exceeded 10 percent of revenues are as follows:

| 2008 | |
|---|---|
| Customer A | $ 700,000 |
| Customer B | 438,425 |
| Customer C | 359,835 |
| Customer D | 349,998 |

| 2007 | |
|---|---|
| Customer E | $ 453,625 |
| Customer D | 342,748 |

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Allowance for Doubtful Accounts Receivable

The Company offers credit terms on the sale of the Company's products to a significant majority of the Company's customers and require no collateral from these customers. The Company performs ongoing credit evaluations of the Company's customers' financial condition and maintains an allowance for doubtful accounts receivable based upon the Company's historical experience and a specific review of accounts receivable at the end of each period. As of June 30, 2008 and 2007, the allowance for doubtful accounts was $68,000 and $26,958 respectively.

Depreciation and Amortization

Depreciation and amortization of property and equipment is computed using the straight line method based on the following estimated useful lives:

| | Years |
|---|---|
| Furniture and fixtures | 7 |
| Computer equipment | 3 |
| Equipment under capital leases | 3 |
| Leasehold improvements | see below |

Leasehold improvements are amortized over the shorter of the remaining lease term or the estimated useful life of the improvements.

Warranties

The Company offers a limited warranty against software defects for a general period of (90) ninety days. Customers who are not completely satisfied with their software purchase may attempt to be reimbursed for their purchases outside the warranty period. The Company accrues amounts for such warranty settlements that are probable and can be reasonably estimated.

Revenue Recognition

The Company derives revenues from four primary sources, software licenses, maintenance and support services, professional services and software subscription. New software licenses include the sale of software runtime license fees associated with deployment of the Company's software products. Software license maintenance updates and product support are typically annual contracts with customers that are paid in advance or specified as terms in the contract. This provides the customer access to new software releases, maintenance releases, patches and technical support personnel. Professional service sales are derived from the sale of services to design, develop and implement custom software applications. Subscription is derived from the sale of Supply Chain Profit Link, a category management product that is sold on a subscription basis.

License revenue from the sale of software licenses is recognized upon delivery of the software unless specific delivery terms provide otherwise. If not recognized upon delivery, revenue is recognized upon meeting specified conditions, such as, meeting customer acceptance criteria. In no event is revenue recognized if significant Company obligations remain outstanding. Customer payments are typically received in part upon signing of license agreements, with the remaining payments received in installments pursuant to the agreements. Until revenue recognition requirements are met, the cash payments received are treated as deferred revenue.

Maintenance and support services that are sold with the initial license fee are recorded as deferred revenue and recognized ratably over the initial service period. Revenues from maintenance and other support services provided

after the initial period are generally paid in advance and are recorded as deferred revenue and recognized on a straight-line basis over the term of the agreements.

Professional services revenue is recognized in the period that the service is provided or in the period such services are accepted by the customer if acceptance is required by agreement.

Subscription revenues are recognized on a contractual basis, for one or more years. These fees are generally collected in advance of the services being performed and the revenue is recognized ratably over the respective months, as services are provided.

Before the Company recognizes revenue, the following criteria must be met:

1) Evidence of a financial arrangement or agreement must exist between the Company and its customer. Purchase orders, signed contracts, or electronic confirmation are three examples of items accepted by the Company to meet this criterion.

2) Delivery of the products or services must have occurred. The Company treats either physical or electronic delivery as having met this requirement. The Company offers a 60-day free trial on beginning a subscription engagement and revenue is not recognized during this time. After the free trial ends the Company recognizes revenue ratably over the subscription period.

3) The price of the products or services is fixed and measurable.

4) Collectability of the sale is reasonably assured and receipt is probable. Collectability of a sale is determined on a customer-by-customer basis. Typically the Company sells to large corporations which have demonstrated an ability to pay. If it is determined that a customer may not have the ability to pay, revenue is deferred until the payment is collected.



