

PARK CITY GROUP INC
Form 10-K
September 07, 2016

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

FORM 10-K

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

For the fiscal year ended June 30, 2016
or

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

001-34941
(Commission file number)

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

Nevada
State or other jurisdiction of
incorporation

37-1454128
(IRS Employer Identification No.)

299 South Main Street, Suite
2370
Salt Lake City, Utah 84111
(Address of principal executive
offices)

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

Securities registered pursuant to Section 12(b) of the Act:

| Title of each Class | Name of each exchange on which registered |
|--------------------------------|--|
| Common Stock, \$0.01 Par Value | NASDAQ Capital Market |

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the issuer as of December 31, 2015, which is the last business day of the registrant’s most recently completed second fiscal quarter, was approximately \$153,106,000 (at a closing price of \$11.91 per share).

As of September 7, 2016, 19,286,430 shares of the Company’s common stock, par value \$0.01 per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Items 10, 11, 12, 13 and 14 of Part III incorporate by reference certain information from Park City Group, Inc.’s definitive proxy statement, to be filed with the Securities and Exchange Commission on or before October 28, 2016.

TABLE OF CONTENTS TO ANNUAL REPORT
ON FORM 10-K
YEAR ENDED JUNE 30, 2016

PART I

| | | |
|-----------------|--------------------------------|----|
| <u>Item 1.</u> | <u>Business</u> | 1 |
| <u>Item 1A.</u> | <u>Risk Factors</u> | 7 |
| <u>Item 2.</u> | <u>Properties</u> | 15 |
| <u>Item 3.</u> | <u>Legal Proceedings</u> | 15 |
| <u>Item 4.</u> | <u>Mine Safety Disclosures</u> | 15 |

PART II

| | | |
|-----------------|--|----|
| <u>Item 5.</u> | <u>Market for Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | 16 |
| <u>Item 6.</u> | <u>Selected Financial Data</u> | 17 |
| <u>Item 7.</u> | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 19 |
| <u>Item 7A.</u> | <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 30 |
| <u>Item 8.</u> | <u>Financial Statements and Supplementary Data</u> | 30 |
| <u>Item 9.</u> | <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u> | 30 |
| <u>Item 9A.</u> | <u>Controls and Procedures</u> | 30 |
| <u>Item 9B.</u> | <u>Other Information</u> | 31 |

PART III

| | | |
|-----------------|---|----|
| <u>Item 10.</u> | <u>Directors, Executive Officers and Corporate Governance</u> | 32 |
| <u>Item 11.</u> | <u>Executive Compensation</u> | 32 |
| <u>Item 12.</u> | <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> | 32 |
| <u>Item 13.</u> | <u>Certain Relationships and Related Transactions, and Director Independence</u> | 32 |
| <u>Item 14.</u> | <u>Principal Accounting Fees and Services</u> | 32 |

PART IV

| | | |
|-----------------|---|------|
| <u>Item 15.</u> | <u>Exhibits, Financial Statement Schedules</u> | 33 |
| | <u>Signatures</u> | 34 |
| | <u>Report of Independent Registered Public Accounting Firm</u> | F-1 |
| | <u>Consolidated Balance Sheets as of June 30, 2016 and 2015</u> | F-4 |
| | <u>Consolidated Statements of Operations for the Years Ended June 30, 2016, 2015 and 2014</u> | F-5 |
| | <u>Consolidated Statements of Stockholders' Equity (Deficit) for the Years Ended June 30, 2016, 2015 and 2014</u> | F-7 |
| | <u>Consolidated Statements of Cash Flows for the Years Ended June 30, 2016, 2015 and 2014</u> | F-8 |
| | <u>Notes to Consolidated Financial Statements</u> | F-10 |

| | |
|------------|--|
| Exhibit 31 | Certifications of the Principal Executive Officer and Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 32 | Certifications pursuant to 18 U.S.C. Sec. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

Table of Contents

FORWARD-LOOKING STATEMENTS

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

PART I

ITEM I. BUSINESS

Overview

Park City Group, Inc. (the “Company”) is a Software-as-a-Service (“SaaS”) provider. The Company’s technology helps companies to synchronize their systems with those of their trading partners to make more informed business decisions. We provide companies with greater flexibility in sourcing products by enabling them to choose new suppliers and integrate them into their supply chain faster and more cost effectively, and we help them to more efficiently manage these relationships to “stock less and sell more”, enhancing revenue while lowering working capital, labor costs and waste. Through our subsidiary, ReposiTrak, Inc. (“ReposiTrak”), we also help reduce a company’s potential regulatory, legal, and criminal risk from its supply chain partners by providing a way for them to ensure these suppliers are compliant with food and drug safety regulations, such as the Food Safety Modernization Act (“FSMA”) and the Drug Quality and Security Act (“DQSA”).

The Company’s services are delivered through proprietary software products designed, developed, marketed and supported by the Company. These products are designed to provide transparency and facilitate improved business processes among all key constituents in the supply chain, starting with the retailer and moving back to suppliers and eventually to raw material providers. We provide cloud-based applications and services that address e-commerce, supply chain, and compliance activities. The principal customers for the Company’s products are multi-store food retail store chains and their suppliers, branded food manufacturers, food wholesalers and distributors, and other food service businesses.

The Company has a hub and spoke business model. We are typically engaged by retailers and distributors (“Hubs”), which in turn have us engage their suppliers (“Spokes”) to sign up for our services. The bulk of the Company’s revenue is from recurring subscription payments typically based on a monthly volume metric between the Hub and the Spoke. We also have a Professional Services business, which conducts customization, implementation, and training, for which revenue is recognized on a percentage-of-completion or pro rata over the life of the subscription, depending on the nature of the engagement. In a few instances the Company will also sell its software in the form of a license.

The Company is incorporated in the state of Nevada. The Company has three subsidiaries: PC Group, Inc. (formerly, Park City Group, Inc., a Delaware corporation), a Utah corporation (98.76% owned), Park City Group, Inc. (formerly, Prescient Applied Intelligence, Inc.), a Delaware corporation (100% owned) and ReposiTrak, Inc., a Utah corporation (100% owned). All intercompany transactions and balances have been eliminated in consolidation.

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Our principal executive offices of the Company are located at 299 South Main Street, Suite 2370, Salt Lake City, Utah 84111. Our telephone number is (435) 645-2000. Our website address is <http://www.parkcitygroup.com>, and Repositrak's website address is <http://repositrak.com>.

-1-

Table of Contents

Acquisition of ReposiTrak

On June 30, 2015, the Company consummated the acquisition of 100% of the outstanding capital stock of ReposiTrak. The accompanying audited consolidated financial statements of the Company as of and for the year ended June 30, 2015 contain the results of operations of ReposiTrak from June 30, 2015. We issued 873,438 shares of our common stock in connection with this acquisition. As a result of the acquisition of ReposiTrak, we significantly expanded the services we can offer to our customer base.

We have accounted for the acquisition as the purchase of a business. The assets acquired and the liabilities assumed of ReposiTrak have been recorded at their respective fair values. The excess of the purchase price over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill. Goodwill is attributed to buyer-specific value resulting from expected synergies, including long-term cost savings, as well as industry relationships that are not included in the fair values of assets. Goodwill will not be amortized.

The purchase price consisted of the 873,438 shares of our common stock. The fair value of the shares issued was \$10,821,897 and was determined using the closing price of our common stock on June 30, 2015. The price paid to acquire ReposiTrak was \$10,830,897, approximately \$9,000 of which was for direct transaction costs associated with the issuance of equity. The net acquisition cost of \$10,799,778, which excludes \$31,119 of cash acquired from ReposiTrak, were allocated based on their estimated fair value of the assets acquired and liabilities assumed, as follows:

| | Finalized Values |
|---|---------------------|
| Receivables | \$ 152,340 |
| Prepaid expense | 17,500 |
| Customer relationships | 1,314,000 |
| Goodwill | 16,077,953 |
| Accounts payable | (128,126) |
| Deferred revenue | (598,232) |
| Net assets acquired | 16,835,435 |
| Common stock issued | 10,821,897 |
| Receivables eliminated in consolidation | 6,035,657 |
| Cash received in acquisition | \$22,119 |

Unaudited pro-forma results of operations for the twelve months ended June 30, 2015, as though ReposiTrak had been acquired as of July 1, 2013, are as follows:

| | Sep 30, 2014 | Three Months Ended Dec 31, 2014 | Mar 31, 2015 | Jun 30, 2015 | Year Ended 2015 | Year Ended 2014 |
|-------------------------|-----------------|---------------------------------------|-----------------|-----------------|-----------------------|-----------------------|
| Revenue | \$ 2,826,813 | \$ 2,932,825 | \$ 2,870,646 | \$ 2,941,511 | \$ 11,571,795 | \$ 9,777,431 |
| Loss from Operations | (1,046,986) | (1,290,524) | (1,302,437) | (3,222,538) | (6,862,485) | (5,232,552) |
| Net Loss | (1,049,834) | (1,317,510) | (1,317,858) | (3,241,545) | (6,926,747) | (5,303,773) |

| | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| Net Loss Applicable to Common Shareholders | (1,204,307) | (1,471,983) | (3,595,537) | (3,365,721) | (9,637,548) | (5,921,664) |
| Basic and Diluted EPS | (0.07) | (0.08) | (0.20) | (0.18) | (0.53) | (0.34) |

Company History

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

Table of Contents

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

On July 25, 2002, Fields Technologies, Inc. changed its name from Fields Technologies, Inc. to Park City Group, Inc. through a merger with Park City Group, Inc., a Nevada corporation, which was organized for that purpose and was also the surviving entity in the merger. As a result, both the parent-holding company (Nevada) and its operating subsidiary (Delaware) were named Park City Group, Inc. In February 2014, Park City Group, Inc. (Delaware) was domesticated in Utah and changed its name to PC Group, Inc. Park City Group, Inc. (Nevada) has no business operations separate from the operations conducted through its subsidiaries, including ReposiTrak, Inc. and Park City Group, Inc., a Delaware corporation, (formerly Prescient Applied Intelligence, Inc. (“Prescient”).

On January 13, 2009, the Company acquired 100% of Prescient, a leading provider of on-demand solutions for the retail marketplace, including both retailers and suppliers. Its solutions capture information at the point of sale, provide greater visibility into real-time demand and turn data into actionable information across the entire supply chain. In February 2014, Prescient changed its name to Park City Group, Inc. The Company’s consolidated financial statements contain the results of operations of Park City Group, Inc. (Delaware). Operations are conducted through this subsidiary.

ReposiTrak was founded by Leavitt Partners, LP. It was originally incorporated as Global Supply Chain Systems, Inc. on May 17, 2012 and on November 8, 2012 changed its name to ReposiTrak. ReposiTrak became a wholly owned subsidiary of Park City Group, Inc. on June 30, 2015. ReposiTrak was developed in response to the passage of the FSMA. ReposiTrak helps a company protect its brand and mitigate potential regulatory, legal and criminal risk from its supply chain by helping to ensure that all parties are compliant with best practices and food and drug safety regulations.

