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## Research Report – Update

*Investors should consider this report as only a single factor in making their investment decision.*

### Park City Group, Inc.

**Rating: Speculative Buy**

Howard Halpern

April 6, 2009

### PCYG \$1.10 — (OTC BB)

	FY (06/07) A	FY (06/08) A	FY (06/09) E	FY (06/10) E
Total revenues (in millions)	\$2.59	\$3.35	\$5.57	\$12.27
Earnings (loss) per share	(\$0.33)	(\$0.35)	(\$0.35)	(\$0.04)

52 - Week range	\$3.39 – \$0.55	Fiscal year ends:	June
Shares outstanding as of 01/17/09	9.46 million	Revenue/shares (ttm)	\$0.32
Approximate float	5.12 million	Price/Sales (ttm)	3.4X
Market Capitalization	\$10 million	Price/Sales (2010)E	0.9X
Tangible Book value/share	(\$0.07)	Price/Earnings (ttm)	NMF
Price/Book	NMF	Price/Earnings (2010)E	NMF

*Park City Group, Inc. (OTC BB: PCYG), headquartered in Park City, Utah, provides innovative solutions & services to retailers & suppliers that increase sales while simultaneously reducing out of stocks, shrink, & inventories. The Business Analytics unit provides customers the opportunity to act on actionable information generated from its software portfolio. On January 14, 2009, Prescient was acquired, to broaden PCYG's portfolio (i.e., Scan Based Trading hubs), customer base, revenues, and cross-selling opportunities.*

#### Key Investment Considerations:

*We are maintaining our Speculative Buy rating on shares of Park City Group, Inc. (OTC BB: PCYG). We are lowering our 12-month price target to \$2.00 per share from \$2.25. Our price target is based on a relative price-to-sales and EBITDA analysis.*

*On January 14, 2009, Park City Group closed the acquisition of Prescient. A primary benefit of the transaction is that EBITDA should approximate 15% of total revenue in future periods. It is our belief that could be achieved as soon as the three-month period ending December 31, 2009.*

*On February 23, 2009, the Company reported results for its Q2'09 (which did not include the acquisition of Prescient). Total revenue was \$0.454 million versus \$0.494 million in the same period last year. The net loss to common shareholders was \$1.165 million or (\$0.12) per share versus a net loss to common shareholders of \$1.436 million or (\$0.16) per share.*

*Based on comments made by Management during the Company's second quarter conference call, we have lowered our forecast for fiscal 2009, which calls for total revenue of \$5.569 million (prior was \$6.460 million), EBITDA loss of \$1.282 million (prior was \$1.236 million), and net loss to common shareholders of \$3.282 million or (\$0.35) per share (prior was \$3.109 million or (\$0.33) per share).*

*Based on public comments made by Management, internal organic growth and cross-selling opportunities to an expanded customer base, we are forecasting that fiscal 2010 should see improvement versus our fiscal 2009 forecast. We estimate total revenue of \$12.270 million, EBITDA of \$1.980 million, and a net loss applicable to common shareholders of \$0.380 million or (\$0.04) per share. Our prior forecast called for total revenue of \$13.660 million, EBITDA of \$2.055 million, and a net loss applicable to common shareholders of \$0.245 million or (\$0.03) per share.*

*\* Please view our disclaimer located on pages 23 & 24.*

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***The Company***

Park City Group, Inc. (OTC BB: PCYG), headquartered in Park City, Utah, specializes in services and technologies for the Grocery, Mass Merchant, Drug, Specialty and Convenience-Store markets via the development and marketing of patented solutions, which allow retailers and their suppliers to work collaboratively as strategic partners to reduce out-of-stocks, shrink, inventory and labor while improving profits, efficiencies, and customer service. The Company owns and controls U.S. patents, trademarks, and copyrights relating to its software technology that are approved and issued, as well as a number of international patents.

Management's goal is to expand Park City Group's market share of offerings (specifically Scan Based Trading, Inventory Optimization, Demand Planning, and Business Analytics). To achieve this goal, the Company has focused on a recurring revenue model (either pre-paid or recurring monthly payments, both on an annual contract basis), which means that deferred revenue on the balance sheet should be one of the first areas to see the positive impact on financial statements. Over time, the Company intends to be a leading provider of technology, technology solutions, and business analytic services so that it can serve as the preferred conduit between retailers and their suppliers. The platform will provide for an efficient exchange of information that should lead to improved profitability for its customers.

***Acquisition of Prescient and Key Drivers***

The acquisition of Prescient Applied Intelligence closed on January 14, 2009, after shareholders voted on January 13, 2009 to approve the acquisition by Park City Group. According to the Company, consummation of the acquisition required PCYG to acquire for cash:

- 33,200,000 shares of Prescient common stock for \$0.05 - \$0.055 per share;
- 1,657 shares of Prescient series E preferred stock for \$3,865 - \$4,098 per share; and
- 479.9 shares of series G preferred stock for \$1,136.36 per share.

The cash came from the issuance of promissory notes, proceeds from a line of credit facility with US Bank, and from available working capital.

Prescient solutions (including Scan Based Trading) capture information at the point of sale in order to provide greater visibility into real-time demand and turn that data into actionable information across the entire supply chain, as well as enabling trading partners to compete effectively; therefore, increase profitability and excel in the retail business climate.

To provide some historic perspective, below is a table of the financial performance of Prescient Applied Intelligence in terms of revenue, operating expenses (excluding impairment charges), and EBITDA (excluding non-cash charges and non cash compensation expense for 2006, 2007, and the nine month period ended September 30, 2008):

	<b>Revenue (in millions)</b>	<b>Operating Expenses (in millions)</b>	<b>EBITDA (in millions)</b>
2006	\$9.24	\$10.38	(\$0.32)
2007	\$9.40	\$8.07	\$2.02
9 Mos. to Sept. 2008	\$6.37	\$5.71	\$1.09

Source: Prescient Applied Intelligence SEC filings

A key driver for the acquisition was that its solutions (especially the ability to create a Scan Based Trading hub) address the primary concern of retailers and suppliers: out of stock merchandise. The retail supply chain and replenishment solutions offered by Prescient Applied Intelligence provides trading partners with the ability to clearly see real-time demand and use that knowledge to drive supply chain efficiency, which results in more accurate ordering and replenishment, lower inventory levels, and fewer out of stock merchandise. The Management of Prescient Applied Intelligence organized its sales operations to address several key markets:

- Supply Chain – focused primarily on manufacturers, distributors, and suppliers in the consumer products industry;
- Advanced Commerce – focused on large mass merchandise, grocery, chain drug stores, electronics, and other big box retailers; and
- Professional services organization that provides assessments, implementation services, and support functions to an entire array of customers.

It is our view that the Management of Park City Group should be able to leverage its existing relationships in order to expand the number of Scan Based Trading hubs based on the overall concept that it will assist retailers to reduce their inventory burden and thus improve their balance sheets and also assist suppliers by potentially providing for wider distribution of their products, as well as the ability to manage more efficiently their flow of inventory. In order to make the Scan Based Trading hubs that Prescient Applied Intelligence developed more effective, efficient, and marketable, PCYG will need to incorporate its own analytical tools (i.e., Supply Chain Profit Link and ScoreTracker applications) in order to make it an end-to-end solution for both retailers and suppliers.

We ultimately believe that the primary reason that should make this acquisition beneficial for the Company is the Scan Based Trading hub solution developed by Prescient Applied Intelligence, which provides visibility into store-level product movement, allows suppliers to spend more time merchandising product, and removes time-consuming operational drudgery from the retailer-supplier relationship. This solution brings with it an established platform that is processing approximately \$1.5 billion dollars of transactions.

The table below represents some of the customer relationships Park City Group and Prescient have developed:

WalMart	Minute Maid	Tesco
Sheetz	Kwik Trip	SUPERVALU
Dole Foods	Sherwin-Williams	Meijer
BI-LO	PACSUN	Russell Stover Candies
Food Lion	Kellogg's	Farley's & Sather Candy

Source: Company's Web-site, Park City Group and Prescient Applied Intelligence SEC filings

### Portfolio of Solutions

The value proposition for Park City Group is its growing portfolio of software applications and business services that was recently enhanced by the January 14, 2009 acquisition of Prescient. The Company's solutions allow customers to improve their performance in terms of obtaining real-time data that translates into actionable information, the ability which allow them to control both inventory and labor costs across the supply chain.

The portfolio of offerings includes software applications and business analytics developed by Park City Group (Supply Chain Profit Link, ScoreTracker, Business Analytics Group, OpsXpert, Fresh Market Manager (FMM) and ActionManager™), as well as solutions acquired from Prescient (Scan Based Trading, Enterprise Demand & Distribution Planning, and Vendor Managed Inventory). Below is a description of the primary offerings:

### Scan Based Trading

Scan Based Trading can be defined as the process where suppliers maintain ownership of inventory within retailers' warehouses or stores until items are scanned at the point of sale. This solution assists in the process of eliminating supply chain inefficiencies, as well as helping retailers and suppliers get product to the store shelves more quickly, efficiently, and profitably. Once the retailer and supplier agree to begin a Scan Based Trading relationship, the first step is item and price authorization, which matches retailer and supplier product data to eliminate invoice discrepancies at the point of sale. This solution offered to customers receives the scan sales data and maintains it in a repository to ensure that product movement data is available to all members of the trading community. This is a hosted service, which means that customers can expect that implementation would be immediate. The hub should be viewed as the creation of a network community between the retailer and the supplier, which will have the ability to plug into the various hubs at the center that are created.

### **Vendor Managed Inventory**

This solution provides collaboration tools that increase supply chain efficiencies, lower inventory, and enhance trading partner relationships. It is pre-mapped to the specific requirements of each trading partner for the transfer of electronic data directly into the system, thus enabling suppliers to analyze retailer-supplied demand information, automatically generate orders for each customer, set inventory policy at the retailer's distribution center and monitor on-going inventory levels, determine which items need to be replenished, and how to ship them most cost-effectively.

### **Supply Chain Profit Link (SCPL)**

The goal of this offering is to assist both retailers and suppliers drive improved customers satisfaction ratings and bottom line profits. The offering is part of a fully integrated collaborative solution for supermarket and convenience store operations. Management believes that this software application delivers a significant value-add to the supplier/retailer relationship since it allows suppliers an opportunity to work with their retail partners on optimizing profits by monitoring product movement, while reducing out-of-stocks and minimizing shrink (or waste).

SCPL is a category management tool that provides a common view of key performance indicators for retailers and suppliers. The components (Cost Control Monitor; Demand Forecaster and Production Planner; and Inventory Manager) make SCPL a useful tool for both suppliers and retailers for both perishable and non-perishable goods. Additionally, the SCPL program enables online collaboration for category management and merchandising teams and suppliers through a Web-based tool called ScoreTracker.

### **Enterprise Demand & Distribution Planning**

This solution helps its customers analyze point-of-sale (POS) data and other demand signals in order to gain insight into customer demand. This application assesses how inventory will be impacted, then calculates recommended stocking levels, considers service level goals, and develops a time-phased replenishment plan. It brings demand data into one place, and will determine whether orders should come from existing inventory or if new production or procurement is necessary. The value of this application is that it is extremely flexible, so it can be configured to meet the needs of any company's supply chain processes.