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Software Development Costs

The Company accounts for research and development costs in accordance with several accounting pronouncements, including SFAS No. 2, Accounting for Research and Development Costs, and SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed." SFAS No. 86 specifies that costs incurred internally in researching and developing a computer software product should be charged to expense until technological feasibility has been established for the product. Once technological feasibility is established, all software costs should be capitalized until the product is available for general release to customers

From inception through January 2001, the Company viewed the software as an evolving product. Therefore, all costs incurred for research and development of the Company's software products through January 2001 were expensed as incurred. During January 2001, technological feasibility of a major revision to the Company's Fresh Market Manager and the Company's ActionManager 4x development platform was established. Development costs for Fresh Market Manager software incurred from January 2001 through September 2002, totaling $1,063,515, were capitalized. These costs were amortized on a straight-line basis over four years, beginning in September 2002 when the product was available for general release to customers. During 2008 and 2007 capitalized development costs of $332,210 and $184,613, respectively were amortized into expense.

In July 2005 and December 2006, the Company reached technological feasibility on 1 new product and 2 major enhancements to existing product offerings. The Company capitalized $76,001 and $419,393 of development costs associated with these products and enhancements for 2008 and 2007, respectively. These products were available for general release in FY2008. We continued capitalization until that time.

Research and Development Costs

Research and development costs include personnel costs, engineering, consulting, and contract labor and are expensed as incurred for software that has not achieved technological feasibility.

Income Taxes

The Company accounts for income taxes under the provision of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. This method requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between tax bases and financial reporting bases of other assets and liabilities.

Earnings Per Share

The computation of basic and diluted loss per common share is based on the weighted average number of shares outstanding during each year. Options and warrants to purchase 1,017,443 and 1,634,517 shares of common stock at prices ranging from $1.50 to $4.00 per share were outstanding at June 30, 2008 and 2007, respectively. These options and warrants, were not included in the diluted (loss) earnings per share calculation because the effect would have been anti-dilutive.

The shares used in the computation of the Company's basic and diluted earnings per common share are reconciled as follows:

| | Year ended June 30, 2008 | Year ended June 30, 2007 |
|---|---|---|
| Weighted average shares, basic | 9,150,486 | 8,936,000 |
| | - | - |

| | | |
|---|---|---|
| Dilutive effect of options and warrants | | |
| Weighted average shares outstanding assuming dilution | 9,150,486 | 8,936,000 |

Prior to July 1, 2006, as permitted under Statement of Financial Accounting Standards ("SFAS") No. 123, the Company accounted for its stock options, warrants and plans following the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock issued to Employees," and related interpretations. Accordingly, no stock-based compensation expense had been reflected in the Company's statements of operations as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant and the related number of shares granted was fixed at that point in time.

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R), "Share Based Payment." This statement revised SFAS No. 123 by eliminating the option to account for employee stock options under APB No. 25 and requires companies to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards.

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Effective July 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R) using the modified prospective application method. Under this transition method, the Company recorded compensation expense on a straight-line basis for the year ended June 30, 2007, for: (a) the vesting of options granted prior to July 1, 2006 (based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and previously presented in the pro-forma footnote disclosures), and (b) stock-based awards granted subsequent to July 1, 2006 (based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R)). In accordance with the modified prospective application method, results for the year ended June 30, 2006 have not been restated.

The weighted-average grant-date fair value of options granted during year ended June 30, 2007 was $3.07 per share. There were no stock options granted in the year ended June 30, 2008. The fair value for the options granted in 2007 were estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

| | June 30, 2008 | June 30, 2007 |
|---|---|---|
| Risk-free interest rate | - | 4.89% |
| Expected life (in years) | - | 3 |
| Expected volatility | - | 123.76% |
| Expected dividend yield | - | 0.00% |

The following table summarizes information about fixed stock options and warrants outstanding at June 30, 2008:

| | Options and Warrants Outstanding at June 30, 2008 | | | Options and Warrants Exercisable at June 30, 2008 | |
|---|---|---|---|---|---|
| Range of exercise prices | Number Outstanding at June 30, 2008 | Weighted average remaining contractual life(years) | Weighted average exercise price | Number Exercisable at June 30, 2008 | Weighted average exercise price |
| $ 1.50 - $2.50 | 21,250 | 5.09 | $ 1.79 | 21,250 | $ 1.79 |
| $ 2.76 - $3.50 | 202,571 | 1.46 | 3.23 | 202,571 | 3.23 |
| $ 3.65 - $4.00 | 793,622 | 3.25 | 3.78 | 793,622 | 3.78 |
| | 1,017,443 | 2.88 | $ 3.60 | 1,017,443 | $ 3.60 |