Target Industries Overview

The Company initially developed its software for supermarkets, convenience stores and other retailers. Following the acquisition of Prescient in 2009, we expanded our offerings to include supply chain solutions focused on large manufacturers, distributors and suppliers in the consumer products industry. With the acquisition of ReposiTrak in 2015, this group was expanded to include manufacturers, distributors and suppliers in the food industry. The Company also provides professional consulting services targeting implementation, assessments, profit optimization and support functions for its application and related products.

Backdrop

The U.S. consumer retail sector has faced competitive pressure from a number of significant forces including the rise of online retailers with lower fixed operating costs as well as sector consolidation in many categories. Retailers have responded to these pressures in a number of ways including putting a greater emphasis on specialization within their product mix through initiatives such as local sourcing or the development of in-store brands or private labels. Retailers have also attempted to lower their fixed cost by shifting a greater percentage of their product mix to Direct Store Delivery (“DSD”). In addition to differentiated products and increased logistics support, retailers are also increasingly pressuring suppliers to provide direct economic incentives or assistance.

More recently, there has been a sweeping change in the regulatory environment in which food growers, processors, distributors and retailers compete. The law also provides the U.S. Food and Drug Administration (“FDA”) with new

enforcement authorities, it also sets cause for a whole host of potential civil claims. In short, the degree to which the retail food business has moved toward a highly regulated industry is substantial.

-3-

Table of Contents

The Company's software and consulting services are designed to address the business problems faced by our customers. Our technology helps retailers to synchronize their business systems with those of their suppliers in order to give a cohesive view of their entire supply chain so as to enable them to make more informed business decisions. Through our cloud-based infrastructure we provide retailers with greater flexibility in sourcing products by enabling them to choose new suppliers and integrate them into their supply chain faster and more cost effectively, and we help retailers to more efficiently manage their relationships with these suppliers so that they can "stock less and sell more" lowering working capital and labor costs while also increasing revenue.

ReposiTrak was developed in response to the passage of the FSMA, and the then pending DWSA. ReposiTrak helps a company to protect its brand from the degradation of value that typically results from an outbreak of contamination or other incidents adversely affecting the supply chain as well as mitigates potential regulatory, legal and criminal risk from its supply chain by helping a company to ensure that all parties in its supply chain are compliant with best practices and food and drug safety regulations.

Solutions and Services

Advanced Commerce and Supply-Chain Solutions

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

Food Safety Solutions

ReposiTrak leverages the technology developed to help a company protect its brand and mitigate potential regulatory, legal and criminal risk from its supply chain by helping to ensure that all parties are compliant with best practices and food and drug safety regulations imposed by the FSMA and DWSA. ReposiTrak™, is powered by the Company's technology, and currently includes three main applications: Vendor Validation, Compliance Management, and Track & Trace.

Services

The Company has two services groups: The Business Analytics Group offers business-consulting services to suppliers and retailers in the grocery, convenience store and specialty retail industries. The Professional Services Group provides consulting services to ensure that our solutions are seamlessly integrated into our customers' business processes as quickly and efficiently as possible.

During the year ending June 30, 2016, the Company began to embark on a process of converging our legacy Park City supply-chain business with our ReposiTrak food safety business.

Technology, Development and Operations

Product Development

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

commitment to on-going development.

-4-

Table of Contents

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

Operations

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

Customers

We are currently engaged by customers of all sizes. Our customers primarily include food related consumer goods retailers, suppliers, processors and manufacturers. However, the Company is opportunistic and will offer its solutions to non-food consumer goods related companies as well. No single customers accounted for more than 10% percent of our revenue in fiscal 2016.

Prior to the acquisition of ReposiTrak, our contractual relationship with ReposiTrak generated approximately \$3.0 million in subscription revenue and management fees during the year ended June 30, 2015, which amount constituted approximately 21% of the Company's total revenue in such year. After acquiring ReposiTrak on June 30, 2015 we fully consolidated its financial results into our financial results. As such, we ceased to recognize subscription revenue and management fees from ReposiTrak, and instead began to recognize ReposiTrak revenue from customer connections directly. ReposiTrak generated \$2.2 million in revenue from customer connections during the year ended June 30, 2016.

Sales, Marketing and Customer Support

Sales and Marketing

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

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

During the year ending June 30, 2016 the Company began to embark on a process of converging our legacy supply-chain business with our ReposiTrak food safety business. As part of this process, we have begun to reorganize

our sale force and reorient our marketing efforts. This process has involved stream lining the sales force in an effort to enable cross-selling by reducing regional account managers and shifting our sales emphasis towards Repositrak's inside sales team located at our corporate headquarters in Salt Lake City, Utah. We are also considering rebranding some of our services to better reflect the consolidated offering.

-5-

Table of Contents

Customer Support

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

Competition

The market for the Company's products and services is very competitive. We believe the principal competitive factors include product quality, reliability, performance, price, vendor and product reputation, financial stability, features and functions, ease of use, quality of support and degree of integration effort required with other systems. Our supply chain solution competitors include supply chain vendors, major enterprise resource planning ("ERP") software vendors, mid-market ERP vendors and niche players for VMI and SLR. ReposiTrak's competitors include a variety of food safety consultants who may help a potential customer build their own in-house solution as well as certain technology component providers.

We compete with large enterprise-wide software vendors, developers and integrators, business-to-business exchanges, consulting firms, focused solution providers, and business intelligence technology platforms. While our competitors are often considerably larger companies in size with larger sales forces and marketing budgets, we believe that our deep industry knowledge, the breadth and depth of our offerings, and our relationships with key industry, wholesaler, and other trade groups and associations, give us a competitive advantage. Our ability to continually improve our products, processes and services, as well as our ability to develop new products, enables the Company to meet evolving customer requirements.

Patents and Proprietary Rights

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

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

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

could require us to alter our technology, change our business methods and/or pay monetary damages or enter into licensing agreements.

Employees

As of June 30, 2016, the Company employed a total of 66 employees. Of these employees, ten are located overseas. The Company plans to continue expanding its offshore workforce to augment its analytics services offerings, expand its professional services and to provide additional programming resources. The employees are not represented by any labor union.

Table of Contents

Reports to Security Holders

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

Government Regulation and Approval

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

Cost of Compliance with Environmental Laws

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

ITEM 1A. RISK FACTORS

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

Risks Related to the Company

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

The Company's marketing strategy emphasizes sales of subscription-based services, instead of annual licenses, and contracting with suppliers ("Spokes") to connect to our clients ("Hubs"). This strategy has resulted in the development of a foundation of hubs to which suppliers can be "connected", thereby accelerating future growth. If, however, this marketing strategy fails, revenue and operations will be negatively affected.

The Company had net income of \$666,503 for the year ended June 30, 2016, compared to a net loss of \$3,849,773 for the year ended June 30, 2015. Although the Company generated net income in the year ended June 30, 2016, there can be no assurance that the Company will achieve profitability in future periods. If the Company does not operate profitably in the future, the Company's current cash resources will be used to fund the Company's operating losses. Continued losses would have an adverse effect on the long-term value of the Company's common stock and any investment in the Company. The Company cannot give any assurance that the Company will continue to generate revenue or have sustainable profits.

Although the Company's cash resources are currently sufficient, the Company's long-term liquidity and capital requirements may be difficult to predict, which may adversely affect the Company's long-term cash position.

Historically, the Company has been successful in raising capital when necessary, including private placements, a registered direct offering, and stock issuances from its officers and directors, including its Chief Executive Officer and majority stockholder, in order to pay its indebtedness and fund its operations, in addition to cash flow from operations. As a result of the consummation of the registered direct offering on April 15, 2015, resulting in net proceeds of approximately \$6.7 million we have adequate cash resources to fund our operations and satisfy our debt obligations for at least the next 12 months.

-7-

Table of Contents

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

Quarterly and annual operating results may fluctuate, which makes it difficult to predict future performance.

Management expects a significant portion of the Company's revenue stream to come from the sale of subscriptions, and to a lesser extent, license sales, maintenance and services charged to new customers. These amounts will fluctuate because predicting future sales is difficult and involves speculation. 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:

our ability to retain and increase sales to existing customers, attract new customers and satisfy our customers' requirements;

the renewal rates for our service;

the amount and timing of operating costs and capital expenditures related to the operations and expansion of our business;

changes in our pricing policies whether initiated by us or as a result of competition;

the cost, timing and management effort for the introduction of new features to our service;

the rate of expansion and productivity of our sales force;

new product and service introductions by our competitors;

variations in the revenue mix of editions or versions of our service;

technical difficulties or interruptions in our service;

general economic conditions that may adversely affect either our customers' ability or willingness to purchase additional subscriptions or upgrade their service, or delay a prospective customers' purchasing decision, or reduce the value of new subscription contracts or affect renewal rates;

timing of additional investments in our enterprise cloud computing application and platform services and in our consulting service;

regulatory compliance costs;

the timing of customer payments and payment defaults by customers;

extraordinary expenses such as litigation or other dispute-related settlement payments;

the impact of new accounting pronouncements; and

the timing of stock awards to employees and the related financial statement impact.

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

Table of Contents

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

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

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

The Company's officers and directors, including our Chief Executive Officer, Randall K. Fields, control approximately 33% of the Company's common stock. Mr. Fields, individually, controls 27% of the Company's common stock. Consequently, Mr. Fields individually, and the Company's officers and directors, as stockholders acting together, are able to significantly influence all matters requiring approval by the Company's stockholders, including the election of directors and significant corporate transactions, such as mergers or other business combination transactions.

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

The Company's certificate of incorporation currently authorizes the issuance of up to 30,000,000 shares of 'blank check' preferred stock with designations, rights, and preferences as may be determined from time to time by the Company's Board of Directors, of which 700,000 shares are currently designated as Series B Convertible Preferred Stock ("Series B Preferred") and 300,000 shares are designated as Series B-1 Preferred Stock ("Series B-1 Preferred"). As of June 30, 2016, a total of 625,375 shares of Series B Preferred and 180,213 shares of Series B-1 Preferred were issued and outstanding. The Company's Board of Directors is empowered, without stockholder approval, to issue one or more additional series of preferred stock with dividend, liquidation, conversion, voting, or other rights that could dilute the interest of, or impair the voting power of, the Company's common stockholders. The issuance of an additional series of preferred stock could be used as a method of discouraging, delaying or preventing a change in control.

Because the Company has never paid dividends on its common stock, investors should exercise caution before making an investment in the Company.

The Company has never paid dividends on its common stock and does not anticipate the declaration of any dividends pertaining to its common stock in the foreseeable future. The Company intends to retain earnings, if any, to finance the development and expansion of the Company's business. The Company's Board of Directors will determine future dividend policy at their sole discretion and future dividends will be contingent upon future earnings, if any, obligations of the stock issued, the Company's financial condition, capital requirements, general business conditions and other factors. Future dividends may also be affected by covenants contained in loan or other financing documents, which may be executed by the Company in the future. Therefore, there can be no assurance that dividends will ever be paid on its common stock.