**It is Management's belief that the combination of the product portfolios offers cross-selling opportunities between PCYG and Prescient Applied Intelligence's customers; therefore, giving the potential of generating revenue that would not otherwise be possible in the absence of the combination. Also, this combination offers the opportunity to develop additional products and services in the future that would benefit existing customers and have the potential to expand the customer base.**

### **Recent Developments**

**On March 18, 2009**, the Company announced that I&K Distributors (a direct store delivery distributor of high quality refrigerated dairy, deli, bakery, meat and grocery items) commenced implementation of the Visibility & Analytics Shrink module. I&K Distributors will be using the shrink module with a major retail partner, a large Midwestern grocery chain, to track store-level shrink across various categories, across multiple departments.

**On February 11, 2009**, Park City Group announced that Sherwin-Williams, the nation's largest specialty paint retailer, is implementing its Store Level Replenishment (SLR) solution in order to reduce inventory and improve service levels in their more than 3000 store chain. SLR is a store ordering solution that optimizes store level demand forecasting to help determine when items are in need of re-ordering at a particular store.

**On February 4, 2009**, the Company announced that Farley's & Sathers Candy Company, the fourth largest confections manufacturer in the U.S., is implementing its Vendor Managed Inventory (VMI) offering. VMI will support a strategic business initiative to improve customer service levels, improve order fill rates, reduce retail out-of-stocks, and gain forward looking visibility to consumer demand. PCYG will be hosting the VMI application through its on-demand service offering.

## Strategy

We believe that Management is strategically focused (in the near and long term) on growing operations, expanding the customer base, becoming cash flow positive, and moving towards bottom line profitability. All of which should increase shareholder value as time progresses. In our view, the following will need to occur in order to achieve those strategic objectives:

- Complete the integration of Prescient, which was acquired on January 14, 2009. According to prior public statements, Management identified approximately \$4 million in annualized cost reductions; of which, approximately \$3.4 million were removed as of February 23, 2009 and should be reflected over the next several quarters. We anticipate the balance of the remaining cost saving should be removed by the end of fiscal 2009 (which ends on June 30, 2009) and fully recognized during fiscal 2010;
- Leverage the opportunity in Scan Based Trading. That should be accomplished through the creation of additional hubs or network communities given the relationships PCYG has developed within the retail and supplier communities (three hubs should be on boarded in the near term, with an additional three by the end of calendar 2009).

Prior to acquiring the Scan Based Trading platform of Prescient, PCYG had been making efforts to develop and expand into Scan Based Trading through its relationship with Source Interlink Companies, Inc. Source agreed to use Park City Group's data management and business intelligence tools to help analyze retail front-end profitability, and manage inventory distribution, merchandising, and product placement of magazines, CDs, and DVDs. We anticipate that the Management of Park City Group will strive to take the Scan Based Trading technology of Prescient Applied Intelligence to the next level since it provides an established Scan Based Trading platform that is processing approximately \$1.5 billion dollars of transactions and helping hundreds of retailers and suppliers reduce their out-of-stocks; thereby, increasing their sales.

Investors should note that the solution offered by Prescient emphasizes the need to focus on real-time consumer demand through collaboration between retail trading partners by integrating demand data (gathered at the point of sale) into the end-to-end supply chain network of consumers, retailers, consumer product manufacturers, distributors, and raw material suppliers. PCYG will be able to add its base of analytics in order to provide retailers and suppliers a complete end-to-end solution that will make the supply chain more transparent and profitable for both parties;

- Grow top line results. Upon completion of the acquisition of Prescient Applied Intelligence, sales will be immediately accretive. Also, top line growth should increase based on Management executing the following:
  - Cross-selling opportunities with existing Prescient customers. One such potential opportunity was announced on January 28, 2009, when a pet food manufacturer called Dad's Products Co. Inc., chose to implement Enterprise Demand Planning solution (acquired in the Prescient transaction) to support the needs of its growing business in areas of forecasting and customer level sales visibility. As part of the announcement, Dad's will also participate in a Supply Chain Profit Link Opportunity Assessment; thus, providing an opportunity to generate additional revenue from one of PCYG's offerings. Also, during February 2009, the Company announced relationships with Sherwin-Williams and Farley's & Sathers Candy Company (see recent developments section);
  - Leveraging the philosophy of Prescient that includes providing cost-effective solutions that are fast and easy to implement. The on-demand model removes many of the traditional barriers to technology adoption, enabling retailers and suppliers to implement solutions quickly, with less risk, fewer resources and reduced up-front investments;
  - Expanding its Business Analytics Group;

- Continuing focus on its recurring annual subscription licensing model for Supply Chain Profit Link, which is focused on leveraging multi-store retail chains, convenience store chains, and their respective suppliers, in order to reduce the overall reliance on one-time, non-recurring license fee revenue; and
  - Continuing to transition customers to a subscription-based model for its Fresh Market Manager (FMM) and ActionManager™ offerings. This should not preclude the Company from obtaining on occasion a one-time license fees for this product from larger customers that would likely include substantial recurring maintenance revenue, as well as professional service fees.
- Build strategic alliances and closer business relationships. The Prescient acquisition brings with it strong relationships with consulting firms and technology providers like MicroStrategy (NasdaqGS: MSTR) and Microsoft (NasdaqGS: MSFT). They have also been actively engaged in key industry associations, including: Private Label Manufacturer's Association and Texas A&M University's Center for Retailing Studies; and
  - Leverage Park City Group existing potential customer base, as well as the customer base of Prescient. The Company has publicly stated its desire to penetrate as quickly as possible the top 10 grocery retailer customers. Currently, PCYG's penetration now has reached that goal of penetrating the top 10 grocery customers. Also, post acquisition, the Company has access to hundreds of the top suppliers in the U.S.

### ***Recent Financial Results***

For the second quarter of fiscal 2009 (the three-month period ended December 31, 2008), versus second quarter of fiscal 2008 (the three-month period ended December 31, 2007):

- Total revenue was \$0.454 million versus \$0.494 million. Taglich Brothers' estimate called for revenue of \$0.605 million;
- EBITDA loss was \$0.735 million versus EBITDA loss of \$1.252 million;
- Total operating expenses decreased to \$1.334 million versus \$1.869 million; and
- Net loss to common shareholders was \$1.165 million or (\$0.12) per share versus a net loss to common shareholders of \$1.436 million or (\$0.16) per share. Taglich Brothers' estimate called for a net loss to common shareholders of \$1.003 million or (\$0.11) per share.

The year-over-year revenue decrease of 8.1% resulted primarily from reduced maintenance and professional services provided to customers. The reduced level of maintenance revenue of approximately \$0.082 million was primarily due to the loss of two customer agreements. Investors should note that PCYG's suite of products has demonstrated reliability on a historic basis and as a result of that reliability, it is possible that from time to time, customers may not perceive or want to pay for maintenance contracts. Professional services revenue declined by approximately \$0.013 million, which resulted from the difference in completing projects and starting new engagements. Mitigating the overall revenue decline was the following:

- Subscription revenue increased by approximately \$0.045 million, which was due to new subscription contracts and an increased emphasis on the subscription based revenue model. In this regard, the Company is focusing its strategic initiatives on increasing the number of retailers, suppliers and manufacturers that use its software on a subscription basis.
- License revenue increased by approximately \$0.010 million, which was due to additional licenses sold to an exiting customer.

**It is important to note that this period did not include any revenue from the acquisition of Prescient, which closed on January 14, 2009.**

Total operating expenses decreased by \$0.535 million to \$1.334 million versus \$1.869 million in the second quarter of fiscal 2008. As a percentage of total revenue, operating expense decreased to 294% versus 378%. The

percentage decrease was the result of lower total operating expenses for the current period compared with the same period last year. The aggregate decrease in operating expenses was as follows:

- Sales and marketing expenses declined by approximately \$0.350 million. This was primarily due to the Company reducing its reliance on outside service consultants (by \$0.058 million), a reduction in payroll commission expense as a result of reduced staff (by \$0.220 million), reduced sales related travel costs resulting from the Company contacting prospects and customers through Web-conferencing and other telecom means (by \$0.037 million), and lower costs for advertising and public relations (by \$0.029 million);
- General and administrative expenses declined by approximately \$0.074 million. This was primarily the result of lower legal fees (by \$0.108 million) associated with defense of patents, as well as lower other compensation (by \$0.046 million), which was offset by an increase in investor relations related expense (by \$0.064 million);
- Research and development (cost of services and product support) expenses declined by \$0.126 million. The decrease was due to lower payroll expense resulting from a reduction of staff, which also resulted in lower other employer paid taxes and benefits and travel, lower recruiting related fees, and a reduction in the use of contract labor. The Company decreased staff while pursuing anticipated integration of operations with Prescient and its business strategy to automate certain information technology data gathering and processing, which resulted in a reduction of its expenditures related to ongoing product support and information technology services; and
- Depreciation and amortization expense increased by approximately \$0.024 million. This was attributable to software costs capitalized in prior year and the result of amortization due to the completion of the significant enhancements and the release of the developed product.

We estimate that the Company at December 31, 2008, had net operating loss carryforwards in excess of \$13.0 million that can be used to offset future taxable income through 2028.

Balance Sheet as of December 31, 2008

The Company had cash and equivalents of \$0.397 million and restricted cash of \$2.5 million versus cash and equivalents of \$0.866 million and \$1.940 million of restricted cash as of June 30, 2008. Also, at the end of the second quarter of fiscal 2009, the Company had a working capital deficit of \$1.294 million, which was a decrease from a working capital of \$0.581 million at the end of fiscal 2008. The decrease in working capital was primarily due to the Company securing both notes payable and borrowings under a line of credit to facilitate an investment in Prescient, as well as a loss from operations during the first half of fiscal 2009. On a sequential basis, cash on the balance sheet increased by approximately \$0.076 million. Total assets were \$7.200 million, which was an increase from \$5.186 million at the end of fiscal 2008.

At the end of the quarter, the Company had total liabilities of \$7.648 million (including a short-term note payable to related parties of \$2.199 million, resulting from the acquisition of Prescient, in which a total of three promissory notes with officers and directors of Park City Group including its Chief Executive Officer were executed and a long-term line of credit of \$2.720 million, which occurred during November 2008 and is guaranteed by Riverview Financial Corporation, a wholly owned affiliate of the Company's CEO), an accumulated deficit of \$27.357 million, and a shareholders' deficit of \$0.448 million. At the end of fiscal 2008, the Company had total liabilities of \$3.402 million (including a short-term note payable of \$1.940 million, which was secured by restricted cash), an accumulated deficit of \$24.982 million, and total shareholders' equity of \$1.584 million.