Fair Value of Financial Instruments

The Company's financial instruments consist of cash, cash equivalents, restricted cash, receivables, payables, accruals and notes payable. The carrying amount of cash, cash equivalents, restricted cash , receivables, payables and accruals approximates fair value due to the short-term nature of these items. The notes payable also approximate fair value based on evaluations of market interest rates.

2. Liquidity

As shown in the consolidated financial statements, the Company had cash flow used in operations in the amount $2,870,775 and 2,948,063 for the years ended, June 30, 2008 and June 30, 2007. This is a comparative decrease of $77,288 or 3% when comparing the results of the year ended June 30, 2008 to the same period in 2007.

In June 2007, the Company issued 584,000 shares of its Series A Convertible Preferred Stock. The Company received $5,278,788 net of offering costs associated with the placement.. The Company utilized $1.94 million to collateralize its note payable and eliminate Riverview Financial as its guarantor in July 2008. The bank note and restricted cash collateralizing the loan bear the same interest rate. The remaining $3.3 million of cash and cash equivalents have been used to fund operations, capital expansion, and other general corporate purposes.

Management believes that in combination with its equity placement in June of 2007, its evolution toward a subscription based model, and the release of 1 new product and 2 significant enhancements, to existing products will provide current and future operating cash flows. The Company believes that anticipated revenue growth will allow the Company to meet its minimum operating cash requirements for the next 12 months. The financial statements do not reflect any adjustments should the Company's operations not be achieved.

Although the Company anticipates that it will meet its working capital requirements primarily through increased revenue and strict cost control, there can be no assurances that the Company will be able to meet its working capital requirements. Should the Company desire to raise additional equity or debt financing, there are no assurances that the Company could do so on acceptable terms.



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3. Receivables

Trade accounts receivable consist of the following at June 30, 2008 and 2007:

| | 2008 | 2007 |
|---|---|---|
| Trade accounts receivable | $ 1,072,815 | $ 945,923 |
| Allowance for doubtful accounts | (68,000) | (26,958) |
| | $ 1,004,815 | $ 918,965 |

Unbilled receivables consists of amounts recognized as revenue during the year for which invoices were sent subsequent to June 30, 2008

4. Property and Equipment

Property and equipment are stated at cost and consist of the following at June 30, 2008 and 2007:

| | 2008 | 2007 |
|---|---|---|
| Computer equipment | $ 572,124 | $ 429,929 |
| Furniture and equipment | 307,278 | 358,358 |
| Leasehold improvements | 135,968 | 126,063 |
| | 1,015,370 | 914,350 |
| Less accumulated depreciation and amortization | (520,911) | (432,817) |
| | $ 494,459 | $ 481,533 |

Depreciation expense for the years ended June 30, 2008 and 2007 was $175,007 and $86,618, respectively.

5. Capitalized software costs

Capitalized software costs consist of the following at June 30, 2008 and 2007:

| | 2008 | 2007 |
|---|---|---|
| Capitalized software costs | $ 2,174,306 | $ 2,096,627 |
| Less accumulated amortization | (1,513,870) | (1,181,660) |
| | $ 660,436 | $ 914,967 |

Amortization expense for the years ended June 30, 2008 and 2007 was $332,210 and $184,613, respectively.

Estimated aggregate amortization expenses for each of the next five years is as follows:

Year ending

| June 30: | |
|---|---|
| 2009 | $ 370,263 |
| 2010 | 252,120 |
| 2011 | 38,053 |
| 2012 | - |
| 2013 | $ - |

6. Accrued Liabilities

Accrued liabilities consist of the following at June 30, 2007 and 2006:

| | 2008 | 2007 |
|---|---|---|
| Accrued compensation | $ 157,470 | $ 155,610 |
| Accrued stock grants | 89,456 | - |
| Accrued legal fees | 9,580 | 45,274 |
| Other accrued liabilities | 58,468 | 58,112 |
| Accrued dividends | 75,422 | 28,118 |
| Accrued board compensation | 20,000 | - |
| | $ 410,396 | $ 287,114 |

7. Related party line of credit

In February 2006 the Company arranged an unsecured, revolving line of credit with Riverview Financial Corp, a wholly owned affiliate of the Company's CEO. The line bore interest at 12% with a fee for advances, and is repaid as funds availability permits. The line of credit expired on June 15, 2007. The limit on this line of credit was $800,000. The line was not renewed.