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

negatively impacted.

The Company's business is dependent upon the expertise of its founder and Chief Executive Officer, Randall K. Fields. Mr. Fields is essential to the Company's operations. Accordingly, an investor must rely on Mr. Fields' management decisions that will continue to control the Company's business affairs. The Company currently maintains key man insurance on Mr. Fields' life in the amount of \$5,000,000; however, that coverage would be inadequate to compensate for the loss of his services. The loss of the services of Mr. Fields would have a materially adverse effect upon the Company's business.

-9-

Table of Contents

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

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

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

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

Risks Related to the ReposiTrak

The Company faces risks associated with new product introductions of ReposiTrak™.

The first installations of ReposiTrak™ began in August 2012, and market and product data related to these implementations is still being analyzed. The Company also continually receives and analyzes market and product data on other products, and the Company may endeavor to develop and commercialize new product offerings based on this data. The following risks apply to ReposiTrak™ and other potential new product offerings:

it may be difficult for the Company to predict the amount of service and technological resources that will be needed by customers of ReposiTrak™ or other new offerings, and if the Company underestimates the necessary resources, the quality of its service will be negatively impacted thereby undermining the value of the product to the customer;

the Company's experience with ReposiTrak™ and its market acceptance is limited, and we therefore cannot accurately predict if it will be a profitable product;

technological issues between the Company and customers may be experienced in capturing data, and these technological issues may result in unforeseen conflicts or technological setbacks when implementing additional installations of ReposiTrak™. This may result in material delays and even result in a termination of the ReposiTrak™ engagement;

the customer's experience with ReposiTrak™ and other new offerings, if negative, may prevent the Company from having an opportunity to sell additional products and

services to that customer;

if customers do not use ReposiTrak™ as the Company recommends and fails to implement any needed corrective action(s), it is unlikely that customers will experience the business benefits from the software service and may therefore be hesitant to continue the engagement as well as acquire any additional software services from the Company; and

delays in proceeding with the implementation of ReposiTrak™ or other new products for a new customer will negatively affect the Company's cash flow and its ability to predict cash flow.

Table of Contents

Approximately 15% of our total revenue during 2016 was attributable to ReposiTrak. In the event the market for ReposiTrak's services fails to develop as anticipated, our results of operations may be materially and adversely affected.

The Company recognized approximately \$2.2 million in revenue during the year ended June 30, 2016 from ReposiTrak, which amount constituted approximately 15% of the Company's total revenue in 2016. In the event the market for ReposiTrak's services fails to develop as anticipated, or ReposiTrak, or we are otherwise unable to capitalize on the opportunities presented by the adoption of Food Safety Modernization Act ("FSMA"), the Company's financial results, including its financial condition, may be adversely and materially affected.

If our products do not perform as expected, whether as a result of operator error or otherwise, it would impair our operating results and reputation.

Our success depends on the food safety market's confidence that we can provide reliable, high-quality reporting for our customers. We believe that our customers are likely to be particularly sensitive to product defects and operator errors, including if our systems fail to accurately report issues that could reduce the liability of our clients in the event of a product recall. In addition, our reputation and the reputation of our products can be adversely affected if our systems fail to perform as expected.

However, if our customers or potential customers fail to implement and use our systems as suggested by us, they may not be in a position to deal with a recall as effectively as they could have. As a result, the failure or perceived failure of our products to perform as expected, could have a material adverse effect on our revenue, results of operations and business.

If a customer is sued because of a recalled product we could be joined in that suit, the defense of which would impair our operating results.

We believe our products would be helpful in the event of a recall. However, their ultimate efficacy is dependent on how the customer uses our products which is in many ways out of our control. Similarly, a customer which is a defendant in a product liability case could claim that had our services performed as represented the extent of potential liability would have been minimized and therefore the Company should have some contributory liability in the case. Defending such a claim could have a material adverse effect on our revenue, results of operations and business.

The deployment of the Company's services, or consultation provided by Company personnel, could result in litigation naming the Company as a party, which litigation could result in a material and adverse effect on the Company, and its results from operations.

Certain of the Company's services are marketed to potential customers based, in part, on our service's ability to reduce a company's potential regulatory, legal, and criminal risk from its supply chain partners. In the event litigation is commenced against a customer based on issues caused by a constituent in the supply chain, or consultation provided by Company personnel, the Company could be joined or named in such litigation. As a result, the Company could face substantial defense costs. In addition, any adverse determination resulting in such litigation could have a material and adverse effect on the Company, and its results from operations.

Table of Contents

Business Operations Risks

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

The Company plans to concentrate its future sales efforts towards marketing the Company's applications and services, and specifically to contract with suppliers, our Spokes, to connect to our existing Hubs previously signed up by the Company. These applications and services are designed to be highly flexible so that they can work in multiple retail and supplier environments such as grocery stores, convenience stores, specialty retail and route-based delivery environments. There is no assurance that the public will accept the Company's applications and services in proportion to the Company's increased marketing of this product line, or that the Company will be able to successfully leverage its hubs to increase revenue by connecting suppliers. The Company may face significant competition that may negatively affect demand for its applications and services, including the public's preference for the Company's competitors' new product releases or updates over the Company's releases or updates. If the Company's applications and services marketing strategies fail, the Company will need to refocus its marketing strategy toward other product offerings, which could lead to increased development and marketing costs, delayed revenue streams, and otherwise negatively affect the Company's operations.

Because the Company's emphasis is on the sale of subscription based services, rather than annual license fees, the Company's revenue may be negatively affected.

Historically, the Company offered applications and related maintenance contracts to new customers for a one-time, non-recurring up front license fee and provided an option for annually renewing their maintenance agreements. The Company is now principally offering prospective customers monthly subscription based licensing of its products. The Company's customers may now choose to acquire a license to use the software on an Application Solution Provider basis (also referred to as "ASP") resulting in monthly charges for use of the Company's software products and maintenance fees. The Company's conversion from a strategy of one-time, non-recurring licensing based model to a monthly recurring fees based approach is subject to the following risks:

- the Company's customers may prefer one-time fees rather than monthly fees; and

- there may be a threshold level (number of locations) at which the monthly based fee structure may not be economical to the customer, and a request to convert from monthly fees to an annual fee could occur.

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

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

- development of new software, software solutions or enhancements that are subject to constant change;

- rapidly evolving technological change; and

- unanticipated changes in customer needs.

Because these markets are subject to such rapid change, the life cycle of the Company's products is difficult to predict. As a result, the Company is subject to the following risks:

- whether or how the Company will respond to technological changes in a timely or cost-effective manner;

whether the products or technologies developed by the Company's competitors will render the Company's products and services obsolete or shorten the life cycle of the Company's products and services; and

whether the Company's products and services will achieve market acceptance.

Interruptions or delays in service from our third-party data center hosting facility could impair the delivery of our service and harm our business.

We currently serve our customers from a third-party data center hosting facility located in the United States. Any damage to, or failure of, our systems generally could result in interruptions in our service. As we continue to add capacity, we may move or transfer our data and our customers' data. Despite precautions taken during this process, any unsuccessful data transfers may impair the delivery of our service. Further, any damage to, or failure of, our systems generally could result in interruptions in our service. Interruptions in our service may reduce our revenue, cause us to issue credits or pay penalties, cause customers to terminate their subscriptions and adversely affect our renewal rates and our ability to attract new customers. Our business will also be harmed if our customers and potential customers believe our service is unreliable.

Table of Contents

As part of our current disaster recovery arrangements, our production environment and all of our customers' data is currently replicated in near real-time in a separate facility physically located in a different geographic region of the United States. Companies and products added through acquisition may be temporarily served through an alternate facility. We do not control the operation of these facilities, and they are vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunications failures and similar events. They may also be subject to break-ins, sabotage, intentional acts of vandalism and similar misconduct. Despite precautions taken at these facilities, the occurrence of a natural disaster or an act of terrorism, a decision to close the facilities without adequate notice or other unanticipated problems at these facilities could result in lengthy interruptions in our service. Even with the disaster recovery arrangements, our service could be interrupted.

If our security measures are breached and unauthorized access is obtained to a customer's data, our data or our information technology systems, our service may be perceived as not being secure, customers may curtail or stop using our service and we may incur significant legal and financial exposure and liabilities.

Our service involves the storage and transmission of customers' proprietary information, and security breaches could expose us to a risk of loss of this information, litigation and possible liability. These security measures may be breached as a result of third-party action, including intentional misconduct by computer hackers, employee error, malfeasance or otherwise during transfer of data to additional data centers or at any time, and result in someone obtaining unauthorized access to our customers' data or our data, including our intellectual property and other confidential business information, or our information technology systems. Additionally, third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as user names, passwords or other information in order to gain access to our customers' data or our data, including our intellectual property and other confidential business information, or our information technology systems. Because the techniques used to obtain unauthorized access, or to sabotage systems, change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any security breach could result in a loss of confidence in the security of our service, damage our reputation, disrupt our business, lead to legal liability and negatively impact our future sales.

We cannot accurately predict subscription renewal or upgrade rates and the impact these rates may have on our future revenue and operating results.

Our customers have no obligation to renew their subscriptions for our service after the expiration of their initial subscription period. Our renewal rates may decline or fluctuate as a result of a number of factors, including customer dissatisfaction with our service, customers' ability to continue their operations and spending levels, and deteriorating general economic conditions. If our customers do not renew their subscriptions for our service or reduce the level of service at the time of renewal, our revenue will decline and our business will suffer.

Our future success also depends in part on our ability to sell additional features and services, more subscriptions or enhanced editions of our service to our current customers. This may also require increasingly sophisticated and costly sales efforts that are targeted at senior management. Similarly, the rate at which our customers purchase new or enhanced services depends on a number of factors, including general economic conditions. If our efforts to upsell to our customers are not successful, our business may suffer.

Weakened global economic conditions may adversely affect our industry, business and results of operations.

Our overall performance depends in part on worldwide economic conditions. The United States and other key international economies have experienced in the past a downturn in which economic activity was impacted by falling demand for a variety of goods and services, restricted credit, poor liquidity, reduced corporate profitability, volatility in credit, equity and foreign exchange markets, bankruptcies and overall uncertainty with respect to the economy.

These conditions affect the rate of information technology spending and could adversely affect our customers' ability or willingness to purchase our enterprise cloud computing services, delay prospective customers' purchasing decisions, reduce the value or duration of their subscription contracts or affect renewal rates, all of which could adversely affect our operating results.

-13-

Table of Contents

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

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

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

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

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

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

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

The Company may discover software errors in its products that may result in a loss of revenue, injury to the Company's reputation or subject us to substantial liability.