Investors should note that the \$1.940 million in short-term notes payable at the end of fiscal 2008 was paid off during July 2008. As noted above, during August 2008, the Company secured notes payable from officers and directors (approximately \$2.199 million) and used lines of credit to facilitate an investment in Prescient in the amount of approximately \$2.767 million. This was the initial stage of the acquisition. In order to close the acquisition, on December 2, 2008, Park City Group announced that it secured a \$3.0 million line of credit facility with US Bank. The bank credit facility eliminated the need for the Company to seek outside equity financing to complete the transaction. It should be noted that the acquisition of Prescient was financed from a combination of

bank financing, operating capital, loans from Park City Group's CEO and two of its Board members, as well as an investment made by a group of investors from both Park City Group and Prescient's existing stockholders. **Subsequent to the end of the quarter (December 31, 2008), the Company retired \$1.0 million of short-term notes with Officers and Directors during January 2009.**

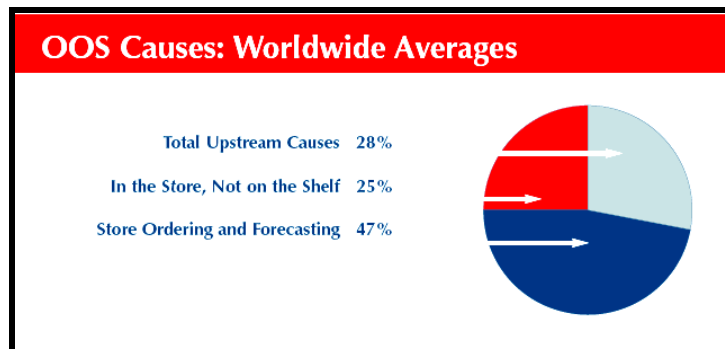
It is our belief that given the accretive nature of the Prescient acquisition (in terms of the top line, EBITDA, and bottom line), as well as organic revenue growth, and implementation of cost controls, it should allow the Company to meet its minimum operating cash requirements during the next twelve months. We anticipate cash burn of approximately \$0.100 million for the third quarter of 2009 (those needs should be met by cash on hand, credit facility, and an increase in deferred revenue as customers pay cash for its subscription based solutions). Also, we are forecasting that the fourth quarter of fiscal 2009, should mark the start of cash generation that should grow over time (for details see our projections section on page 13).

Management stated in the Company's second quarter 10Q filing that while no assurances can be given, it believes that anticipated revenue growth, consummation of the Prescient merger, and further cost reductions will allow the PCYG to meet its minimum operating cash requirements for the next twelve months.

### **Market**

The overall retail environment has become increasingly competitive due to the global economic downturn, bankruptcies, consolidation, Internet retailing and the growing dominance of Wal-Mart. In order to remain viable, many traditional retailers are looking for technology to improve competitiveness, efficiency, and profitability. Park City Group (including the recently acquired Prescient Applied Intelligence) has an extensive portfolio of software solutions and services offerings that directly address what customers are looking for in order to be more competitive and achieve greater economic performance. In particular, Prescient Applied Intelligence brings an established Scan Based Trading platform that will be processing approximately \$1.5 billion dollars of transactions and assist in reducing out-of-stocks.

One of the areas Park City Group's expanded solutions address is the out-of-stock issue that retailers face. In an October 30, 2007 report entitled Retail Out-of Stocks: A Worldwide Examination of Extent, Causes, and Consumer Responses (Food Marketing Institute's Web-site), it stated that out-of-stocks remains a large problem for retailers, distributors, and manufacturers in the worldwide consumer goods industry. It went on to state that advances in supply chain and investments in inventory tracking technology have not really reduced the overall level of out-of-stocks on store shelves. The pie chart (below) gives a percentage breakdown of some of the causes of out-of-stocks:



Source: [http://www.fmi.org/docs/supply/OOS\\_Executive\\_Summary.pdf](http://www.fmi.org/docs/supply/OOS_Executive_Summary.pdf)

During December 2008, the Progressive Grocer Magazine published an article entitled Out-of-Stocks Cost Retailers Sales from 20% of Consumers: Study, in which Greg Buzek (President of IHL Group – a global research and advisory firm specializing in technologies for the retail and hospitality industries) came to the conclusion that retailers are losing sales of at least one item to as many as 20% of consumers visiting their stores. This can lead consumers to stop shopping at that particular retailer. In the article, Mr. Buzek stated that retailers remain in denial when it comes to consumers' perception of out-of-stocks. Consumers do not care why the product is unavailable, they just want the product. In Mr. Buzek's study, approximately 9% of all consumers simply stop

shopping at one or more retailers in the last twelve months due to the out-of-stock problem. It is estimated that grocery stores are losing approximately 0.68 cents in sales for every customer that is unable to find a particular product or a reasonable replacement. In a prior report, by Greg Buzek entitled, How Much Are Out-of-Stocks Costing You? Much More Than You Might Think, stated that the actual loss to competitors from out-of-stocks measures \$93 billion annually. That figure was discovered doing the research for the 5<sup>th</sup> Annual RIS News/IHL Group Store Systems Study.

The following are some of the reasons for out-of-stocks:

- Poor planning by buyers;
- Problems in store execution;
- Supplier delivery problems;
- Inadequate staffing; and
- Merchandising and marketing get the advertisement timing wrong.

The established Scan Based Trading platform the Company obtained is an important market area. The following are some important historic points regarding this segment that were made years ago:

- In the early 2000s that Scan Based Trading surfaced as a new way to organize procurement and distribution responsibilities in the supply chain. A key change in common practice is the ownership of goods, where under this platform they remain the property of the supplier until they have been sold to the customer at the point of sale. In a study (which we believe still holds true) conducted by PricewaterhouseCoopers (and released in early 2001), the benefits provided by Scan Based Trading are outlined in the chart below:

Retailers	Suppliers
■ Smaller inventory	■ Smaller inventory
■ Fewer invoice disputes	■ Fewer disputes, quicker payment
■ Reduced transaction costs	■ Reduced transaction costs
■ Better delivery scheduling	
■ More targeted customer promotions	

Source: "Scan-Based Trading—Moving Toward a Demand-Driven Supply Chain, PricewaterhouseCoopers, February, 2001.

Source: FreshTrack 2001, Supply Chain Management in the Produce Industry pg. 45

- In 2005, Prescient Applied Intelligence offered the following key trends that we believe continue to be market drivers:
  - The focus on the consumer, which we believe coincides with the need to reduce out-of-stocks in order to maintain consumer satisfaction;
  - Collaboration. This is occurring between retailers and suppliers in order to align the supply chain;
  - Demand driven environment, which appears to continually growing; and
  - The constant ability to demonstrate to suppliers that this platform results in increased sales, inventory reduction, and fewer deductions and invoice discrepancies.
- Based on our own research, a wide variety of companies use some form of Scan Based Trading within their operations. Those companies include Office Depot, Staples, Sports Authority, Barnes & Noble, Target, Rite Aid, etc. Given that these types of companies are utilizing this platform, it should provide an opportunity for Park City Group to grow this segment. Also, in a January 20, 2009, article Retailers Overhaul Business as Consumers Pull Back, by the Associated Press, the following was stated:

Stung by the worry that shoppers who cut spending by the most dramatic amount in at least 39 years this holiday season may not start spending again for a long timer, stores

are making drastic changes. They are cutting out marginal suppliers, hiring outside experts to keep inventory lean, holding special events for those who are still buying and making extraordinary efforts to gauge customer satisfaction.

The economic situation that has caused those types of actions to be taken, provide an opportunity for PCYG to benefit, especially in terms of the relationship between the retailer and supplier, as well as aiding in the process of keeping inventory levels lean.

- A recent evolution of Scan Based Trading is occurring between mass-market magazine wholesalers and their chain retail customers. This puts Park City Group in a very good position since it has been working on this concept for over a year and now can move forward more quickly with the acquisition. This platform allows wholesalers to maintain ownership of inventory within retailers' warehouses or stores until items are scanned at the point of sale. An article entitled The Scan Based Trading Conundrum brought the following information to the forefront:
  - The efficiencies of this system for retailers include: ease of inventory (no need to count newspapers at delivery), payment on scanned newspapers only, returns process ease; and ease of billing;
  - Advantages for newspapers include: access to new accounts, efficiency improvement for distributors, delivery window is more flexible, easier to execute, and automation allows for quicker payment than traditional corporate billing in certain instances; and
  - The challenges and concerns for newspapers using this platform include: shrinkage or loss responsibility is shifted from retailer to newspaper; losses in circulation volume and revenue; and loss of retailer relationships.
- Also important for investors to take into account are some facts related to the Supply Chain Technology market:
  - According to AMR Research (a provider of subscription advisory services and peer networking opportunities to operations and IT executives in the consumer products, life sciences, manufacturing, and retail sectors) in a November 2008 press release announcing its finding stated that the supply chain management applications market is estimated to grow by 7% annually over the next five years. That is despite the gloomy economic conditions. Currently, the market is \$6.5 billion and should grow close to \$9.2 billion in 2012. The report stated that the current economic challenges will offer much greater opportunity for supply chain technology adoption. Also, the belief is that the supply chain will play an important role in helping companies deal and thrive in an economy that is going to be quite unlike anything seen since WW II.
  - According to IDC (a global provider of market intelligence, advisory services, and events for the information technology, telecommunications, and consumer technology markets), Simon Ellis (Supply Chain Strategies practice director) stated that for 2009, the expectation is for a very strong cost and customer focus in supply chain behavior. Also, continuing supply chain complexity should drive investments in optimization, modernization, and risk mitigation.

### Supermarkets

The following are some statistics related to the supermarket industry (source: Food Marketing Institute (FMI), which conducts programs in research, education, industry relations, and public affairs on behalf of its 1,500 member companies — food retailers and wholesalers — in the United States and around the world). Below are the most recent statistics that were published in May of 2008:

- 2007 total sales for supermarkets with \$2 million in annual sales amounted to \$535.4 billion (consisting of 34,967 stores) versus \$499.5 billion (consisting of 34,019 stores) in 2006;
- 2007 total sales for chain supermarkets grew to \$505.6 billion versus \$455.9 billion in 2006;
- Independent supermarkets sales declined to \$29.7 billion in 2007 versus \$43.6 billion in 2006;

## Park City Group, Inc.

- Sales per labor hour equaled \$138.90 in 2007, which was an increase from \$133.31 in 2006;
- Average number of trips per week consumers made equaled 1.9-times during 2007; and
- Average number of items carried in a supermarket was 45,000.

### Convenience Store

The National Association of Convenience Stores (NACS) defines a convenience store as a retail business with primary emphasis placed on providing the public a convenient location to quickly purchase from a wide array of consumable products (predominantly food or food and gasoline) and services. According to NACS, typically a convenience store generally stocks 1,500 to 3,000 items.

### Specialty Retail

In general, this segment is experiencing a shrinking labor force and strong competition for qualified managers and staff. According to Park City Group, managers in this segment are time-constrained due to increased labor and inventory demands. Also, margins have become increasingly tight due to higher labor and lease expenses, as well as the increasing customer satisfaction demands.