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8. Derivative Liability

In conjunction with raising capital through the issuance of convertible debt, the Company has issued various warrants that have registration rights for the underlying shares. As the contracts must be settled by the delivery of registered shares and the delivery of the registered shares is not controlled by the Company, pursuant to EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's own Stock," the net value of the warrants at the date of issuance was recorded as long-term derivative liability on the balance sheet as of June 30, 2006 of $489,624.

In accordance with FSP EITF 00-19-2 the derivative liability as of March 31, 2007 of $400,839 was recorded as a cumulative adjustments and the change in fair value from June 30, 2006 to March 31, 2007 of $88,785 has been included as a gain on derivative liability on the Consolidated Statement of Operations. The "cumulative adjustment" has been reflected as an adjustment to accumulated deficit in the amount of $400,839.

9. Notes payable and capital leases obligations

The Company had the following notes payable and capital lease obligations at June 30, 2008 and 2007:

| | 2008 | 2007 |
|---|---|---|
| Note payable to a Bank bearing interest at 6.7%, due March 31, 2008. The note was extended to June 30, 2008 and payable within 30 days. Subsequent to year ended June 30, 2008 the note was paid off. The note is secured by a certificate of deposit issued by the same bank, from inception through June 2007 the certificate was issued in the name of Riverview Financial corp. In June 2007 a new certificate in the name of Park City Group was issued. The certificate of deposit is recorded as restricted cash of $1,940,000 on the consolidated balance sheet and earns interest at 6.7%. | $ 1,940,000 | $ 1,940,000 |
| Capital Lease Obligations: | | |
| Capital lease on computer equipment, due in monthly installments of $9,609, imputed interest rates of 10.9% | 137,237 | 45,746 |
| Capital lease on computer equipment, due in monthly installments of $2,125, imputed interest rate of 8.9% | 77,193 | 94,986 |
| Capital lease on furniture and equipment, due in monthly installments of $3,539, imputed interest rate of 11.2% | 129,548 | 155,867 |
| | 2,283,978 | 2,236,599 |
| Less current portion of capital lease obligations and notes payable | (2,083,532) | (2,011,185) |

| | | |
|---|---|---|
| | $ 200,446 | $ 225,414 |

Maturities of notes payable and capital leases at June 30, 2008 are as follows:

| Year ending June 30: | |
|---|---|
| 2009 | $ 2,083,532 |
| 2010 | 96,690 |
| 2011 | 59,966 |
| 2012 | 43,790 |
| | $ 2,283,979 |

Capital Leases: Amortization expense related to capitalized leases is included in depreciation expense and was $66,352 and $29,350 for the years ended June 30, 2008 and 2007, respectively. Accumulated depreciation was $146,237 at June 30, 2008. This amortized depreciation expenses relates to $501,042 of equipment purchased under capital lease agreements of which $416,221 is still under capital lease at June 30, 2008.

10. Deferred Revenue

Deferred revenue consisted of the following at June 30, 2008 and 2007:

| | 2008 | 2007 |
|---|---|---|
| Consulting Services | $ 650 | $ 9,675 |
| Maintenance and Support | 479,619 | 919,743 |
| | $ 480,269 | $ 929,418 |

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11. Income Taxes

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Net deferred tax liabilities consist of the following components as of June 30, 2008 and 2007:

| | | 2008 | | 2007 |
|---|---|---|---|---|
| Deferred tax assets: | | | | |
| NOL Carryover | $ | 4,559,703 | $ | 3,306,400 |
| Depreciation | | 15,700 | | - |
| Allowance for Bad Debts | | 26,520 | | 10,514 |
| Accrued Expenses | | 34,888 | | 197,067 |
| Deferred Revenue | | 140,051 | | - |
| Deferred tax liabilities | | | | |
| Depreciation | | - | | (4,422) |
| Valuation allowance | | (4,776,862) | | (3,509,559) |
| Net deferred tax asset | $ | - | $ | - |