Non-conformities or bugs ("errors") may be found from time to time in the Company's existing, new or enhanced products after commencement of commercial shipments, resulting in loss of revenue or injury to the Company's reputation. In the past, the Company has discovered errors in its products and as a result, has experienced delays in the shipment of products. Errors in the Company's products may be caused by defects in third-party software incorporated into the Company's products. If so, the Company may not be able to fix these defects without the cooperation of these software providers. Since these defects may not be as significant to the software provider as they are to us, the Company may not receive the rapid cooperation that may be required. The Company may not have the

contractual right to access the source code of third-party software, and even if the Company does have access to the code, the Company may not be able to fix the defect. In addition, our customers may use our service in unanticipated ways that may cause a disruption in service for other customers attempting to access their data. Since the Company's customers use the Company's products for critical business applications, any errors, defects or other performance problems could hurt the Company's reputation and may result in damage to the Company's customers' business. If that occurs, customers could elect not to renew, delay or withhold payment to us, we could lose future sales or customers may make warranty or other claims against us, which could result in an increase in our provision for doubtful accounts, an increase in collection cycles for accounts receivable or the expense and risk of litigation. These potential scenarios, successful or otherwise, would likely be time consuming and costly.

Table of Contents

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

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

Risks Relating to the Company's Common Stock

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

Although the Company's common stock is currently quoted on the NASDAQ Capital Market, there is limited trading activity. The Company can give no assurance that an active market will develop, or if developed, that it will be sustained. If an investor acquires shares of the Company's common stock, the investor may not be able to liquidate the Company's shares should there be a need or desire to do so.

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

The shares may be substantially diluted due to the following:

- issuance of common stock in connection with funding agreements with third parties and future issuances of common and preferred stock by the Board of Directors; and

- the Board of Directors has the power to issue additional shares of common stock and preferred stock and the right to determine the voting, dividend, conversion, liquidation, preferences and other conditions of the shares without shareholder approval.

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

ITEM 2. PROPERTIES

Our principal place of business operations is located at 299 South Main Street, Suite 2370, Salt Lake City, UT 84111. We lease approximately 5,300 square feet at this corporate office location, consisting primarily of office space, conference rooms and storage areas. Our telephone number is (435) 645-2000. Our website address is <http://www.parkcitygroup.com>.

ITEM 3. LEGAL PROCEEDINGS

We are, from time to time, involved in various legal proceedings incidental to the conduct of our business. Historically, the outcome of all such legal proceedings has not, in the aggregate, had a material adverse effect on our business, financial condition, results of operations or liquidity. There are no pending or threatened material legal proceedings at this time.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

-15-

Table of Contents

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Share Price History

Our common stock is traded on the NASDAQ Capital Market under the trading symbol "PCYG." The following table sets forth the high and low sales prices of our common stock for the periods indicated.

| Fiscal Quarter Ended | Quarterly Common Stock Price Ranges | | | |
|----------------------|-------------------------------------|----------|----------|---------|
| | 2016 | | 2015 | |
| | High | Low | High | Low |
| September 30 | \$ 13.99 | \$ 10.01 | \$ 11.48 | \$ 9.31 |
| December 31 | \$ 12.27 | \$ 9.87 | \$ 10.14 | \$ 6.75 |
| March 31 | \$ 11.82 | \$ 5.98 | \$ 14.87 | \$ 8.62 |
| June 30 | \$ 10.00 | \$ 8.30 | \$ 14.25 | \$ 9.74 |

Stock Performance Graph

The following graph compares the cumulative total shareholder return on our common stock over the five-year period ending June 30, 2016, with the cumulative total returns during the same period on the NASDAQ Composite Index and the Russell 2000 Index. The graph assumes that \$100 was invested on June 30, 2011 in our common stock and in the shares represented by each of the other indices, and that all dividends were reinvested.

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

Table of Contents

| | Value of Investment (\$) | | | | | |
|-----------------------|--------------------------|-----------|-----------|-----------|-----------|-----------|
| | 06/30/11 | 06/30/12 | 06/30/13 | 06/30/14 | 06/30/15 | 06/30/16 |
| Park City Group, Inc. | \$ 100.00 | \$ 83.16 | \$ 159.58 | \$ 229.26 | \$ 258.74 | \$ 188.84 |
| NASDAQ Composite | \$ 100.00 | \$ 105.82 | \$ 122.71 | \$ 158.94 | \$ 179.80 | \$ 174.60 |
| Russell 2000 Index | \$ 100.00 | \$ 96.50 | \$ 118.13 | \$ 144.18 | \$ 151.55 | \$ 139.22 |

The stock performance graph above shall not be deemed incorporated by reference into any filing by us under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that we specifically incorporate such information by reference, and shall not otherwise be deemed filed under such Acts.

Dividend Policy

To date, the Company has not paid dividends on its common stock. Our present policy is to retain future earnings (if any) for use in our operations and the expansion of our business.

Outstanding shares of Series B Preferred and Series B-1 Preferred each accrue dividends at the rate per share of 7% per annum if paid by the Company in cash, and 9% per annum if paid by the Company in additional shares of Series B-1 Preferred. Dividends on the Series B Preferred and Series B-1 Preferred are payable quarterly.

Holders of Record

At September 7, 2016 there were 660 holders of record of our common stock, and 19,286,430 shares were issued and outstanding, three holders of Series B Preferred and 625,375 shares issued and outstanding, and four holders of Series B-1 Preferred and 208,224 shares issued and outstanding. The number of holders of record and shares of common stock issued and outstanding was calculated by reference to the books and records of the Company's transfer agent.

Issuance of Securities

We issued shares of our common stock in unregistered transactions during fiscal year 2016. All of the shares of common stock issued in non-registered transactions were issued in reliance on Section 3(a)(9) and/or Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"), and were reported in our Quarterly Reports on Form 10-Q and in our Current Reports on Form 8-K filed with the Securities and Exchange Commission during the fiscal year ended June 30, 2016. 57,117 shares of common and 28,011 shares of preferred stock were issued subsequent to June 30, 2016.

ITEM 6. SELECTED FINANCIAL DATA

The following data has been derived from our audited financial statements, including the consolidated balance sheets at June 30, 2016 and 2015 and the related consolidated statements of operations for the three years ended June 30, 2016 and related notes appearing elsewhere in this report. The statement of operations data for the years ended June 30, 2013 and 2012 and the balance sheet data as of June 30, 2014, 2013 and 2012 are derived from our audited consolidated financial statements that are not included in this report. The following data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and related notes included elsewhere in this report.

| Consolidated Statement of Operations Data | Fiscal Year Ended June 30, | | | | |
|--|----------------------------|---------------|---------------|---------------|---------------|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| Revenue | \$ 14,010,693 | \$ 13,648,715 | \$ 11,928,416 | \$ 11,318,574 | \$ 10,098,547 |

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| | | | | | |
|-------------------------------|------------|-------------|-------------|------------|------------|
| Operating expense (1)(2) | 13,323,252 | 17,741,109 | 14,521,141 | 10,920,375 | 11,071,259 |
| Income (loss) from Operations | 687,441 | (4,092,394) | (2,592,725) | 398,199 | (972,712) |
| Net income (loss) | 666,503 | (3,849,773) | (2,490,145) | 257,487 | (858,667) |

-17-

Table of Contents

| Consolidated Balance Sheet Data | As of June 30 | | | | |
|--|---------------|---------------|--------------|--------------|--------------|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| Cash and Cash Equivalents | \$ 11,443,388 | \$ 11,325,572 | \$ 3,352,559 | \$ 3,616,585 | \$ 1,106,176 |
| Working Capital | 7,845,826 | 5,032,139 | 654,042 | 1,124,476 | (2,354,977) |
| Total Assets | 38,589,892 | 36,406,784 | 16,937,632 | 15,932,898 | 11,936,230 |
| Total Liabilities | 8,087,333 | 8,822,161 | 6,318,551 | 5,691,526 | 6,626,109 |
| Deferred Revenue | 2,717,094 | 2,331,920 | 1,840,811 | 1,777,326 | 2,081,459 |
| Total Debt (current and long-term) | 3,230,452 | 3,076,493 | 1,849,148 | 2,062,063 | 2,710,275 |
| Capital Leases (current and long-term) | - | - | - | - | 41,201 |
| Stockholders' Equity (deficit) | 30,502,559 | 27,584,623 | 10,619,081 | 10,241,372 | 5,310,121 |

| Operating Data | Fiscal Year Ended June 30 | | | | |
|--|---------------------------|--------------|------------|--------------|--------------|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| Adjusted EBITDA (3) | \$ 2,273,339 | \$ 1,118,583 | \$ 192,719 | \$ 2,287,868 | \$ 1,098,877 |
| Non-GAAP income per diluted common share (4) | \$ 0.06 | \$ 0.01 | (0.05) | \$ 0.05 | \$ (0.05) |

(1) Includes stock-based compensation expense as follows:

| | Fiscal Year Ended June 30 | | | | |
|----------------------------------|---------------------------|--------------|--------------|------------|------------|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| Stock-based compensation expense | \$ 1,010,312 | \$ 2,760,329 | \$ 1,719,375 | \$ 843,645 | \$ 911,094 |

(2) For 2015, there was a one-time impairment of intangibles charge of \$1,495,703, related to the customer list acquired in the Prescient acquisition.

(3) Adjusted EBITDA consists of net income plus depreciation and amortization, interest expense, interest income, stock-based compensation expense and other adjustments as necessary for a fair presentation. We use Adjusted EBITDA as a measure of operating performance because it assists us in comparing performance on a consistent basis, as it removes the impact of our capital structure from our operating results. We believe Adjusted EBITDA is useful to an investor in evaluating our operating performance because it is widely used to measure a company's operating performance without regard to items such as depreciation and amortization, which can vary depending upon accounting methods and the book value of assets, and to present a meaningful measure of corporate performance exclusive of our capital structure. The following table provides a reconciliation of net income to Adjusted EBITDA:

| | Fiscal Year Ended June 30 | | | | |
|----------------------------------|---------------------------|----------------|----------------|--------------|--------------|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| Net income (loss) | \$ 666,503 | \$ (3,849,773) | \$ (2,490,145) | \$ 257,487 | \$ (858,667) |
| Depreciation and amortization | 507,446 | 768,165 | 879,329 | 901,407 | 900,093 |
| Interest (income) loss, net | (5,190) | (242,621) | (102,580) | 140,712 | 205,227 |
| Other | 94,268 | 1,682,483 | 186,740 | 144,617 | (58,870) |
| EBITDA | 1,263,027 | (1,641,746) | (1,526,656) | 1,444,223 | 187,783 |
| Stock-based compensation expense | 1,010,312 | 2,760,329 | 1,719,375 | 843,645 | 911,094 |
| Adjusted EBITDA | \$ 2,273,339 | \$ 1,118,583 | \$ 192,719 | \$ 2,287,868 | \$ 1,098,877 |

(4) Non-GAAP income per share consists of net income plus stock-based compensation expense and amortization expense related to intangible assets divided by the weighted average number of shares of common stock outstanding during each period. We believe non-GAAP income per share is useful to an investor because it is widely used to measure a company's operating performance. The following table provides a reconciliation of net income to non-GAAP income per share:

-18-

Table of Contents

| | Fiscal Year Ended | | | | |
|--|-------------------|-----------------|-----------------|------------|---------------|
| | June 30, 2016 | | | | |
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| Net income (loss) | \$ 666,503 | \$ (3,849,773) | \$ (2,490,145) | \$ 257,487 | \$ (858,667) |
| Stock-based compensation expense | 1,010,312 | 2,760,329 | 1,719,375 | 843,645 | 911,094 |
| Acquisition related amortization | 131,400 | 1,918,019 | 462,557 | 502,798 | 502,798 |
| Other | 26,128 | - | - | - | (319,272) |
| Preferred Dividends | (729,288) | (568,821) | (617,891) | (911,580) | (834,687) |
| Non-GAAP net income to common shareholders | \$ 1,105,055 | \$ 259,754 | \$ (926,104) | \$ 692,350 | \$ (598,734) |
| Non-GAAP income per share | | | | | |
| Basic | 19,151,000 | 17,375,000 | 16,710,000 | 13,246,000 | 11,780,000 |
| Diluted | 19,332,000 | 18,253,000 | 16,710,000 | 13,253,000 | 11,780,000 |
| Shares used to compute non-GAAP income per share | | | | | |
| Basic | \$ 0.06 | \$ 0.01 | \$ (0.06) | \$ 0.05 | \$ (0.05) |
| Diluted | \$ 0.06 | \$ 0.01 | \$ (0.06) | \$ 0.05 | \$ (0.05) |

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis is intended to assist the reader in understanding our results of operations and financial condition. Management's Discussion and Analysis is provided as a supplement to, and should be read in conjunction with, our audited consolidated financial statements beginning on page F-1 of this Annual Report. This Form 10-K includes certain statements that may be deemed to be "forward-looking statements" within the meaning of Section 27A of the Securities Act. All statements, other than statements of historical fact, included in this Form 10-K that address activities, events or developments that we expect, project, believe, or anticipate will or may occur in the future, including matters having to do with expected and future revenue, our ability to fund our operations and repay debt, business strategies, expansion and growth of operations and other such matters, are forward-looking statements. These statements are based on certain assumptions and analyses made by our management in light of its experience and its perception of historical trends, current conditions, expected future developments, and other factors it believes are appropriate in the circumstances. These statements are subject to a number of assumptions, risks and uncertainties, including general economic and business conditions, the business opportunities (or lack thereof) that may be presented to and pursued by us, our performance on our current contracts and our success in obtaining new contracts, our ability to attract and retain qualified employees, and other factors, many of which are beyond our control. You are cautioned that these forward-looking statements are not guarantees of future performance and those actual results or developments may differ materially from those projected in such statements.

Overview

Park City Group, Inc. (the "Company") is a Software-as-a-Service ("SaaS") provider. The Company's technology helps companies to synchronize their systems with those of their trading partners to make more informed business decisions. We provide companies with greater flexibility in sourcing products by enabling them to choose new suppliers and integrate them into their supply chain faster and more cost effectively, and we help them to more efficiently manage these relationships to "stock less and sell more", enhancing revenue while lowering working capital, labor costs and

waste. Through our subsidiary, ReposiTrak, Inc. (“ReposiTrak”), we also help reduce a company’s potential regulatory, legal, and criminal risk from its supply chain partners by providing a way for them to ensure these suppliers are compliant with food and drug safety regulations, such as the Food Safety Modernization Act (“FSMA”) and the Drug Quality and Security Act (“DQSA”).

Table of Contents

Fiscal Year

Our fiscal year ends on June 30. References to fiscal 2016 refer to the fiscal year ended June 30, 2016.

Sources of Revenue

The Company derives revenue from four sources: (i) subscription fees, (ii) hosting, premium support and maintenance service fees beyond the standard services offered, (iii) professional services consisting of development services, consulting, training and education, and (iv) license fees.

Subscription revenue is driven primarily by the number of connections between retailers and suppliers, the number of stores and SKU's, or the volume of economic activity between a retailer and its suppliers. Subscription revenue contains arrangements with customers accessing our applications, which includes the use of the application, application and data hosting, subscription-based maintenance of the application and standard support included with the subscription.

Our hosting services provide remote management and maintenance of our software and customers' data, which is physically located in third party facilities. Customers access 'hosted' software and data through a secure Internet connection. Premium support services include technical assistance for our software products and unspecified product upgrades and enhancements on a when and if available basis beyond what is offered with our basic subscription package.

Professional services revenue is comprised of revenue from development, consulting, education and training. Development services include customizations and integrations for a client's specific business application. Consulting, education and training include implementation and best practices consulting. Our professional services fees are more frequently billed on a fixed price/fixed scope, but may also be billed on a time and materials basis. We have determined that the professional services element of our software and subscription arrangements is not essential to the functionality of the software.

License arrangements are a time-specific and perpetual license. Software license maintenance agreements are typically annual contracts with customers that are paid in advance or according to terms specified in the contract. These agreements provide the customer with access to new software enhancements, maintenance releases, patches, updates and technical support personnel.

Table of Contents

Other Metrics – Non-GAAP Financial Measures

To supplement our financial statements, we also provide investors with Adjusted EBITDA and non-GAAP income per share, both of which are non-GAAP financial measures. We believe that these non-GAAP measures provide useful information to management and investors regarding certain financial and business trends relating to our financial condition and results of operations. Our management uses these non-GAAP measures to compare the Company's performance to that of prior periods for trend analyses and planning purposes. These measures are also presented to our Board of Directors.

These non-GAAP measures should not be considered a substitute for, or superior to, financial measures calculated in accordance with generally accepted accounting principles in the United States of America. These non-GAAP financial measures exclude significant expenses and income that are required by GAAP to be recorded in the company's financial statements and are subject to inherent limitations. Investors should review the reconciliations of non-GAAP financial measures to the comparable GAAP financial measures that are included in this "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Critical Accounting Policies

This Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles.

We commenced operations in the software development and professional services business during 1990. The preparation of our financial statements requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expense during the reporting period. On an ongoing basis, management evaluates its estimates and assumptions. Management bases its estimates and judgments on historical experience of operations and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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

Income Taxes

In determining the carrying value of the Company's net deferred income tax assets, the Company must assess the likelihood of sufficient future taxable income in certain tax jurisdictions, based on estimates and assumptions, to realize the benefit of these assets. If these estimates and assumptions change in the future, the Company may record a reduction in the valuation allowance, resulting in an income tax benefit in the Company's statements of operations. Management evaluates whether or not to realize the deferred income tax assets and assesses the valuation allowance quarterly.

Goodwill and Other Long-Lived Asset Valuations

Goodwill is assigned to specific reporting units and is reviewed for possible impairment at least annually or more frequently upon the occurrence of an event or when circumstances indicate that a reporting unit's carrying amount is greater than its fair value. Management reviews the long-lived tangible and intangible assets for impairment when

events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Management evaluates, at each balance sheet date, whether events and circumstances have occurred which indicate possible impairment. The carrying value of a long-lived asset is considered impaired when the anticipated cumulative undiscounted cash flows of the related asset or group of assets is less than the carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the estimated fair market value of the long-lived asset. Economic useful lives of long-lived assets are assessed and adjusted as circumstances dictate. See Note 7 regarding impairment charges for the year ended June 30, 2016.

Table of Contents

Revenue Recognition

We recognize revenue when all of the following conditions are satisfied: (i) there is persuasive evidence of an arrangement, (ii) the service has been provided to the customer, (iii) the collection of our fees is probable, and (iv) the amount of fees to be paid by the customer is fixed or determinable.

We recognize subscription, hosting, premium support, and maintenance revenue ratably over the length of the agreement beginning on the commencement dates of each agreement or when revenue recognition conditions are satisfied. Revenue from license and professional services agreements are recognized as delivered.

Amounts that have been invoiced are recorded in accounts receivable and in deferred revenue or revenue, depending on whether the revenue recognition criteria have been met.

Agreements with multiple deliverables such as subscriptions, support, and professional services, are accounted for separately if the deliverables have standalone value upon delivery. Subscription services have standalone value as the services are typically sold separately. When considering whether professional services have standalone value, the Company considers the following factors: (i) availability of services from other vendors, (ii) the nature and timing of professional services, and (iii) sales of similar services sold separately. Multiple deliverable arrangements are separated into units of accounting and the total contract consideration is allocated to each unit based on relative selling prices.

Stock-Based Compensation

The Company recognizes the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards. The Company records compensation expense on a straight-line basis. The fair value of options granted are estimated at the date of grant using a Black-Scholes option pricing model with assumptions for the risk-free interest rate, expected life, volatility, dividend yield and forfeiture rate.

Capitalization of Software Development Costs

The Company accounts for research costs of computer software to be sold, leased or otherwise marketed as expense until technological feasibility has been established for the product. Once technological feasibility is established, all software costs are capitalized until the product is available for general release to customers. Judgment is required in determining when technological feasibility of a product is established. We have determined that technological feasibility for our software products is reached shortly after a working prototype is complete and meets or exceeds design specifications including functions, features, and technical performance requirements. Costs incurred after technological feasibility is established have been and will continue to be capitalized until such time as when the product or enhancement is available for general release to customers.

Off-Balance Sheet Arrangements

The Company does not have any off balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenue and results of operation, liquidity or capital expenditures.

Results of Operations – Fiscal Years Ended June 30, 2016, 2015 and 2014

Revenue

| Revenue | Year Ended | \$ | % | Year Ended | \$ | % | Year Ended |
|---------|------------|----|---|------------|----|---|------------|
|---------|------------|----|---|------------|----|---|------------|

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| | June 30, 2016 | Change | Change | June 30, 2015 | Change | Change | June 30, 2014 |
|---------|------------------|------------|--------|------------------|--------------|--------|---------------|
| Revenue | \$ 14,010,693 | \$ 361,978 | 3% | \$ 13,648,715 | \$ 1,720,299 | 14% | \$ 11,928,416 |

-22-

Table of Contents

During the fiscal year ended June 30, 2016, the Company had revenue of \$14,010,693 compared to \$13,648,715 for the year ended June 30, 2015, a 3% increase. This \$361,978 increase in total revenue was principally due to \$550,000 net decrease in revenue attributable to ReposiTrak offset by a \$912,000 increase in other revenue. The decrease in the revenue attributable to ReposiTrak was due to the acquisition of ReposiTrak which resulted in the elimination of subscription and management fees. The decreased fees from ReposiTrak as a customer were partially offset by revenue generated by the ReposiTrak foods safety offerings.

During the fiscal year ended June 30, 2015, the Company had total revenue of \$13,648,715 compared to \$11,928,416 for the year ended June 30, 2014, a 14% increase. This \$1,720,299 increase in total revenue was principally due to an increase of \$1,478,699 in subscription revenue, and an increase of \$241,600 in other revenue. Total revenue recorded for the fiscal year ended June 30, 2015 included approximately \$3.0 million received from ReposiTrak license and management fees. Approximately \$2.3 million was advanced to ReposiTrak for working capital purposes during the year ended June 30, 2015, which amount was evidenced by the issuance of promissory notes by ReposiTrak to the Company. The notes were eliminated in connection with the consolidation of ReposiTrak following the ReposiTrak Acquisition.