### **Outlook**

In our opinion the acquisition of Prescient was a perfect fit for Park City Group. It is our belief that with this acquisition under its belt, the potential exists to increase its position as a leading provider of advanced commerce and supply chain solutions for retail trading partners. The combined solutions provide an opportunity to expand the customer base, as Park City Group should be able to fully demonstrate the ability to enhance collaboration from the point-of-sale through the entire supply chain, which ultimately translates consumer insight into better execution at the store shelf by capturing scan-sales data, improving forecast accuracy and increasing supply chain efficiencies. Park City Group's total suite of offerings in combination with its business analytics group provides business intelligence in terms of how to reduce shrink, out-of-stocks, and execute more efficient and effective promotions.

From an operational and business perspective, investors should expect to see synergies from those product and service solutions, as well as cross-selling opportunities that should lead to an expansion of the customer base. This effort will be spearheaded by Mark Deuschle, who in January 2009 was hired by the Company as a Senior Vice President reporting directly to CEO Randy Fields. According to the Company, Mr. Deuschle adds an important component of retail expertise since he has the proven talent and skills to not only prospect and develop new business but to also maintain and renew existing relationships. His knowledge of and experience in Scan Based Trading should be most valuable as PCYG actively expands upon its business in that area. Investors should expect that the Company will use all facets of his expertise, as the intent over the near term is to aggressively expand Park City Group's marketing outreach and execute on new sales opportunities.

Investors should be aware of the following that should occur over the near and intermediate terms:

#### **Near-term:**

- Fiscal third quarter results will include the acquisition of Prescient. Therefore, that quarter will experience substantial sequential improvement in terms of the top line, operating expenses as a percentage of revenues, EBITDA, and the bottom line. Investors should note that for the three-month period ended March 31, 2008, Prescient reported top line results of \$2.066 million, EBITDA of \$0.297 million, and net income before preferred dividends of approximately \$0.085 million.
- Management stated during its second quarter earnings conference call that its goal is to sign, on board, and hopefully commence operations of three Scan Based Trading hubs. Investors should remember the hub concept is one that should assist retailers to reduce their inventory burden and thus improve their balance sheets and also assist suppliers by potentially providing for wider distribution of their products, as well as the ability to manage more efficiently their flow of inventory.

- Based on the acquisition of Prescient, Park City Group (commencing in its fiscal third quarter of 2009) has transitioned its business model from one that historically generated approximately 70% of its revenues from license-related business to one that **now generates approximately 70% of revenues from recurring subscription-based customers (in terms of subscription and maintenance and support)**. Management publicly stated its belief that when this change in business model and its continued revenue stream are demonstrated to investors, it is reasonable to expect that it will have a significantly positive effect on the valuation of the Company.

**Intermediate-term:**

- As discussed above, the marketing ability of the Company will be important. A key driver will be the Company's ability to take its Scan Based Trading hub platform and Business Analytics capability, as well as its SCPL solution to the marketplace and demonstrate its capabilities to:
  - Improve in-stock positions;
  - Reduce shrink and out-of-stocks;
  - Execute efficient and effective promotions;
  - Resolve service-level issues;
  - Improve assortment planning;
  - Enhance visibility into store-level product movement;
  - Allow suppliers to spend more time merchandising product;
  - Improve the retailer-supplier relationship; and
  - Increase sales and profit opportunities for both the retailer and supplier.

Investors should recognize that given the deterioration of macro economic conditions, which are likely to persist at least through mid-year 2009, it is important that the Company represent its solutions to customers as a cost saving and productivity tool that will be an investment in their future. We believe that this type of presentation will be relevant given the following example. On January 7, 2009, SuperValu (a grocery store retailer in the U.S.) held its third quarter earnings conference call. It made it clear that it will be making smarter, more effective investments to improve gross margins. Also, it will be focusing on 1) creating value for customers through accelerated, strategic price investments, 2) using research and analytics to focus customer centric marketing, 3) improving ID sales through merchandising innovation and remodel program, 4) reducing the cost structure, and 5) lowering capital spending and paying down additional debt. **The points above are important for PCYG's opportunity to gain customers, especially when pricing, utilizing research and analytics, and reducing costs are involved; since that is what the Scan Based Trading hub along with associated business analytics bring to the table for retailers and suppliers.**

- Shorten the time to convert customers from a pilot program to a revenue generating subscription. In the past, the Company had difficulty in the conversion process. The process of gathering and analyzing the information from a potential revenue-generating customer had taken longer (in excess of six to nine months) than Management had originally anticipated. We are hopeful that the broader portfolio of solutions and analytics should provide the opportunity to get revenue-generating customer on board within a six-month time frame and then have the ability to provide additional offerings in order to enhance the Company's top line. To that end, Management announced during the second quarter earnings conference call that it believes PCYG will sign, on board, and commence operations on a total of six Scan Based Trading hubs by December 31, 2009.
- Broaden the potential customer base. Post the Prescient acquisition, the Company stated during the second quarter earnings report that PCYG's solution includes ten of the top ten grocery retailers, the nations six largest bakeries, and four of the top six dairies in the U.S. Also, the Company has 1,000 trading relationships, serving over 300 distribution centers and approximately 35,000 locations that are managed on a daily basis. That provides an initial base of additional customers to seek to expand on its total portfolio of offerings.

We also believe that the agreement with Source Interlink, in which Park City Group will provide data management and business intelligence tools to help analyze retail front-end profitability, and manage inventory distribution, merchandising, and product placement of magazines, CDs, and DVDs, could be an important stepping-stone to additional types of business if successful. The acquisition, which provides a Scan Based Trading platform, should enhance this potential over the second half of fiscal 2009 and throughout fiscal 2010 (which commences on July 1, 2009).

Investors should be cognizant that a Scan Based Trading hub should provide revenue of approximately \$0.100 million during its first twelve-months of operation. The assumption is that an individual hub, after the first twelve-months of operation should begin to grow exponentially over the next few years, reaching maturity after year number three (potentially one hub could yield up to or in excess of \$1.0 million annually). Therefore, it is Management's intent to get as many Scan Based Trading hubs up and running as soon as possible in order to drive operational growth in future periods.

### **Projections**

Investors should realize that the Company has effectively transitioned its business model from one that historically generated approximately 70% of its revenues from license-related business to one that now generates approximately 70% of revenues from recurring subscription-based customers (in terms of subscription and maintenance and support) as a result of the acquisition of Prescient. It is our view that this transition should lead to improved profitability in the ever-increasing competitive landscape for customers (suppliers and retailers to assist in managing portions of their supply chains).

We continue to caution that visibility is limited as to the number conversions and/or the on boarding of Scan Based Trading hubs that are taking place from the potential customer base. We do have visibility in terms of the historic trends of Prescient. Management's public comments made during the Company's second quarter earnings conference call, as well as general operating trends are the primary basis for the adjustments we are making to our near term forecast (the balance of fiscal 2009). Looking beyond fiscal 2009, we anticipate the Company demonstrating the ability to leverage the acquisition and grow operations during the second half of fiscal 2010. Also factoring into our forecast is the following publicly announced guidance provided by Park City Group's Management on February 23, 2009:

- This accretive acquisition is projected to provide:
  - Significant increase in recurring subscription based revenues;
  - Park City Group's total revenues reported for fiscal 2008 was \$3.3 million and on a pro-forma basis revenues for the combined entity would have been approximately \$12 million (for the year ended June 30, 2008);
  - A base total revenue run rate for a twelve-month period of \$9.5 million to \$10.0 million. This assumes no growth and a reduction of some customers of Prescient (which did not fit with Park City Group's long-term goals). This metric was announced during the Company's second quarter earnings conference. Also, Management indicated during the call that it hopes to grow the Company's top line over the next few year to reach a total revenue run rate of \$25 million on an annual basis;
  - Substantially increased EBITDA to approximately 15% of revenue versus negative percentage, since PCYG primarily operated with negative EBITDA;
  - Synergies of product and service offerings;
  - Strong future revenue growth opportunities within the combined customer base, and
  - Economies of scale in business operations and development costs
- Identified \$4 million in annualized cost reduction measures:
  - Of which, \$3.4 million were removed and should be reflected over the next several quarters.

We are utilizing Management's statement of a \$9.5 to \$10.0 million base business (without any growth) for a twelve-month period as a starting point for our revised forecast. That revised forecast for that period calls for total revenues of \$9.715 million. Also of note, for the six months ended December 31, 2008, the Company recognized an approximate \$0.163 million loss on the 8% equity investment made in Prescient Applied Intelligence base on the shares owned at the time. We anticipate that since the acquisition closed, the equity method will not apply during the second half of fiscal 2009.

Based on results reported during the first half of fiscal 2009, operations of the Company's second half of fiscal 2009 (which includes the operations of Prescient) and elements of Management's public guidance, and current macro economic conditions). Our revised forecast for fiscal 2009 calls for total revenue of \$5.569 million (prior was \$6.460 million), EBITDA loss of \$1.282 million (prior was \$1.236 million), and net loss to common shareholders of \$3.282 million or (\$0.35) per share (prior was \$3.109 million or (\$0.33) per share). Since Prescient was acquired our forecasts for the second half (which includes Prescient) calls for top line results of approximately \$4.59 million and EBITDA of \$0.200 million versus first half results of approximately \$0.98 million and a loss of \$1.48 million, respectively.

Our forecast for fiscal 2009 is comprised of the following:

- Overall operating expenses of \$7.731 million (first half of \$2.766 versus second half forecast of \$4.965 million) versus \$6.842 million reported in fiscal 2007. The aggregate amount of our estimate comprises the Prescient acquisition, as well as Management's cost reduction efforts as described above. To lend some perspective, during the six month period ended June 30, 2008, Prescient had operating expenses of \$5.704 million, excluding an impairment charge;
- No recorded income taxes due to projected losses, as well as an estimated \$13 million in net operating loss carryforwards for Federal income tax reporting purposes;
- Interest expense of \$0.453 million, as the Company (as previously discussed) borrowed funds to make the acquisition;
- Accrued dividends on the Company's convertible preferred stock of approximately \$0.504 million; and
- Average shares of approximately 9.406 million.

Our revised forecast for fiscal 2010 is based on a full year impact of the Prescient acquisition, internal organic growth, cross-selling opportunities to an expanded customer base, as well as Management public comments during the Company's fiscal second quarter earnings conference call. We anticipate that given those inputs, investors should see improvement versus our fiscal 2009 forecast; however, fiscal 2010 is likely to not be as robust as our initial forecast. We estimate total revenue of \$12.270 million (prior was \$13.660 million), EBITDA of \$1.980 million (prior \$2.055 million), and a net loss applicable to common shareholders of \$0.320 million or (\$0.04) per share (prior was \$0.245 million or (\$0.03) per share). It should be noted that our EBITDA forecast is approximately 16% of our forecasted total revenues and average shares of approximately 9.483 million.