The income tax provision differs from the amounts of income tax determined by applying the US federal income tax rate to pretax income from continuing operations for the years ended June 30, 2008 and 2007 due to the following:

| | | 2008 | | 2007 |
|---|---|---|---|---|
| Book Income | $ | (1,118,590) | $ | (1,174,535) |
| Stock for Services | | 15,600 | | 86,790 |
| Life Insurance | | 15,478 | | 23,290 |
| Meals & Entertainment | | 4,379 | | 5,440 |
| Loss on Sales of Assets | | (874) | | - |
| NOL Utilization | | - | | - |
| Derivative Liability | | - | | (34,626) |
| Valuation allowance | | 1,084,007 | | 1,093,641 |
| | $ | - | $ | - |

At June 30, 2008, the Company had net operating loss carryforwards of approximately $11,600,000 that may be offset against future taxable income from the year 2008 through 2028. No tax benefit has been reported in the June 30, 2008 consolidated financial statements since the potential tax benefit is offset by a valuation allowance of the same amount.

Due to the change in ownership provisions of the Tax Reform Act of 1986, net operating loss carryforwards for Federal income tax reporting purposes are subject to annual limitations. Should a change in ownership occur, net operating loss carryforwards may be limited as to use in future years.

The Financial Accounting Standards Board ("FASB") has issued Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No.109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 requires a company to determine whether it is more likely

than not that a tax position will be sustained upon examination based upon the technical merits of the position. If the more-like1y-than-not threshold is met, a company must measure the tax position to determine the amount to recognize in the financial statements. As a result of the implementation of FIN 48, the Company performed a review of its material tax positions in accordance with recognition and measurement standards established by FIN 48.

At the adoption date of July 1, 2007, the Company had no unrecognized tax benefit which would affect the effective tax rate if recognized. There has been no significant change in the unrecognized tax benefit during the year ended June 30, 2008.

The Company includes interest and penalties arising from the underpayment of income taxes in the consolidated statements of operations in the provision for income taxes. As of June 30, 2008, the Company had no accrued interest or penalties related to uncertain tax positions.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. With few exceptions the Company is no longer subject to U.S. federal, state, and local income tax examination by tax authorities for years before December 31, 2005.

12. Commitments and Contingencies

Legal Proceedings

On June 29, 2007, the Company was served with a complaint from two previous employees titled James D. Horton and Aaron Prevo v. Park City Group, Inc. and Randy Fields, Individually Case No. 070700333, which has been filed in the Second Judicial District Court, Davis County, Utah. The plaintiffs' complaint alleges that certain provisions of their employment agreements were not honored including breach of employer obligations, fraud, unjust enrichment, and breach of contract. The plaintiffs are seeking combined damages for alleged unpaid compensation and punitive damages of $520,650 and $2,603,250, respectively. The case is currently in the discovery phase and the Company will continue to vigorously defend this matter. The Company believes that there is no validity to this matter and that the possibility of any adverse outcome to the company is remote.

Operating Leases

Under terms originally entered into in September 1998 for office space the Company paid $10,500 on a month-to-month basis through December 15, 2006. Total rent expense under this agreement for the year ended June 30, 2007 was $57,750.

The Company has entered into a lease at 3160 Pinebrook Drive, Park City, UT, 84098. The Company will lease approximately 10,000 square feet for a period of 3 years, with an option to renew for an additional 3 year increments. Monthly rent is $12,665 with annual increases of 3%.