Management believes that revenue will increase in subsequent periods primarily as a result of growth in ReposiTrak customers and revenue, and secondarily due to the Company's strategy of pursuing new contracts with suppliers ("Spokes") to connect to retail customers ("Hubs").

Cost of Services and Product Support

| | Year Ended June 30, 2016 | | | Year Ended June 30, 2015 | | | Year Ended June 30, 2014 | |
|-------------------------------------|--------------------------------|--------------|-----|--------------------------------|-----------|---|--------------------------------|--|
| | \$ | % | | \$ | % | | | |
| | Change | Change | | Change | Change | | | |
| Cost of service and product support | \$4,279,724 | (\$976,527) | -19 | \$5,256,251 | \$168,278 | 3 | \$5,087,973 | |
| Percent of total revenue | 31 | % | | 39 | % | | 43 | |
| | | | | | | | % | |

Cost of services and product support was \$4,279,724 or 31% of total revenue, and \$5,256,251 or 39% of total revenue for the years ended June 30, 2016 and 2015, respectively, a 19% decrease. This period over period decrease of \$976,527 is principally due to (i) a \$752,000 decrease in employee related expense, (ii) capitalization of software development costs of \$183,000 in the second, third, and fourth quarters of fiscal 2016, and (iii) a \$42,000 decrease in other product support costs.

Cost of services and product support was \$5,256,251 or 39% of total revenue, and \$5,087,973 or 43% of total revenue for the years ended June 30, 2015 and 2014, respectively, a 3% increase. This increase of \$168,278 for the year ended June 30, 2015 when compared with the same period ended June 30, 2014 is principally due to a \$244,000 increase in employee related expense, partially offset by a decrease of \$76,000 in travel related expense and other product support costs.

Management expects service and a product support to increase in absolute value in subsequent periods, but to continue to fall as a percentage of total revenue.

Sales and Marketing Expense

| \$ | % | \$ | % |
|----|---|----|---|
|----|---|----|---|

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| | Year Ended June 30, 2016 | Change | Change | Year Ended June 30, 2015 | Change | Change | Year Ended June 30, 2014 | |
|--------------------------|--------------------------------|--------------|--------|--------------------------------|-------------|--------|--------------------------------|---|
| Sales and marketing | \$5,371,005 | \$(570,344) | -10 | % \$5,941,349 | \$1,199,775 | 25 | % \$4,741,574 | |
| Percent of total revenue | 38 | % | | 44 | % | | 40 | % |

Table of Contents

The Company's sales and marketing expense was \$5,371,005, or 38% of total revenue, and \$5,941,349 or 44% of total revenue, for the fiscal years ended June 30, 2016 and 2015, respectively, a 10% decrease. Sales and marketing expense decreased principally due to (i) a decrease in marketing and promotional expense of \$411,000, and (ii) a decrease of \$230,000 in employee related costs and travel expense, which were partially offset by an increase in other sales related costs of \$70,000.

The Company's sales and marketing expense was \$5,941,349, or 44% of total revenue, and \$4,741,574 or 40% of total revenue, for the fiscal years ended June 30, 2015 and 2014, respectively, a 25% increase. This \$1,199,775 increase over the previous year was primarily the result of (i) an increase of approximately \$708,000 in marketing expense, and (ii) an increase in salary and sales consulting and related expenses of \$513,000, which were partially offset by a decrease of \$21,000 in travel related expense.

Management expects sales and marketing expense to increase in absolute value in subsequent periods, but to continue to fall as a percentage of total revenue.

General and Administrative Expense

| | Year Ended June 30, 2016 | | | Year Ended June 30, 2015 | | | Year Ended June 30, 2014 | | |
|----------------------------|--------------------------------|--------|----|--------------------------------|--------|----|--------------------------------|--------|--|
| | \$ | % | | \$ | % | | \$ | % | |
| | Change | Change | | Change | Change | | Change | Change | |
| General and administrative | \$3,165,077 | 23 | 26 | \$4,279,641 | 31 | 12 | \$3,812,265 | 32 | |
| Percent of total revenue | | % | | | % | | | % | |

The Company's general and administrative expense was \$3,165,077, or 23% of total revenue, and \$4,279,641 or 31% of total revenue for the years ended June 30, 2016 and 2015, respectively, a 26% decrease. This \$1,114,564 decrease is principally due to (i) reductions in employee related costs, and travel expense of approximately \$1.2 million, and (ii) decreased bad debt expense of \$119,000. These decreases were partially offset by increases in facility costs of \$97,000 and professional fees of \$108,000 incurred in connection with the acquisition of ReposiTrak.

The Company's general and administrative expense was \$4,279,641, or 31% of total revenue, and \$3,812,265 or 32% of total revenue for the years ended June 30, 2015 and 2014, respectively, a 12% increase. This \$467,376 increase when comparing expenditures for the year ended June 30, 2015 with the same period ended June 30, 2014 is principally due to (i) an increase in stock compensation, bonus and salary expense of approximately \$378,000, and (ii) an increase of \$158,000 in travel, professional fees, other facility related expense, offset by a decrease of \$69,000 in estimated taxes.

Management expects general and administrative expense to increase in absolute value in subsequent periods, but to continue to fall as a percentage of total revenue.

Depreciation and Amortization Expense

| | Year Ended June 30, 2016 | | | Year Ended June 30, 2015 | | | Year Ended June 30, 2014 | | |
|-------------------------------|--------------------------------|--------|----|--------------------------------|--------|----|--------------------------------|--------|--|
| | \$ | % | | \$ | % | | \$ | % | |
| | Change | Change | | Change | Change | | Change | Change | |
| Depreciation and amortization | \$507,446 | 4 | 34 | \$768,165 | 6 | 13 | \$879,329 | 7 | |
| | | % | | | % | | | % | |

Percent of total
revenue

-24-

Table of Contents

The Company's depreciation and amortization expense was \$507,446 and \$768,165 for the year ended June 30, 2016 and 2015, respectively, a 34% decrease. Depreciation and amortization expense decreased by \$260,719 for the year ended, June 30, 2016 when compared to the year ended June 30, 2015 due to decreased customer list amortization due to the impairment charge taken in the fiscal year ended June 30, 2015.

The Company's depreciation and amortization expense was \$768,165 and \$879,329 for the year ended June 30, 2015 and 2014, respectively, a 13% decrease. Depreciation and amortization expense decreased by \$111,164 for the year ended, June 30, 2015 when compared to the year ended June 30, 2014 due to the amortization of capitalized software costs. This decrease is partially offset by an increase in depreciation related to new hardware purchases during the year ended June 30, 2015.

Impairment and Other Charges

The Company recognized a non-cash impairment charge of \$1.5 million during the year ended June 30, 2015, due principally to decreased margins on customers acquired in connection with the Prescient acquisition. In management's determination, the carrying value of these relationships exceeded their estimated fair values as determined by future discounted cash flow projections. When projecting the stream of future cash flows for purposes of determining long-lived asset recoverability, management makes assumptions, incorporating market conditions, sales growth rates, and operating expense.

Other Income and Expense

| | Year Ended June 30, 2016 | | | Year Ended June 30, 2015 | | | Year Ended June 30, 2014 | | |
|----------------------------|--------------------------------|---------------|--------|--------------------------------|------------|-------|--------------------------------|--------|--|
| | \$ | % | | \$ | % | | \$ | % | |
| | Change | Change | | Change | Change | | Change | Change | |
| Other (expense) and income | \$ (20,938) | \$ (263,559) | -109 % | \$ 242,621 | \$ 140,041 | 137 % | \$ 102,580 | | |
| Percent of total revenue | >0 % | | | 2 % | | | 1 % | | |

Net other income (expense) was net other expense of \$20,938 when compared with net other income of \$242,621 for the year ended June 30, 2016 and June 30, 2015, respectively. This decrease of \$263,559 for the year ended June 30, 2016 when compared to the year ended June 30, 2015 is primarily due to interest income on notes receivable during the 2015 period that were eliminated as a result of the consolidation of ReposiTrak for the same period in 2016 and a loss on the disposition of investments of \$26,128 for the year ended June 30, 2016.

Net other income (expense) was net other income of \$242,621 when compared with net other income of \$102,580 for the year ended June 30, 2015 and June 30, 2014, respectively. This change of \$140,041 for the year ended June 30, 2015 when compared to the year ended June 30, 2014 is due to interest income on notes receivable of \$151,000.

Preferred Dividends

| | Year Ended June 30, 2016 | | | Year Ended June 30, 2015 | | | Year Ended June 30, 2014 | | |
|---------------------|--------------------------------|------------|------|--------------------------------|--------------|------|--------------------------------|--------|--|
| | \$ | % | | \$ | % | | \$ | % | |
| | Change | Change | | Change | Change | | Change | Change | |
| Preferred dividends | \$ 729,288 | \$ 160,467 | 28 % | \$ 568,821 | \$ (49,070) | -8 % | \$ 617,891 | | |
| | 5 % | | | 4 % | | | 5 % | | |

Percent of
total revenue

Dividends accrued on the Company's Series B Preferred and Series B-1 Preferred was \$729,288 for the year ended June 30, 2016, compared to dividends accrued on the Series B Preferred of \$568,821 for the year ended June 30, 2015. This \$160,467 increase is primarily attributable to the determination by the Company to pay dividends in kind for the year ended June 30, 2015, which resulted in an adjustment to dividends in the current period. All dividends accrued were paid through the issuance of 66,013 shares of Series B-1 Preferred.

Dividends accrued on the Company's Series B Preferred and Series B-1 Preferred was \$568,821 for the year ended June 30, 2015, compared to dividends accrued on the Series B Preferred of \$617,891 for the year ended June 30, 2014. This \$49,070 decrease is primarily attributable to the decrease of the dividend rate on the Series B Preferred as a result of the Series B Amendment. Of the dividends accrued during the year ended June 30, 2015, \$442,002 was paid by the issuance of 44,200 shares of Series B-1 Preferred. Prior to the Series B Restructuring, holders of Series B Preferred were entitled to a 15.00% annual dividend, payable quarterly in cash.