It is also important for investors to be aware that quarterly top line results could fluctuate materially from our forecasts primarily due to: 1) the timing of obtaining and on boarding/losing customers; 2) amount of consulting work associated with a new customer; and 3) the size and implementation of a non subscription based license. We continue to believe that the best way to identify growth in the Company's top line is to evaluate a given twelve-month period, which should eliminate variances that might occur in any one particular quarter. **Additionally, we will closely monitor the news flow from Park City Group and the overall economic conditions and make changes as deemed necessary.**

The Company stated in its second quarter of fiscal 2009 SEC filing that Management believes that anticipated revenue growth, consummation of the merger (which occurred on January 14, 2009), and cost control will allow the Company to meet its minimum operating cash requirements for the next twelve months. **Although we should have more clarity on this issue once third quarter results are released on or about May 15, 2009, it is our view that given the acquisition, anticipated future results (which includes generating positive EBITDA**

**during three month period ending June 30, 2009), and ability to funding operations via loans from officers or line of credit that Park City Group should have the ability to fund operations for at least the next twelve months. A key indicator that we will closely monitor and could change our view is deferred revenue and how quickly the Company is able to on board Scan-Base Trading hub customer (three should be on boarded by the end of the Company's fiscal third quarter with three more anticipated by the end of calendar 2009.**

**However, if cash generated from operations is insufficient to satisfy future liquidity requirements and cash burn occurs instead of our forecasted cash generation, additional financing may be required in the form of selling additional public or private equity securities or debt financing.**

## ***Management***

**Randall K. Fields – Chairman of the Board and Chief Executive Officer:** Randall Fields has served as the Company's CEO and Chairman of the Board since June, 2001. Mr. Fields founded the Company in 1990 and has been responsible for the strategic direction of PCYG since its inception. He is also the Co-founder of Mrs. Fields Cookies with his then wife, Debbi Fields. He served as Chairman of the Board of Mrs. Fields Cookies from 1978 to 1990. Mr. Fields received a Bachelor of Arts degree and a Masters of Arts degree from Stanford University. He was a Danforth and National Science Foundation Fellow.

**John R. Merrill – Chief Financial Officer and Treasurer:** John Merrill was appointed during September 2007 as the Company's Chief Financial Officer and Treasurer. Mr. Merrill joined the Company during August 2006 as its Director of Finance, Accounting & Administration. He has over 18 years experience in both the public and private sectors of finance and accounting. Prior to joining Park City, he served as Chief Financial Officer for Peak Solutions Group a consulting firm focused on providing business solutions for growth oriented small business. His prior experience also consisted of serving as Controller for Clear Channel Communications, Inc., and as Controller of the Academies Division of IMG, a \$2 billion global leader in professional athlete management. Mr. Merrill began his career with KPMG and holds a Bachelors and a Masters degree in Accounting from the University of South Florida.

**Robert Hermanns – Senior Vice President:** Robert Hermanns joined the Company during March 2007 as Senior Vice President with responsibility for U.S. customer relations and corporate development. Mr. Hermanns will also become a member of the Park City Group's Board of Directors. He has over 40 years experience in all phases of retail and wholesale grocery operations. His experience includes serving as President, CEO, and Vice Chairman of the Board of Directors of Associated Grocers, Inc. and as Chief Operating Officer of Weis Markets, Inc. Additionally, Mr. Hermanns had served on the Board of Directors of Food Marketing Institute, Western Association of Food Chains, and Western Family Foods. He earned a BS degree in Food Marketing from Western Michigan University and an MBA from the University of Southern California.

**Mark Deuschle – Senior Vice President:** Mark Deuschle joined the Company during January 2009 as Senior Vice President with the responsibility for overseeing Sales, Account Management, and Marketing teams, as well as leading new sales and marketing initiatives, with particular emphasis on the Company's newly acquired capabilities in Scan Based Trading. He will be reporting directly to the Company CEO. Mr. Deuschle has served as an entrepreneur senior executive in the greeting card industry for more than 20 years. He had recently served as President of Gartner Studios, which serves the social expressions category in both stationery and greeting cards for a variety of national chains and regional Mass, Supermarket, Office Superstore, and Craft retailers.

## ***Risks***

### Potential Losses

The Company has incurred losses in the past and there can be no assurance that it will operate at a profit in the future. However, the acquisition of Prescient Applied Intelligence should provide the opportunity to mitigate potential future losses and also provide the potential to generate an operating profit. Investors should look at

when the Company reports third quarter results for the three-month period ended March 31, 2009 (which should occur by May 15, 2009).

For the years ended June 30, 2008 and June 30, 2007, Park City Group experienced a net loss applicable to common shareholders of \$3.199 million and \$2.967 million, respectively. During the first half of fiscal 2009, the Company experienced a net loss applicable to common shareholders of \$2.375 million. According to Management, there can be no assurance that the Company will operate at a profit during future fiscal years. If it does not operate profitably in the future, the current cash position may diminish and may need to seek additional financing in order to fund operations.

#### Fluctuation of Operating Results

Management expects a portion of the Company's revenue stream to come from license sales to new customers, which will fluctuate since sales to retailers are difficult to predict, in terms of magnitude and timing. 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;
- Capacity utilization;
- Technical difficulties, system downtime;
- Fluctuations in data communications and telecommunications costs;
- 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;
- Changes in regulatory laws and policies; and
- General economic conditions, particularly those related to the information technology industry.

#### Liquidity and Capital Requirements

The Company completed (during its fiscal fourth quarter of 2007) the sale of convertible preferred stock (Taglich Brothers was the placement agent for the transaction) from which was received gross proceeds of \$5.8 million (net proceeds were nearly \$5.3 million). According to the Company's SEC filings, historically, PCYG 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. Management has publicly stated that it anticipates that PCYG will have adequate cash resources to fund its operations for at least the next 12 months.

It is also our belief that given the accretive nature of the Prescient acquisition (in terms of the top line, EBITDA, and bottom line), as well as organic revenue growth, and implementation of cost controls, it should allow the Company to meet its minimum operating cash requirements during the next twelve months.

**However, the bottom line is that investors should be aware that if cash generated from operations is insufficient to satisfy future liquidity requirements, additional financing may be required in the form of selling additional public or private equity securities or obtain debt financing.** That financing may not be available at all or, if available, may not be obtainable on favorable terms. If needed capital is not available when required, the Company may be required to reduce the scope of planned operations, which would negatively impact operations. Investors also need to be cognizant that additional financing may be dilutive to existing stockholders' current ownership stake in the Company.

#### Attract and Retain Qualified Personnel

Success will likely depend on Management's 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 likely to be intense and the Company may be unable to attract or retain such professionals. If these types of professionals are not hired or retained after being hired, future results and organic growth could be negatively impacted.

### Shareholder Control

According to SEC filings, we believe that as of December 31, 2008, Randall K. Fields, its CEO, controls approximately 37.2% of Park City Group's common stock. We estimate that other officers and directors control approximately 4% of the Company's common stock. Therefore, the Company's CEO, officers, and directors combined will be able to significantly influence all matters requiring approval by stockholders, including the election of directors and significant corporate transactions.

### Reliance on the Company's CEO and Chairman

Park City Group's success depends heavily upon the continued technical and management contributions of Randall K. Fields, whose knowledge, leadership and expertise would be difficult to replace.

### Related Party Transactions

On August 28, 2008, the Company entered into two stock purchase agreements relating to the acquisition by the Company of shares of Series E preferred stock from existing stockholders of Prescient Applied Intelligence, Inc., in exchange for cash.

In connection with the acquisition, on September 2, 2008, Park City Group, Inc. executed and delivered three promissory notes with Officers and Directors of the Company including its Chief Executive Officer in an aggregate amount of \$2.199 million. Each of the unsecured notes 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. The purchase transaction was the first step in a plan to acquire Prescient in a merger transaction.

During November 2008, the Company obtained a line of credit from a bank in the amount of \$3.0 million. Riverview Financial Corporation, a wholly owned affiliate of the Company's Chief Executive Officer, guarantees this line of credit, and receives a fee of 3% per annum of the outstanding balance of the line of credit paid monthly as consideration for the guarantee. At December 31, 2008, the line was drawn in the amount of \$2.720 million. The line of credit bears an interest rate of 7.26% per annum and matures November 24, 2010.

### Acquisition Risk

On August 28, 2008, Park City Group and Prescient Applied Intelligence, Inc. executed an agreement and plan of merger. On January 13, 2009, Prescient held a shareholders vote and subsequent to the vote the acquisition was completed on January 14, 2009. Investors should note that this is the first significant acquisition made by Management. Prescient Applied Intelligence provides retail supply chain and replenishment solutions that have visibility into consumer demand signals, minimize stock-outs, optimize order logic, lower inventory levels, and maximize route efficiencies. The acquisition specifically brings to Park City Group an established Scan Based Trading platform that will be processing approximately \$1.5 billion dollars of transactions and helping hundreds of retailers and suppliers reduce their out-of-stocks; thereby, increasing their sales.

According to Management, Park City Group acquired in cash (the source of the cash came from the issuance of promissory notes, proceeds from a line of credit facility with US Bank, and from available working capital) the following:

- 33,200,000 shares of Prescient common stock for \$0.05 - \$0.055 per share;
- 1,657 shares of Prescient series E preferred stock for \$3,865 - \$4,098 per share; and
- 479.9 shares of series G preferred stock for \$1,136.36 per share.

Investors need to watch carefully the future performance of this acquisition. Issues that could arise from the acquisition include the integration process, merging of differing corporate cultures, customer polices, and management styles. These issues may cause a clash resulting in a lack of synergies and the inability to execute stated goals and financial objectives.

### Shift in Revenue Mix

Historically, the Company offered its software applications and related maintenance contracts to new customers on a one-time upfront license strategy and provided an option for annually renewing of their maintenance agreements. Due to the fact that the one-time licensing fee approach was subject to inconsistent and unpredictable revenues, the Company began offering prospective customers an option for monthly licensing of these products. Under this option, customers may now choose to acquire the software in an application solution provider basis, resulting in monthly charges for use of the software and maintenance. The conversion from a onetime, non-recurring licensing strategy to monthly-based fees is subject to customers preferring a one-time fee rather than monthly fees, as well as 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 annual fee could occur.

**Based on the Prescient acquisition, the Company anticipates it will now generate approximately 70% of revenues from recurring subscription-based customers (in terms of subscription and maintenance and support).**

### Customer Concentration

During fiscal 2008, the Company received approximately \$0.850 million of its revenue from new customers and approximately \$2.5 million in revenue from existing customers for continued support and additional license sales. During fiscal 2007, the Company received approximately \$0.505 million of its revenue from new customers and approximately \$2.1 million in revenue from existing customers for continued support and additional license sales.

Also, four customers in fiscal 2008 exceeded 10% of the Company's total revenue as compared to two customers in fiscal 2007.

Management believes that existing customers may continue to account for a substantial portion of total revenues in future reporting periods, as it transitions to its Supply Chain Profit Link platform. The ability to retain those customers and attract new 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. Therefore, if customer accounts are lost or customer orders decrease, revenues and operating results may be negatively impacted. Additionally, the Company has experienced the loss of long-term maintenance customers, as reliability and dependability of the product requires less maintenance on a long-term basis.