The payment terms are based on a step-rate lease and results in rent expense of the following:

| Year Ending June 30, | | |
|---|---|---|
| 2009 | $ | 145,565 |
| 2010 assumes renewal option exercised | | 149,932 |
| 2011 assumes renewal option exercised | | 154,430 |

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13. Employee Benefit Plan

The Company offers an employee benefit plan under Benefit Plan Section 401(k) of the Internal Revenue Code. In May of 2007, the Company changed its 401(k) provider and trustee from Fiserv/Alliance Benefit Group to Fidelity Investments. Employees who have attained the age of 18 are eligible to participate. The Company, at its discretion, may match employee's contributions at a percentage determined annually by the board of directors. The Company does not currently match contributions. There were no expenses for the years ended June 30, 2008 and 2007.

14. Series A Convertible Preferred Stock Offering

On June 8 and 22, 2007, Park City Group, Inc. completed the sale of 584,000 shares of its Series A Convertible Preferred Stock ("Preferred Stock") to certain institutional and other accredited investors at $10.00 per share or $5,840,000. These preferred shares carried with them registration rights for the underlying shares of common stock upon conversion as well as the common shares underlying the associated warrants, the registration statement was completed and became effective on August 13, 2007. In connection with its sale of Preferred Stock, the Company entered into a Stock Purchase Agreement and Common Stock Purchase Warrant Agreement with each of the investors. Each of the investors was also issued common stock purchase warrants to purchase 1,000 shares of the Company's common stock for every $14,000 in the original issue price of the preferred stock issued at the closing. The warrants have a four (4) year term and will be exercisable at $4.00. Holders of the preferred stock are entitled to a 5.00% annual dividend payable quarterly in either cash or Preferred Stock at the option of the Company. Offering cost associated with the placement included a commission paid to Taglich Brothers, Inc of $455,200 in cash and a warrant to purchase 194,667 shares of common stock and legal and other related fees of approximately $55,000.

15. Stock Compensation Plans

Officers and Directors Stock Compensation. In February 2004 to be effective January 2004, the Board of Directors approved the following compensation for directors who are not employed by the Company.

- Annual cash compensation of $10,000 payable at the rate of $2,500 per quarter. The Company has the right to pay this amount in the form of shares of common stock of the Company.
- Annual options to purchase $20,000 of the Company restricted common stock at the market value of the shares on the date of the grant, which is to be the first day the stock market is open in January of each year.
- Reimbursement of all travel expenses related to performance of Directors duties on behalf of the Company.

Officers, Key Employees, Consultants and Directors Stock Compensation. In January 2000, the Company entered into a non-qualified stock option & stock incentive plan. Officers, key employees, consultants and directors of the Company are eligible to participate. The maximum aggregate number of shares which may be granted under this plan was originally 20,000 and was subsequently amended to 40,000 on March 8, 2000. The plan is administered by a Committee. The exercise price for each share of common stock purchasable under any incentive stock option granted under this plan shall be not less than 100% of the fair market value of the common stock, as determined by the stock exchange on which the common stock trades on the date of grant. If the incentive stock option is granted to a shareholder who possesses more than 10% of the Company's voting power,
then the exercise price shall be not less than 110% of the fair market value on the date of grant. Each option shall be exercisable in whole or in installments as determined by the Committee at the time of the grant of such options. All incentive stock options expire after 10 years. If the incentive stock option is held by a shareholder who possesses more than 10% of the Company's
voting power, then the incentive stock option expires after five years. If the option holder is terminated, then the incentive stock options granted to such holder expire no later than three months after the date of termination. For options holders granted incentive stock options exercisable for the first time during any fiscal year and in excess of $100,000 (determined by the fair market value of the shares of common stock as of the grant date), the excess shares of common stock shall not be deemed to be purchased pursuant to incentive stock options.

Effective June 30, 2006 the board of directors authorized the granting to the Company's CFO warrants to acquire 80,000 shares of common stock at $3.25 per share with a five year term. This warrant was cancelled as part of the CFO's termination agreement.