-25-

Table of Contents

Financial Position, Liquidity and Capital Resources

We believe our existing cash and short-term investments, together with funds generated from operations, are sufficient to fund operating and investment requirements for at least the next twelve months. Our future capital requirements will depend on many factors, including our rate of revenue growth and expansion of our sales and marketing activities, the timing and extent of spending required for research and development efforts and the continuing market acceptance of our products.

| | Year Ended June 30, 2016 | | | Year Ended June 30, 2015 | | | Year Ended June 30, 2014 |
|------------------------------|--------------------------------|------------|---|--------------------------------|--------------|-----|--------------------------------|
| | \$ | % | | \$ | % | | |
| | Change | Change | | Change | Change | | |
| Cash and Cash Equivalents | \$ 11,443,388 | \$ 117,816 | 1 | % \$ 11,325,572 | \$ 7,973,013 | 238 | % \$ 3,352,559 |

We have historically funded our operations with cash from operations, equity financings and debt borrowings. Cash and cash equivalents was \$11,443,388 and \$11,325,572 at June 30, 2016, and June 30, 2015, respectively, a 1.0% increase, and \$11,325,572 and \$3,352,559 at June 30, 2015, and June 30, 2014, respectively, a 238% increase. The \$117,816 increase during the year ended June 30, 2016 when compared to the year ended June 30, 2015 is principally the result of cash flow from operations, while the \$7,973,013 increase from the year ended June 30, 2015 to the comparable period ended June 30, 2014 is principally the result of the net proceeds of \$6.7 million received from the registered direct offering completed in April 2015 and the \$900,000 net proceeds from the private offering in January 2015, offset, in part, by the use of cash in operations.

Net Cash Flows from Operating Activities

| | Year Ended June 30, 2016 | | | Year Ended June 30, 2015 | | | Year Ended June 30, 2014 |
|---|--------------------------------|---------------|-----|--------------------------------|--------------|-----|--------------------------------|
| | \$ | % | | \$ | % | | |
| | Change | Change | | Change | Change | | |
| Cash flows provided by (used in) operating activities | \$ 503,223 | \$(1,204,374) | -71 | % \$ 1,707,597 | \$ 1,800,131 | N/A | % \$(92,534) |

Net cash provided by (used in) operating activities is summarized as follows:

| | 2016 | 2015 | 2014 |
|---|-------------|---------------|---------------|
| Net income (loss) | \$ 666,503 | \$(3,849,773) | \$(2,490,145) |
| Noncash expense and income, net | 1,612,026 | 5,368,927 | 2,882,344 |
| Net changes in operating assets and liabilities | (1,775,306) | 188,443 | (484,733) |
| | \$ 503,223 | \$ 1,707,597 | \$ (92,534) |

Noncash expense decreased by \$3,756,901 in the year ended June 30, 2016 compared to June 30, 2015. Noncash expense decreased as a result of a \$1,750,000 decrease in stock compensation expense, a \$1,756,000 decrease in depreciation and amortization expense, which includes a \$1,496,000 impairment charge, a \$158,000 decrease in charitable non-cash donations, and a decrease of \$119,000 in bad debt expense, offset by a \$26,000 increase on the loss of short-term marketable securities.

Table of Contents

Noncash expense increased by \$2,486,583 in the year ended June 30, 2015 compared to June 30, 2014. Noncash expense increased as a result of an impairment charge of \$1,496,000, a \$1,041,000 increase in stock compensation expense, and a \$61,000 increase in stock issued as a charitable contribution.

Net Cash Flows used in Investing Activities

| | Year Ended | | | Year Ended | | | Year Ended |
|---|------------------|--------------|-------------|------------------|--------------|-------------|------------------|
| | June 30, 2016 | \$ Change | % Change | June 30, 2015 | \$ Change | % Change | June 30, 2014 |
| Cash flows used in investing activities | \$365,641 | (2,241,236) | -86 | % \$2,606,877 | \$954,152 | 58 | % \$1,652,725 |

Net cash flows used in investing activities for the year ended June 30, 2016 was \$365,641 compared to net cash flows used in investing activities of \$2,606,877 for the year ended June 30, 2015. This \$2,241,236 decrease in cash used in investing activities for the year ended June 30, 2016 when compared to the same period in 2015 was the result of funds loaned to ReposiTrak during the year ended June 30, 2015, which were eliminated due to the acquisition of ReposiTrak and consolidation of the Company's financial statements. This decrease was partially offset by the investment in long-term investments and capitalization of software cost.

Net cash flows used in investing activities for the year ended June 30, 2015 was \$2,606,877 compared to net cash flows used in investing activities of \$1,652,725 for the year ended June 30, 2014. This \$954,152 increase in cash used in investing activities for 2015 when compared to the same period in 2014 was the result of additional funds loaned under notes receivable.

Net Cash Flows from Financing Activities

| | Year | | | Year Ended | | | Year Ended |
|---|------------------------|---------------|-------------|------------------|--------------|-------------|------------------|
| | Ended June 30, 2016 | \$ Change | % Change | June 30, 2015 | \$ Change | % Change | June 30, 2014 |
| Cash flows (used in) provided by financing activities | \$(19,766) | \$(8,892,059) | -100 | % \$8,872,293 | \$7,391,060 | 499 | % \$1,481,233 |

Net cash flows used in financing activities totaled \$19,766 for the year ended June 30, 2016 compared to cash flows provided by financing activities of \$8,872,293 for the year ended June 30, 2015. The change in net cash related to financing activities is primarily attributable to cash from the issuance of stock during the year ended June 30, 2015 and increased proceeds from lines of credit, partially offset by (i) a decrease in payments on notes payable, and (ii) a decrease in dividends paid in cash. The Company has the option to pay quarterly preferred dividends in kind and has made this election for each quarter beginning with the quarter ended December 31, 2015.

Net cash flows provided by financing activities totaled \$8,872,293 for the year ended June 30, 2015 compared to cash flows used in financing activities of \$1,481,233 for the year ended June 30, 2014. The change in net cash related to financing activities is primarily attributable to the increases in (i) stock issued for cash of \$6.1 million, (ii) proceeds from an increase in lines of credit of \$1.3 million, (iii) a decrease in cash paid for dividends of \$430,000, (iv) a decrease in payments on notes payable of \$306,000, and (v) increased proceeds from employee stock plans of \$49,000. These items were partially offset by a decrease of \$633,000 in cash from the exercise of options and warrants and a \$165,000 decrease in proceed for the issuance of notes payable.

Table of Contents

Liquidity and Working Capital

At June 30, 2016, the Company had positive working capital of \$7,845,826, as compared with positive working capital of \$5,032,139 at June 30, 2015, and positive working capital of \$654,042 at June 30, 2014. This \$2,813,687 increase in working capital is principally due to the receipt of cash flow from operations, and an increase of \$1,907,377 in accounts receivable, and a decrease of \$236,810 in accounts payable and \$1,018,908 in accrued liabilities. The substantial increase in accounts receivable in the year ended June 30, 2016 compared to the year ended June 30, 2015 is principally due to extended payment terms and deals closing in the quarter ended June 30, 2016. The substantial decrease in accrued liabilities in the year ended June 30, 2016 compared to the year ended June 30, 2015 is principally due to decreased accruals related to stock based compensation and other compensation based accruals.

Working capital at June 30, 2015 reflected the receipt of \$7.6 million in proceeds received from the registered direct offering completed in April 2015 and private offering completed in January 2015, partially offset by the use of cash during the year ended June 30, 2015 caused by the increase in net loss during the period. While no assurances can be given, management currently believes that the Company will increase its working capital position in subsequent periods, and thereby reduce its indebtedness utilizing existing cash resources and projected cash flow from operations.

Management anticipates that it will have adequate cash resources to fund its operations and satisfy its debt obligations for at least the next 12 months.

| | Year Ended June 30, 2016 | | | Year Ended June 30, 2015 | | | Year Ended June 30, 2014 |
|----------------|--------------------------------|--------------|----|--------------------------------|--------------|-----|--------------------------------|
| | \$ | % | | \$ | % | | |
| | Change | Change | | Change | Change | | |
| Current assets | \$ 15,384,631 | \$ 1,955,041 | 15 | % \$ 13,429,590 | \$ 6,968,193 | 108 | % \$ 6,461,397 |

Current assets as of June 30, 2016 totaled \$15,384,631, an increase of \$1,955,041 when compared to \$13,429,590 as of June 30, 2015. The increase in current assets is attributable to an increase in accounts receivable.

Current assets at June 30, 2015 totaled \$13,429,590, an increase of \$6,968,193 when compared to \$6,461,397 at June 30, 2014. This 108% increase in cash from the proceeds of the registered direct offering completed in April 2015 and the private offering complete in January 2015.

| | Year Ended June 30, 2016 | | | Year Ended June 30, 2015 | | | Year Ended June 30, 2014 |
|---------------------|--------------------------------|---------------|-----|--------------------------------|--------------|----|--------------------------------|
| | \$ | % | | \$ | % | | |
| | Change | Change | | Change | Change | | |
| Current liabilities | \$ 7,538,805 | \$ (858,646) | -10 | % \$ 8,397,451 | \$ 2,590,096 | 45 | % \$ 5,807,355 |

Current liabilities totaled \$7,538,805 and \$8,397,451 as of June 30, 2016 and 2015, respectively. The \$858,646 comparative decrease in current liabilities is principally due to a decrease in accrued liabilities. This decrease was partially offset by an increase in deferred revenue.

Current liabilities totaled \$8,397,451 and \$5,807,355 as of June 30, 2015 and 2014, respectively. The \$2,590,096 comparative increase in current liabilities is principally due to increases lines of credit and accrued liabilities as well as increases in accounts payable and deferred revenue acquired in connection with the acquisition of ReposiTrak.

While no assurances can be given, management currently intends to continue to reduce its indebtedness in subsequent periods utilizing existing cash resources and projected cash flow from operations. In addition, management may also continue to pay down, pay off or refinance certain of the Company's

indebtedness. Management believes that these initiatives will enable us to address our debt service requirements during the next 12 months without negatively impacting our working capital, as well as fund our currently anticipated operations and capital spending requirements.

-28-

Table of Contents

Contractual Obligations

Total contractual obligations and commercial commitments as of June 30, 2016 are summarized in the following table:

| | Total | Payment Due by Year | | | More than 5 Years |
|-----------------------------|-----------|---------------------|-----------|-----------|----------------------|
| | | Less than 1 Year | 1-3 Years | 3-5 Years | |
| Operating lease obligations | \$736,931 | 236,784 | 441,069 | 59,078 | - |

Inflation

The impact of inflation has historically not had a material effect on the Company's financial condition or results from operations; however, higher rates of inflation may cause retailers to slow their spending in the technology area, which could have an impact on the Company's sales.

Recent Accounting Pronouncements

In May 2014, August 2015, April 2016 and May 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09 (ASC Topic 606), Revenue from Contracts with Customers, ASU 2015-14 (ASC Topic 606) Revenue from Contracts with Customers, Deferral of the Effective Date, ASU 2016-10 (ASC Topic 606) Revenue from Contracts with Customers, Identifying Performance Obligations and Licensing, and ASU 2016-12 (ASC Topic 606) Revenue from Contracts with Customers, Narrow-Scope Improvements and Practical Expedients, respectively. ASC Topic 606 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. It also requires entities to disclose both quantitative and qualitative information that enable financial statements users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The amendments in these ASUs are effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted for annual periods beginning after December 15, 2016. This standard may be applied retrospectively to all prior periods presented, or retrospectively with a cumulative adjustment to retained earnings in the year of adoption. The Company is in the process of assessing the impact, if any, on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09 (ASC Topic 718), Stock Compensation—Improvements to Employee Share-Based Payment Accounting. The amendments in this ASU are intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax consequences, classification on the consolidated statement of cash flows and treatment of forfeitures. The amendments in this ASU are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The Company is in the process of assessing the impact, if any, of this ASU on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 (ASC Topic 842), Leases. The ASU amends a number of aspects of lease accounting, including requiring lessees to recognize operating leases with a term greater than one year on their balance sheet as a right-of-use asset and corresponding lease liability, measured at the present value of the lease payments. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is in the process of assessing the impact on its consolidated financial statements.