According to the third quarter of 2008 SEC filing of Prescient Applied Intelligence, two customers account for approximately 43% of total subscription revenue in the nine months ended September 30, 2008. Also of note, during the second quarter of 2007, Prescient Applied Intelligence received notice from one of its retail hub customers of their intent to discontinue the use of the Scan Based Trading platform and the cancellation of the related subscription for both it and its suppliers effective August 2007. Those customers accounted for approximately 13% of total subscription revenue for the nine-month period ended September 30, 2007.

### Growth Management

Investors need to be aware that as the Company becomes increasingly successful, it must meet the challenges associated with growth. If the Company is not successful in meeting these challenges, its business will be adversely impacted.

### Protection of Intellectual Property Rights

Management seeks to protect software, documentation, and other written materials primarily through a combination of patents, trademarks, copyright laws, trade secret laws, confidentiality procedures, and contractual provisions. While attempting to safeguard and maintain proprietary rights, there can be no assurances Management will be successful in doing so, since competitors may independently develop or patent technologies that are substantially equivalent or superior.

Also, despite efforts to protect proprietary rights, unauthorized parties may attempt to copy aspects of the Company's products or obtain and use information that is regarded as proprietary. Policing unauthorized use of

its software products is difficult and while Management may be unable to determine the extent to which piracy 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. No assurance can be given that the Company's means of protecting its proprietary rights will be adequate or that competitors will not reverse engineer or independently develop similar or better technology.

#### Competition

The market for Park City Group's products and services is very competitive. Management 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. Many of the Company's potential 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 a reduction in prices.

According to the Company's SEC filings, it competes with companies such as Radiant Systems (Nasdaq: RADS) and private companies such as Kronos Incorporated, Tomax Retail.net, Workbrain, and Capgemini.

Due to the acquisition of Prescient, companies that are competition with PCYG solutions now includes: Oracle (NasdaqGS: ORCL), SAP (NYSE: SAP), Microsoft (NasdaqGS: MSFT), and MicroStrategy (NasdaqGS: MSTR).

#### Corporate Governance

Wall Street has increased its focus on corporate governance and placed increased emphasis on the accountability of Management and Directors to shareholders. Investors are also increasingly considering executive compensation and familial relationships. The above factors have brought about the passage of the Sarbanes-Oxley Act of 2002 by Congress and signage by the President. Corporate governance may be an issue facing the Company in light of new rules and regulations being issued by government regulatory agencies. This could mean that the Company will eventually be required to spend some money in order to retain external resources to verify compliance under the act.

#### Legal Issue

According to the Company's SEC filings, it was served (on June 29, 2007) with a complaint from two previous employees titled James D. Horton and Aaron Prevo v Park City Group, Inc. and Randy Fields, 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 approximately \$0.521 million and \$2.603 million respectively. The case is currently in the discovery phase and the Company will continue to vigorously defend this matter. Also, the Company believes that there is no validity to this matter and that the possibility of any adverse outcome to the Company is remote.

#### Miscellaneous Risk

The Company's financial results and equity values are subject to other risks and uncertainties known and unknown, including but not limited to competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

#### Trading Volume

Liquidity is a potential concern. Based on our calculations, the average daily-volume for calendar 2007 was 8,784 shares traded a day. During calendar 2008 average daily-volume decreased to 3,515 shares traded a day. During the first three months of calendar 2009 average daily-volume decreased to 2,710 shares traded a day. Investors need to be aware that by nature a thinly traded equity can have significant price volatility. The OTC BB is a market that is relatively thinly traded as compared to the NASDAQ markets, AMEX, and NYSE. This may present increased risk and liquidity concerns to shareholders.

## **Conclusion**

**We are maintaining our Speculative Buy rating on shares of Park City Group, Inc. (OTC BB: PCYG). We are lowering our 12-month price target to \$2.00 per share from \$2.25. Our price target is based on a relative price-to-sales and EBITDA analysis. The price target was reduced due to the reduction of our revenue forecast by approximately 12.3%.**

On January 14, 2009, PCYG closed the acquisition of Prescient, which became a wholly owned subsidiary. According to public statement made by PCYG's Management, this acquisition should increase EBITDA to approximately 15% of revenue and provide economies of scale in terms of operations and development costs.

Our rating is primarily based on the benefits of that acquisition (i.e., an expanded customer base, significant revenue boost, and positive EBITDA), as well as an established Scan Based Trading platform that will be processing approximately \$1.5 billion dollars of transactions and helping hundreds of retailers and suppliers reduce their out-of-stocks; thereby, increasing their sales.

In our view, a fair valuation for this equity should emerge as investors see evidence of consistently growing top line results and a move towards profitability, which should be accomplished based on:

- Integrating successfully the acquisition of Prescient;
- Demonstrating the ability to leverage and broaden the scope of its Scan Based Trading hub platform;
- Leveraging a marketing strategy for its Supply Chain Profit Link offering; and
- Leveraging the Company's business analytics to new customers, as well as the customer base of Prescient.

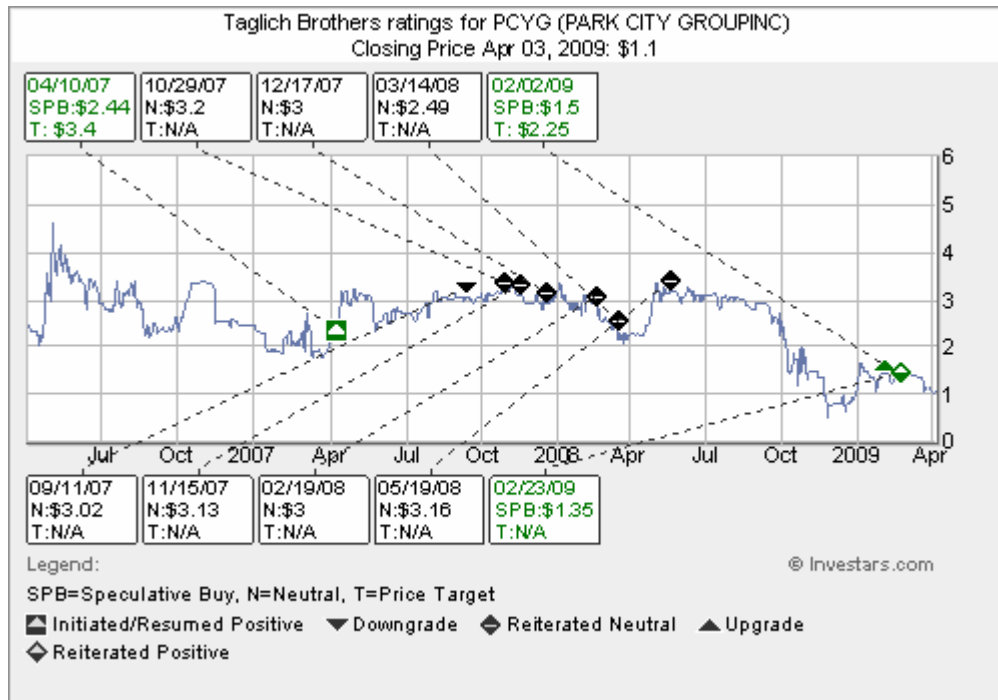
Our price target is based on the following valuation models discounted by 30% to account for microcap risk along with Company specific risks, as well as the current economic environment:

- A 4.0X price-to-sales multiple, which is the trailing twelve month multiple (as of April 3, 2009) for the Application and Business Software and Services Industry, applied to our estimate of \$1.10 per share for the twelve month period ending December 2009;
- A 13.0X price-to-EBITDA multiple, which is the trailing twelve month multiple (as of April 3, 2009) for the Application and Business Software and Services Industry, applied to our estimate of \$0.10 per share for the twelve month period ending December 2009.

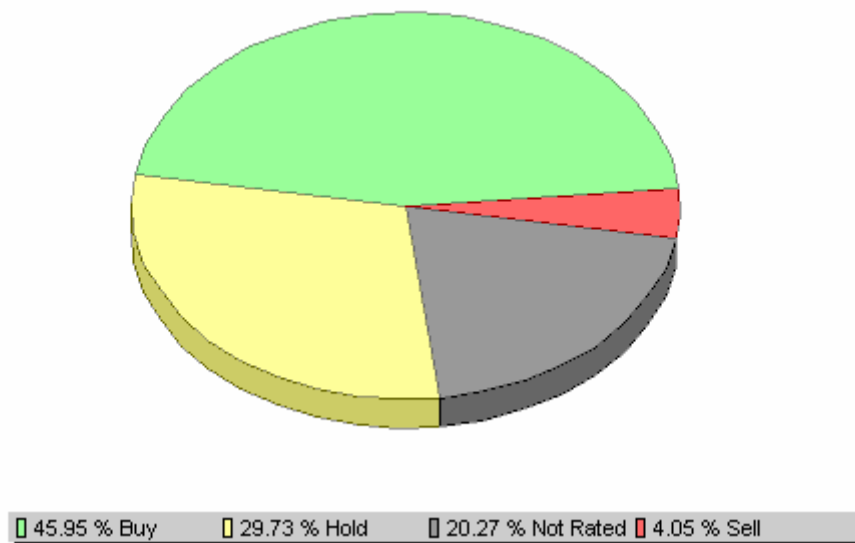
**It is our view that an investment in the shares of PCYG is most suitable for risk tolerant investors that can withstand the ups and down of a Company that is in the process of building a foundation for future growth and integrating its recent acquisition.** The risks that investors should be aware of include:

- Integration of the Prescient acquisition;
- Expanding the customer base and executing cross selling opportunities to Prescient Applied Intelligence customers;
- Maximizing the opportunities of the Scan Based Trading hub platform;
- Potential losses from operations;
- Low daily trading volume; and
- Liquidity and capital requirements.

Park City Group, Inc.



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	2	7.41%
Hold	0	0
Sell	0	0
Not Rated	0	0

### Meaning of Ratings

#### Buy

We believe the Company is undervalued relative to its market and peers. We believe its risk reward ratio strongly advocates purchase of the stock relative to other stocks in the marketplace. Remember, with all equities there is always downside risk.

#### Speculative Buy

We believe that the long run prospects of the Company are positive. We believe its risk reward ratio advocates purchase of the stock. We feel the investment risk is higher than our typical “buy” recommendation. In the short run, the stock may be subject to high volatility and continue to trade at a discount to its market.

#### Neutral

We will remain neutral pending certain developments.

#### Underperform

We believe that the Company may be fairly valued based on its current status. Upside potential is limited relative to investment risk.

#### Sell

We believe that the Company is significantly overvalued based on its current status. The future of the Company's operations may be questionable and there is an extreme level of investment risk relative to reward.

### **Some notable Risks within the Microcap Market**

**Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.**

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From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.