A schedule of the options and warrants at June 30, 2008 and 2007 is as follows:

| | | Number of | | | |
|---|---|---|---|---|---|
| | | Options | Warrants | | Prrice per Share |
| Outstanding at | July 1, 2006 | 93,288 | 896,837 | $ | 1.50-7.00 |
| | Granted | 74,000 | 611,804 | $ | 2.76-4.00 |
| | Exercised | - | - | | - |
| | Cancelled | - | - | | - |
| | Expired | (41,412) | - | $ | 2.00-7.00 |
| Outstanding at | June 30, 2007 | 125,876 | 1,508,641 | $ | 1.50-4.00 |
| | Granted | - | - | | - |
| | Exercised | - | (488,497) | $ | 2.00 |
| | Cancelled | - | (80,000) | $ | 3.25 |
| | Expired | (30,626) | (17,951) | $ | 2.00 |
| Outstanding at | June 30, 2008 | 95,250 | 922,193 | $ | 1.50-4.00 |

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16. Related Party Transactions

In March 2006, the Company obtained a Note Payable from a bank in the amount of $1,940,000. Riverview Financial Corporation (Riverview), a wholly owned affiliate of the Company's CEO, was the guarantor on this note payable and received a fee of 3% of the outstanding balance of the note payable as consideration for the guarantee. In March 2007 the Company set aside cash in a certificate of deposit to secure the note payable thus releasing Riverview Financial Corp as guarantor. See note 9.

The Company had a revolving Line of Credit with Riverview to cover short term cash needs pursuant to a promissory note payable. The credit facility had a maximum draw amount of $800,000 and bore interest at 12% with a fee for advances. Repayments were made as funds were available, with a due date of June 15, 2007. The revolving line of credit had no activity in Fiscal Year 2007 and upon expiration was not renewed. See note 7.

17. Change in Accounting Principle for Registration Payment Arrangements

In December 2006, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position on Emerging Issues Task Force ("EITF") No. 00−19−2, Accounting for Registration Payment Arrangements ("FSP EITF 00−19−2"). FSP EITF 00−19−2 provides that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement should be separately recognized and measured in accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies, which provides that loss contingencies should be recognized as liabilities if they are probable and reasonably estimable. Subsequent to the adoption of FSP EITF 00−19−2, any changes in the carrying amount of the contingent liability will result in a gain or loss that will be recognized in the consolidated statement of operations in the period the changes occur. The guidance in FSP EITF 00−19−2 is effective immediately for registration payment arrangements and the financial instruments subject to those arrangements that are entered into or modified subsequent to the date of issuance of FSP EITF 00−19−2. For registration payment arrangements and financial instruments subject to those arrangements that were entered into prior to the issuance of FSP EITF 00−19−2, this guidance is effective for our consolidated financial statements issued for the interim period beginning January 1, 2007.

On January 1, 2007, the Company adopted the provisions of FSP EITF 00−19−2 to account for the registration payment arrangement associated with the Company's Offering and the Placement Agent warrants to purchase up to 181,818 shares of the Company's common stock. As of January 1, 2007 and March 31, 2007, management determined that it was not probable that the Company would have any payment obligation under the Registration Payment Arrangement; therefore, no accrual for contingent obligation is required under the provisions of FSP EITF 00−19−2. Accordingly, the derivative liability account was eliminated. $400,839 was recorded as a cumulative-effect change in accounting principle against opening accumulated deficit. The cumulative-effect adjustment was not recorded in the consolidated statement of operations and prior periods were not adjusted.

18. Registration Payment Obligation

In connection with registration rights agreements entered into with the sale of Common Stock in June 2006 and Series A Convertible Preferred Stock and warrants in June 2007, the Company may be obligated to pay liquidated damages if it fails to maintain the availability of the respective registration statements declared effective in January 2007 and August 2007, respectively and the inability of the Company to effectively complete and maintain the registration statements. The liquidated damages are computed as two percent (2%) of the aggregate Original Issue Price for each thirty (30) day period after a grace period of 45 days.

- The maximum contingent obligation under the June 2006 agreement, based on an 24% annual rate, is approximately $100,000 per month. This contingent obligation reduces pro rata as registrable shares are sold by investors or

become eligible for sale under SEC Rule 144(k) without registration and all contingent obligations terminate in June 2008.

- The maximum contingent obligation under the June 2007 agreement, based on a 24% annual rate, is approximately $116,800 per month, subject to maximum liquidated damages of 12% or $700,800. The contingent obligation is reduced pro rata as registrable shares are sold by investors and is expected to terminate in June 2009 when the registrable shares may be sold without registration under Rule 144(k)

Liquidated damages are payable in cash. The company does not anticipate incurring such damages.

19. Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations", and SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51." SFAS No. 141R will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS No. 160 will change the accounting and reporting for minority interests, which will be recharacterized as non-controlling interests and classified as a component of equity. SFAS No. 141R and SFAS No. 160 are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Early adoption is not permitted. The Company does not expect the adoption of these new standards to have an impact on its financial statements.

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In June 2007, the EITF reached a consensus on EITF Issue No. 07-03, “Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities” ("EITF 07-03"). EITF 07-03 concludes that non-refundable advance payments for future research and development activities should be deferred and capitalized until the goods have been delivered or the related services have been performed. If an entity does not expect the goods to be delivered or services to be rendered, the capitalized advance payment should be charged to expense. This consensus is effective for financial statements issued for fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. Earlier adoption is not permitted. The effect of applying the consensus will be prospective for new contracts entered into on or after that date. We are evaluating the implications of this standard.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements", which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under U.S. generally accepted accounting principles. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact SFAS No. 157 will have on the Company's financial position, results of operations and liquidity and its related disclosures.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("FAS 159"). SFAS No. 159 allows companies to make an election, on an individual instrument basis, to report financial assets and liabilities at fair value. The election must be made at the inception of a transaction and may not be reversed. The election may also be made for existing financial assets and liabilities at the time of adoption. Unrealized gains and losses on assets or liabilities for which the fair value option has been elected are to be reported in earnings. SFAS No. 159 requires additional disclosures for instruments for which the election has been made, including a description of management's reasons for making the election. SFAS No. 159 is effective as of fiscal years beginning after November 15, 2007 and is to be adopted prospectively and concurrent with the adoption of SFAS No. 157. The Company is currently evaluating the impact SFAS No. 159 will have on the Company's financial position, results of operations and liquidity and its related disclosures.

20. Subsequent Events

In July, 2008, a note payable to a bank in the amount of 1.940 million was retired with restricted cash.

On August 28, 2008, the Company entered into two Stock Purchase Agreements (the “Purchase Transaction”) relating to the acquisition by the Company of shares of Series E Preferred Stock from existing stockholders of Prescient Applied Intelligence, Inc., a Delaware corporation (“Prescient”) (the “Series E Preferred Stock”) in exchange for cash.

As a result of the Purchase Transaction, the Company now owns approximately 43% of Prescient’s Series E Preferred Stock. The Purchase Transaction was consummated contemporaneously with the execution of an Agreement and Plan of Merger (“Merger Transaction”), pursuant to which the Company intends to merge Prescient with and into a wholly-owned subsidiary of the Company. The Merger Transaction provides that Prescient stockholders not parties to the Purchase Transaction will receive cash for their shares of Prescient Common Stock, Series E Preferred Stock and Series G Preferred Stock upon consummation of the merger (“Merger”).

In connection with the Purchase Transaction, the sellers of the Series E Preferred Stock also entered into Lockup and Voting Agreements whereby they, subject to certain limited exceptions, agreed (i) not to transfer any of their shares of Prescient Common Stock or Series G Preferred Stock prior to completion or termination of the Merger and (ii) to vote their shares of Prescient Common Stock and Series G Preferred Stock in favor of the Merger.

Forms of the Agreement and Plan of Merger, Stock Purchase Agreements and Lockup and Voting Agreements have been filed together with form 8-K on September 3, 2008.

On September 2, 2008, Park City Group, Inc. (the "Company") executed and delivered three promissory notes in an aggregate amount of $2,200,000. Each of such notes is unsecured, due on or before December 1, 2008 and bears interest at the rate of 10% per annum.

The loan proceeds were used by the Company to fund a portion of the purchase price of shares of Series E Preferred Stock of Prescient Applied Intelligence, Inc., a Delaware corporation ("Prescient") purchased by the Company. The purchase transaction was the first step in a plan to acquire Prescient in a merger transaction. The purchase transaction and the merger transaction are described in a Form 8-K filed by the Company on September 3, 2008 and a Schedule 13D filed by the Company with the Securities and Exchange Commission on September 15, 2008.

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