**Public Companies mentioned in this report:**

Wal Mart (NYSE: WMT)

MicroStrategy (NasdaqGS: MSTR)

Oracle (NasdaqGS: ORCL)

SAP (NYSE: SAP)

Costco (NasdaqGS: COST)

Microsoft (NasdaqGS: MSFT)

Target (NYSE: TGT)

\* The information and statistical data contained herein have been obtained from sources, which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to changes in figures or our views. This is not a solicitation of any order to buy or sell. Taglich Brothers, Inc. is fully disclosed with its clearing firm, Pershing, LLC, is not a market maker and does not sell to or buy from customers on a principal basis. The above statement is the opinion of Taglich Brothers, Inc. and is not a guarantee that the target price for the stock will be met or that predicted business results for the company will occur. There may be instances when fundamental, technical and quantitative opinions contained in this report are not in concert. We, our affiliates, any officer, director or stockholder or any member of their families may from time to time purchase or sell any of the above-mentioned or related securities. Analysts and members of the Research Department are prohibited from buying or selling securities issued by the companies that Taglich Brothers, Inc. has a research relationship with, except if ownership of such securities was prior to the start of such relationship, then an Analyst or member of the Research Department may sell such securities after obtaining expressed written permission from the Director of Research. All research issued by Taglich Brothers, Inc. is based on public information.

Taglich Brothers, Inc. has an Investment Banking relationship with the company. As of April 3, 2009, Robert Taglich, Managing Director, owns 72,727 shares, respectively, of PCYG restricted common stock from the June 2006 offering. As of April 3, 2009, Michael Taglich, President, and Robert Taglich, Managing Director, each own 25,840 shares and 25,709 shares, respectively, of PCYG Series A 7% Convertible Preferred from the June 2007 private placement. As of April 3, 2009, Michael Taglich and Robert Taglich, each own 103,242 warrants that were attained from private placements for the company in June 2006 and June 2007. Also, Michael Taglich owns or has a controlling interest in 65,000 common shares. Robert Taglich owns or has a controlling interest in 5,000 common shares. Doug Hailey, Director of Investment Banking, owns 27,263 warrants that were attained from private placements for the company in June 2006 and June 2007. Robert Schroeder, Vice President of Investment Banking, owns 80,880 warrants that were attained from private placements for the company in June 2006 and June 2007. Vincent Palmieri, Vice President of Capital Markets, owns 23,627 warrants that were attained from private placements for the company in June 2006 and June 2007. Michael Brunone, Executive Vice President, owns 14,418 warrants that were attained from private placements for the company in June 2006 and June 2007. Russell Bernier, Vice President of Institutional Sales, owns 6,280 warrants attained from private placements for the company in June 2006 and June 2007, as well as 2,154 shares of PCYG Series A 7% Convertible Preferred from the June 2007 private placement. Richard Oh, Managing Director and Director of Research, owns 17,534 warrants that were attained from private placements for the company in June 2006 and June 2007. In June 2006, Taglich Brothers, Inc. raised \$5,000,000 for the company through a private placement of 1,183,149 shares of unregistered common stock. Also, in June 2007, Taglich Brothers, Inc. raised \$5.840 million for the company through a private placement of \$10 Series A 7% Convertible Preferred, which is convertible at \$3.00 per share. On September 29, 2008, Taglich Brothers, Inc. (as Park City Group's investment banker) issued a comfort letter on behalf of PCYG prior to executing its merger agreement with Prescient Applied Intelligence.

All research issued by Taglich Brothers, Inc. is based on public information. The company paid for the creation and dissemination of research reports for the first year a monetary fee of \$21,000 (USD) on September 2006, and since May 2008 pays a monthly monetary fee of \$1,750 (USD) to Taglich Brothers, Inc., for the creation and dissemination of research reports.

**I, Howard Halpern, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.**

Park City Group, Inc.  
Consolidated Balance Sheets\*  
(in thousands)

	June 2006 Full Year	June 2007 Full Year	June 2008 Full Year	Sept. 2008 1st Qtr End	Sept. 2008 2nd Qtr End
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 3,517	\$ 3,273	\$ 866	\$ 322	\$ 397
Marketable securities	-	-	-	-	-
Restricted cash	-	1,940	1,940	-	2,500
Receivables, net of allowances	103	919	1,005	796	482
Unbilled receivables	238	556	116	77	20
Prepaid expenses and other current assets	<u>174</u>	<u>101</u>	<u>56</u>	<u>68</u>	<u>78</u>
<b>Total current assets</b>	<b>4,032</b>	<b>6,789</b>	<b>3,983</b>	<b>1,263</b>	<b>3,477</b>
Property and equipment, net	85	482	494	452	449
Equity method investment	-	-	-	2,570	2,604
Deposits and other assets	30	28	48	122	195
Capitalized software costs, net	680	915	660	568	475
<b>Total assets</b>	<b><u>\$ 4,826</u></b>	<b><u>\$ 8,214</u></b>	<b><u>\$ 5,186</u></b>	<b><u>\$ 4,976</u></b>	<b><u>\$ 7,200</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
Current liabilities:					
Accounts payable	112	388	428	468	586
Accrued liabilities	230	287	410	421	680
Deferred revenue	649	929	480	257	453
Line of credit	-	-	-	700	700
Current portion of capital lease obligations	17	71	144	142	152
Derivative liability	490	-	-	-	-
Related party notes payable, net of discount	-	-	-	2,199	2,199
Notes payable, net of discounts	<u>-</u>	<u>1,940</u>	<u>1,940</u>	<u>-</u>	<u>-</u>
<b>Total current liabilities</b>	<b>1,497</b>	<b>3,616</b>	<b>3,402</b>	<b>4,187</b>	<b>4,771</b>
Long-term note payable, net of discount	1,843	-	-	-	2,720
Capital lease obligations, less current portion	5	225	200	167	157
Preferred stock -- Series A convertible Preferred	-	6	6	6	6
<b>Stockholders' equity:</b>					
Common stock, \$0.01 par value; authorized 50,000,000 shares	89	90	92	94	94
Additional paid-in capital	20,565	26,166	26,468	27,067	27,161
Subscription receivable	-	(106)	-	(353)	(353)
Accumulated deficit	(19,173)	(21,783)	(24,982)	(26,192)	(27,357)
<b>Total stockholders' equity</b>	<b><u>1,482</u></b>	<b><u>4,366</u></b>	<b><u>1,577</u></b>	<b><u>616</u></b>	<b><u>(454)</u></b>
<b>Total liabilities and stockholders' equity</b>	<b><u>\$ 4,826</u></b>	<b><u>\$ 8,214</u></b>	<b><u>\$ 5,186</u></b>	<b><u>\$ 4,976</u></b>	<b><u>\$ 7,200</u></b>
SHARES OUT	8,931	8,998	9,218	9,432	9,435

\* Totals may not add due to rounding

Park City Group, Inc.  
Annual Income Statement Model  
For the Years Ended June 30,  
(in thousands)

	<u>FY2006A</u>	<u>FY2007A</u>	<u>FY2008A</u>	<u>FY2009E</u>	<u>FY2010E</u>
Subscriptions	182	89	203	<b>2,722</b>	<b>6,770</b>
Maintenance and support	2,272	1,513	1,455	<b>1,909</b>	<b>3,405</b>
Professional services	1,004	464	585	<b>791</b>	<b>1,895</b>
License fees	<u>3,627</u>	<u>526</u>	<u>1,102</u>	<u><b>148</b></u>	<u><b>200</b></u>
Total Revenues	<u>7,085</u>	<u>2,592</u>	<u>3,345</u>	<u><b>5,569</b></u>	<u><b>12,270</b></u>
<b>Operating Expenses:</b>					
Cost of services and product support	1,451	1,718	2,419	<b>3,031</b>	<b>4,440</b>
Sales and marketing	1,410	1,508	1,844	<b>1,623</b>	<b>3,005</b>
General and administrative	1,585	2,003	2,073	<b>2,264</b>	<b>2,945</b>
Depreciation and amortization	<u>550</u>	<u>369</u>	<u>506</u>	<u><b>813</b></u>	<u><b>1,100</b></u>
Total Operating Expenses	<u>4,997</u>	<u>5,597</u>	<u>6,842</u>	<u><b>7,731</b></u>	<u><b>11,490</b></u>
EBITDA (excludes non-cash expenses i.e., stock based compensation)	2,843	(2,414)	(2,916)	<b>(1,282)</b>	<b>1,980</b>
<b>Operating Income (loss)</b>	2,088	(3,005)	(3,497)	<b>(2,162)</b>	<b>780</b>
<i>Operating Margin</i>	29.47%	-115.92%	-104.54%	<b>-38.82%</b>	<b>6.36%</b>
Other income (expense)					
Other	-	19	600	-	-
Loss on equity method investment Prescient Applied Intelligence	-	-	-	<b>(163)</b>	-
Derivative liability	(35)	89	(0)	<b>0</b>	-
Interest expense	<u>(660)</u>	<u>(71)</u>	<u>29</u>	<u><b>(453)</b></u>	<u><b>(760)</b></u>
Total Other Income (expense)	<u>(695)</u>	<u>38</u>	<u>628</u>	<u><b>(615)</b></u>	<u><b>(760)</b></u>
<b>Pre-Tax Income (loss)</b>	1,394	(2,967)	(2,868)	<b>(2,777)</b>	<b>20</b>
<i>Pre-Tax Margins</i>	19.67%	-114.47%	-85.75%	<b>-49.87%</b>	<b>0.16%</b>
Income Tax Expense (Benefit)	-	-	-	-	-
<i>Tax Rate</i>	0.00%	0.00%	0.00%	<b>0.00%</b>	<b>0.00%</b>
Net income (loss)	<u>\$ 1,394</u>	<u>\$ (2,967)</u>	<u>\$ (2,868)</u>	<u><b>\$ (2,777)</b></u>	<u><b>\$ 20</b></u>
Accrued preferred dividend	-	-	331	<b>504</b>	<b>400</b>
Net income (loss) to common shareholders	<u>\$ 1,394</u>	<u>\$ (2,967)</u>	<u>\$ (3,199)</u>	<u><b>\$ (3,282)</b></u>	<u><b>\$ (380)</b></u>
<b>Earnings per share</b>	<u>\$ 0.22</u>	<u>\$ (0.33)</u>	<u>\$ (0.35)</u>	<u><b>\$ (0.35)</b></u>	<u><b>\$ (0.04)</b></u>
Avg Shares Outstanding	6,263	8,936	9,150	<b>9,406</b>	<b>9,486</b>

Park City Group, Inc.  
Income Statement Model  
For the Year Ended June 30, 2008  
(in thousands)

	Q1(09/07)A	Q2 (12/07)A	Q3 (03/08)A	Q4 (06/08)A	FY2008A
Subscriptions	86	34	37	46	<b>203</b>
Maintenance and support	379	382	378	316	<b>1,455</b>
Professional services	126	79	26	353	<b>585</b>
License fees	<u>263</u>	<u>-</u>	<u>708</u>	<u>131</u>	<u><b>1,102</b></u>
Total Revenues	<u>854</u>	<u>494</u>	<u>1,150</u>	<u>847</u>	<u><b>3,345</b></u>
<b>Operating Expenses:</b>					
Cost of services and product support	580	581	618	640	<b>2,419</b>
Sales and marketing	419	583	467	375	<b>1,844</b>
General and administrative	622	583	522	347	<b>2,073</b>
Depreciation and amortization	<u>112</u>	<u>123</u>	<u>135</u>	<u>136</u>	<u><b>506</b></u>
Total Operating Expenses	<u>1,733</u>	<u>1,869</u>	<u>1,743</u>	<u>1,497</u>	<u><b>6,842</b></u>
EBITDA (excludes non-cash expenses i.e., stock based compensation)	(726)	(1,252)	(423)	(515)	<b>(2,916)</b>
<b>Operating Income (loss)</b>	(878)	(1,374)	(594)	(650)	<b>(3,497)</b>
<i>Operating Margin</i>	-102.83%	-277.95%	-51.67%	-76.79%	<b>-104.54%</b>
Other income (expense)					
Other	200	-	400	-	<b>600</b>
Derivative liability	-	-	-	(0)	<b>(0)</b>
Interest expense	<u>24</u>	<u>13</u>	<u>3</u>	<u>(11)</u>	<u><b>29</b></u>
Total Other Income (expense)	<u>224</u>	<u>13</u>	<u>403</u>	<u>(11)</u>	<u><b>628</b></u>
<b>Pre-Tax Income (loss)</b>	(655)	(1,361)	(191)	(661)	<b>(2,868)</b>
<i>Pre-Tax Margins</i>	-76.65%	-275.24%	-16.64%	-78.11%	<b>-85.75%</b>
Income Tax Expense (Benefit)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u><b>-</b></u>
<i>Tax Rate</i>	0.00%	0.00%	0.00%	0.00%	<b>0.00%</b>
Net income (loss)	<u>\$ (655)</u>	<u>\$ (1,361)</u>	<u>\$ (191)</u>	<u>\$ (661)</u>	<u><b>\$ (2,868)</b></u>
Accrued preferred dividend	82	75	98	76	<b>331</b>
Net income (loss) to common shareholders	<u>\$ (737)</u>	<u>\$ (1,436)</u>	<u>\$ (289)</u>	<u>\$ (737)</u>	<u><b>\$ (3,199)</b></u>
<b>Earnings per share</b>	<u>\$ (0.08)</u>	<u>\$ (0.16)</u>	<u>\$ (0.03)</u>	<u>\$ (0.08)</u>	<u><b>\$ (0.35)</b></u>
Avg Shares Outstanding	9,022	9,155	9,209	9,215	<b>9,150</b>

Park City Group, Inc.  
Income Statement Model  
For the Year Ended June 30, 2009  
(in thousands)

	<u>Q1(09/08)A</u>	<u>Q2 (12/08)A</u>	<u>Q3 (03/09)E</u>	<u>Q4 (06/09)E</u>	<u>FY2009E</u>
Subscriptions	58	79	1,095	1,490	<b>2,722</b>
Maintenance and support	289	300	550	770	<b>1,909</b>
Professional services	145	66	220	360	<b>791</b>
License fees	<u>38</u>	<u>10</u>	<u>50</u>	<u>50</u>	<b>148</b>
Total Revenues	<u>530</u>	<u>454</u>	<u>1,915</u>	<u>2,670</u>	<b>5,569</b>
<b>Operating Expenses:</b>					
Cost of services and product support	581	455	965	1,030	<b>3,031</b>
Sales and marketing	300	233	410	680	<b>1,623</b>
General and administrative	415	509	660	680	<b>2,264</b>
Depreciation and amortization	<u>136</u>	<u>138</u>	<u>270</u>	<u>270</u>	<b>813</b>
Total Operating Expenses	<u>1,432</u>	<u>1,334</u>	<u>2,305</u>	<u>2,660</u>	<b>7,731</b>
EBITDA (excludes non-cash expenses i.e., stock based compensation)	(746)	(735)	(100)	300	<b>(1,282)</b>
<b>Operating Income (loss)</b>	(902)	(880)	(390)	10	<b>(2,162)</b>
<i>Operating Margin</i>	-170.01%	-193.80%	-20.39%	0.37%	<b>-38.82%</b>
Other income (expense)					
Loss on equity method investment Prescient Applied Intelligence	(197)	34	-	-	<b>(163)</b>
Interest expense	<u>(23)</u>	<u>(80)</u>	<u>(170)</u>	<u>(180)</u>	<b>(453)</b>
Total Other Income (expense)	<u>(220)</u>	<u>(45)</u>	<u>(170)</u>	<u>(180)</u>	<b>(615)</b>
<b>Pre-Tax Income (loss)</b>	(1,121)	(925)	(560)	(170)	<b>(2,777)</b>
<i>Pre-Tax Margins</i>	-211.49%	-203.80%	-29.27%	-6.37%	<b>-49.87%</b>
Income Tax Expense (Benefit)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<b>-</b>
<i>Tax Rate</i>	0.00%	0.00%	0.00%	0.00%	<b>0.00%</b>
Net income (loss)	<u>\$ (1,121)</u>	<u>\$ (925)</u>	<u>\$ (560)</u>	<u>\$ (170)</u>	<b>\$ (2,777)</b>
Accrued preferred dividend	88	240	88	88	<b>504</b>
Net income (loss) to common shareholders	<u>\$ (1,210)</u>	<u>\$ (1,165)</u>	<u>\$ (648)</u>	<u>\$ (258)</u>	<b>\$ (3,282)</b>
<b>Earnings per share</b>	<u>\$ (0.13)</u>	<u>\$ (0.12)</u>	<u>\$ (0.07)</u>	<u>\$ (0.03)</u>	<b>\$ (0.35)</b>
Avg Shares Outstanding	9,303	9,435	9,440	9,445	<b>9,406</b>

Park City Group, Inc.  
Income Statement Model  
For the Year Ended June 30, 2010  
(in thousands)

	<u>Q1(09/09)E</u>	<u>Q2 (12/09)E</u>	<u>Q3 (03/10)E</u>	<u>Q4 (06/10)E</u>	<u>FY2010E</u>
Subscriptions	1,570	1,650	1,695	1,855	<b>6,770</b>
Maintenance and support	810	800	895	900	<b>3,405</b>
Professional services	455	465	450	525	<b>1,895</b>
License fees	<u>50</u>	<u>50</u>	<u>50</u>	<u>50</u>	<b>200</b>
Total Revenues	<u>2,885</u>	<u>2,965</u>	<u>3,090</u>	<u>3,330</u>	<b>12,270</b>
<b>Operating Expenses:</b>					
Cost of services and product support	1,065	1,090	1,135	1,150	<b>4,440</b>
Sales and marketing	725	745	765	770	<b>3,005</b>
General and administrative	725	730	740	750	<b>2,945</b>
Depreciation and amortization	<u>275</u>	<u>275</u>	<u>275</u>	<u>275</u>	<b>1,100</b>
Total Operating Expenses	<u>2,790</u>	<u>2,840</u>	<u>2,915</u>	<u>2,945</u>	<b>11,490</b>
EBITDA (excludes non-cash expenses i.e., stock based compensation)	395	425	475	685	<b>1,980</b>
<b>Operating Income (loss)</b>	95	125	175	385	<b>780</b>
<i>Operating Margin</i>	3.29%	4.22%	5.66%	11.56%	<b>6.36%</b>
Other income (expense)					
Interest expense	<u>(190)</u>	<u>(190)</u>	<u>(190)</u>	<u>(190)</u>	<b>(760)</b>
Total Other Income (expense)	<u>(190)</u>	<u>(190)</u>	<u>(190)</u>	<u>(190)</u>	<b>(760)</b>
<b>Pre-Tax Income (loss)</b>	(95)	(65)	(15)	195	<b>20</b>
<i>Pre-Tax Margins</i>	-3.29%	-2.19%	-0.49%	5.86%	<b>0.16%</b>
Income Tax Expense (Benefit)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<b>-</b>
<i>Tax Rate</i>	0.00%	0.00%	0.00%	0.00%	<b>0.00%</b>
Net income (loss)	<u>\$ (95)</u>	<u>\$ (65)</u>	<u>\$ (15)</u>	<u>\$ 195</u>	<b>\$ 20</b>
Accrued preferred dividend	100	100	100	100	<b>400</b>
Net income (loss) to common shareholders	<u>\$ (195)</u>	<u>\$ (165)</u>	<u>\$ (115)</u>	<u>\$ 95</u>	<b>\$ (380)</b>
<b>Earnings per share</b>	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>	<u>\$ 0.01</u>	<b>\$ (0.04)</b>
Avg Shares Outstanding	9,455	9,550	9,465	9,475	<b>9,486</b>

Park City Group, Inc.  
Cash Flow Statement\*  
(in thousands)

			6 Mos. Q2'	
	FY2006A	FY2007A	FY2008A	09A
<i>Cash Flows from Operating Activities</i>				
Net Income (loss)	\$ 1,394	\$ (3,012)	\$ (2,868)	\$ (2,047)
Depreciation and amortization	288	279	506	273
Bad debt expense	70	(47)	41	(16)
Loss on derivative liability	35	(89)	-	-
Stock issued for services and expenses	205	223	75	27
Loss on equity method investment	-	-	-	163
Amortization of discounts on debt	224	97	-	-
Marketable securities	-	52	-	-
Gain on sale of patent	-	-	(600)	-
Gain on recovery of bad debt	-	(52)	-	-
Gain on sale of property	-	(1)	0	-
Gain on settlement of payable	-	-	-	-
Gain on forgiveness of debt	-	-	-	-
	2,216	(2,550)	(2,846)	(1,600)
<i>Changes In:</i>				
Trade receivables	154	(769)	(566)	539
Other receivables	(209)	(319)	440	97
Prepays and other assets	(142)	75	24	(169)
Accounts payable	(516)	276	39	159
Accrued liabilities	(87)	51	62	104
Deferred revenue	(235)	281	(25)	(27)
Related party payable	97	-	-	-
Accrued interest, related party	(554)	6	-	-
Net changes in working capital	(1,491)	(398)	(25)	703
<b>Net cash Provided by Operations</b>	725	(2,948)	(2,871)	(896)
<i>Cash Flows from Investing Activities</i>				
Purchase of equity method investment	-	-	-	(2,767)
Deposit of restricted cash into escrow	-	-	-	(2,500)
Purchase of property and equipment	(22)	(182)	(35)	(42)
Capitalization of software costs	(565)	(419)	(76)	-
Restricted cash	-	(1,940)	-	1,940
Proceeds from disposal of property	-	3	601	-
<b>Cash Flows from Investing Activities</b>	(587)	(2,539)	490	(3,370)
<i>Cash Flows from Financing Activities</i>				
Net (payments) proceeds in lines of credit	(717)	-	-	3,420
Offering costs associated with issuance of stock	-	-	(24)	-
Receipt of subscription receivable	-	-	106	-
Proceeds from issuances of stock, net of offering costs	4,435	5,279	-	154
Payment of extend note	(9)	-	-	-
Dividends paid	-	-	(2)	-
Proceeds from debt	1,833	-	-	2,199
Payments on notes payable and capital leases	(2,373)	(36)	(107)	(1,975)
<b>Net cash provided by Financing</b>	3,169	5,243	(27,243)	3,798
Net change in Cash	3,307	(244)	(2,408)	(468)
Cash Beginning of Period	153	3,517	3,273	866
Cash End of Period	\$ 3,460	\$ 3,273	\$ 866	\$ 397

\* Totals may not add due to rounding