In April 2015 and August 2015, the FASB issued ASU 2015-03 (ASC Subtopic 835-30), Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs and ASU 2015-15 (ASC Subtopic 835-30), Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements- Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting, respectively. The ASUs require that debt issuance costs related to a recognized debt liability, with the exception of those related to line-of-credit arrangements, be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The amendments in these ASUs are effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued. The adoption of this new guidance is not expected to have a material impact on the Company's consolidated financial statements and disclosures.

Table of Contents

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Each of our contracts require payment in U.S. dollars. We therefore do not engage in hedging transactions to reduce our exposure to changes in currency exchange rates, although in the event any future contracts are denominated in a foreign currency, we may do so in the future. As a result, our financial results are not affected by factors such as changes in foreign currency exchange rates.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required hereunder in this Annual Report on Form 10-K is set forth in the financial statements and the notes thereto beginning on Page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Effective January 1, 2016 (the “Effective Date”) all of the assets of HJ & Associates, LLC (“HJ”) were acquired by Haynie & Company, Salt Lake City, Utah, and, as a result, HJ resigned as the Company’s independent registered public accounting firm because the firm is no longer be an active entity. Therefore, on January 1, 2016, the Company engaged Haynie & Company, Salt Lake City, Utah, as its new independent registered public accounting firm. The engagement of Haynie & Company was unanimously approved by the Company’s audit committee.

The reports of HJ regarding the Company’s consolidated financial statements for the two most recent fiscal years did not contain an adverse or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope, or accounting principles.

During the two most recent fiscal years and through the Effective Date, there were (i) no disagreements between the Company and HJ on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreement, if not resolved to the satisfaction of HJ, would have caused HJ to make reference thereto in their reports on the consolidated financial statements for such years, and (ii) no “reportable events” as that term is defined in Item 304(a)(1)(v) of Regulation S-K.

During the Company’s two most recent fiscal years and in the subsequent interim period through the Effective Date, the Company has not consulted with Haynie & Company regarding either (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company’s consolidated financial statements, and neither a written report nor oral advice was provided to the Company that Haynie & Company concluded was an important factor considered by the Company in reaching a decision as to the accounting, auditing or financial reporting issue; or (ii) any matter that was either the subject of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions) or a reportable event (as described in Item 304(a)(1)(v) of Regulation S-K).

The Company disclosed the change in auditors in a Current Report on Form 8-K filed with the Securities and Exchange Commission on January 7, 2016.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our Management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operations of our

disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of June 30, 2016. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports submitted under the Securities and Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, including to ensure that information required to be disclosed by the Company is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

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

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

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

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. With our participation, an evaluation of the effectiveness of our internal control over financial reporting was conducted as of June 30, 2016, based on the framework and criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our internal control over financial reporting was effective as of June 30, 2016.

Table of Contents

Haynie and Company, our independent registered public accounting firm that audited our consolidated financial statements included in this Annual Report on Form 10-K, has issued an attestation report on the effectiveness of our internal control over financial reporting, which report is included in Part IV below.

(c) Changes in Internal Controls over Financial Reporting.

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

ITEM 9B. OTHER INFORMATION

None.

Table of Contents

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item will be incorporated by reference from Park City Group, Inc.'s definitive proxy statement, to be filed with the Securities and Exchange Commission on or before October 28, 2016.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be incorporated by reference from Park City Group, Inc.'s definitive proxy statement, to be filed with the Securities and Exchange Commission on or before October 28, 2016.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item will be incorporated by reference from Park City Group, Inc.'s definitive proxy statement, to be filed with the Securities and Exchange Commission on or before October 28, 2016.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item will be incorporated by reference from Park City Group, Inc.'s definitive proxy statement, to be filed with the Securities and Exchange Commission on or before October 28, 2016.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item will be incorporated by reference from Park City Group, Inc.'s definitive proxy statement, to be filed with the Securities and Exchange Commission on or before October 28, 2016.

Table of Contents

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

Exhibits, Financial Statements and Schedules

| Exhibit Number | Description |
|----------------|--|
| 2.1 | Agreement and Plan of Merger and Reorganization, Dated August 28, 2008 (1) |
| 2.2 | Form of Stock Purchase Agreement (1) |
| 2.3 | Form of Stock Voting Agreement (1) |
| 2.4 | Form of Promissory Note (2) |
| 3.1 | Articles Of Incorporation (3) |
| 3.2 | Certificate Of Amendment (4) |
| 3.3 | Certificate of Amendment (5) |
| 3.4 | Bylaws (3) |
| 4.1 | Certificate of Designation of the Series A Convertible Preferred Stock (6) |
| 4.2 | Certificate of Designation of the Series B Convertible Preferred Stock (7) |
| 4.3 | Fourth Amended and Restated Certificate of Designation of the Relative Rights, Powers and Preferences of the Series B Preferred Stock of Park City Group, Inc. (17) |
| 4.4 | First Amended and Restated Certificate of Designation of the Relative Rights, Powers and Preferences of the Series B-1 Preferred Stock of Park City Group, Inc. (18) |
| 10.1 | Subordinated Promissory Note, dated April 1, 2009, issued to Riverview Financial Corporation (8) |
| 10.2 | Amendment to Loan Agreement and Note, by and between U.S. Bank National Association and the Company, dated September 15, 2009 (9) |
| 10.3 | Term Loan Agreement, by and between U.S. Bank National Association and the Company, dated May 5, 2010 (10) |
| 10.4 | Amendment to Loan Agreement and Note, by and between U.S. Bank National Association and the Company, dated May 5, 2010 (10) |
| 10.5 | Promissory Note, dated August 25, 2009, issued to Baylake Bank (10) |
| 10.6 | ReposiTrak Omnibus Subscription Agreement (11) |
| 10.7 | ReposiTrak Promissory Note (11) |
| 10.8 | Fields Employment Agreement(14) |
| 10.9 | Services Agreement(14) |
| 10.10 | Form of Securities Purchase Agreement (15) |
| 10.11 | Employment Agreement by and between Todd Mitchell and Park City Group, Inc., dated September 28, 2015 (16) |
| 14.1 | Code of Ethics and Business Conduct (12) |
| 21 | List of Subsidiaries (13) |
| 23 | Consent of Haynie & Company, dated September 7, 2016 * |
| 31.1 | Certification of Principal Executive Officer pursuant to Section 302 of Sarbanes Oxley Act of 2002 |
| 31.2 | Certification of Principal Financial Officer pursuant to Section 302 of Sarbanes Oxley Act of 2002 |
| 32.1 | Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350 |

(1) Incorporated by reference from our Form 8-K dated September 3, 2008.

(2) Incorporated by reference from our Form 8-K dated September 15, 2008.

(3) Incorporated by reference from our Form DEF 14C dated June 5, 2002.

(4) Incorporated by reference from our Form 10-QSB for the year ended Sept 30, 2005.

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- (5) Incorporated by reference from our Form 10-KSB dated September 29, 2006.
- (6) Incorporated by reference from our Form 8-K dated June 27, 2007.
- (7) Incorporated by reference from our Form 8-K dated July 21, 2010.
- (8) Incorporated by reference from our Form 8-K dated September 30, 2009.
- (9) Incorporated by reference from our Form 8-K dated October 1, 2009.
- (10) Incorporated by reference from our Form 8-K dated August 25, 2009.
- (11) Incorporated by reference from our Annual Report on Form 10-K dated September 23, 2014.
- (12) Incorporated by reference from our Form 10-KSB dated September 30, 2008.
- (13) Incorporated by reference from our Form 10-K dated September 13, 2011.
- (14) Incorporated by reference from our Form 10-K dated September 11, 2014.
- (15) Incorporated by reference from our Form 8-K dated May 13, 2015.
- (16) Incorporated by reference from our Form 8-K dated September 30, 2015.
- (17) Incorporated by reference from our Form 8-K dated January 14, 2016.
- (18) Incorporated by reference from our Form 8-K dated January 14, 2016.
- * Filed herewith

Table of Contents

SIGNATURES

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

PARK CITY GROUP, INC.
(Registrant)

Date: September 7, 2016

By: /s/ Randall K. Fields
Principal Executive Officer,
Chairman of the Board and Director

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

| Signature | Title | Date |
|--|---|-------------------|
| /s/ Randall K. Fields Randall K. Fields | Chairman of the Board and Director, Chief Executive Officer (Principal Executive Officer) | September 7, 2016 |
| /s/ Todd Mitchell Todd Mitchell | Chief Financial Officer (Principal Financial Officer & Principal Accounting Officer) | September 7, 2016 |
| /s/ Robert W. Allen Robert W. Allen | Director, and Compensation Committee Chairman | September 7, 2016 |
| /s/ William S. Kies, Jr. William S. Kies, Jr. | Director | September 7, 2016 |
| /s/ Richard Juliano Richard Juliano | Director | September 7, 2016 |
| /s/ Austin F. Noll, Jr. Austin F. Noll, Jr. | Director | September 7, 2016 |
| /s/ Ronald C. Hodge Ronald C. Hodge | Director, and Audit Committee Chairman | September 7, 2016 |

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Park City Group, Inc.
Salt Lake City, Utah

We have audited the accompanying consolidated balance sheet of Park City Group, Inc. and subsidiaries as of June 30, 2016, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for the period ended June 30, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Park City Group, Inc. and subsidiaries as of June 30, 2016, and the results of their operations and their cash flows for the period ended June 30, 2016, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Park City Group, Inc. and subsidiaries' internal control over financial reporting as of June 30, 2016, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated September 7, 2016 expressed an unqualified opinion on the effectiveness of Park City Group, Inc. 's internal control over financial reporting.

Haynie and Company
Salt Lake City, Utah
September 7, 2016

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Park City Group, Inc.
Salt Lake City, Utah

We have audited Park City Group, Inc. and Subsidiaries' internal control over financial reporting as of June 30, 2016, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Park City Group, Inc. and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Park City Group, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of June 30, 2016, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of Park City Group, Inc. and Subsidiaries and our report dated September 7, 2016 expressed an unqualified opinion.

Haynie and Company

Salt Lake City, Utah
September 7, 2016

F-2

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Park City Group, Inc.
Salt Lake City, Utah

We have audited the accompanying consolidated balance sheet of Park City Group, Inc. and Subsidiaries as of June 30, 2015 and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the two years in the period ended June 30, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedules based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Park City Group, Inc. and Subsidiaries as of June 30, 2015, and the results of their operations and their cash flows for each of the two years in the period ended June 30, 2015, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Park City Group, Inc. and Subsidiaries' internal control over financial reporting as of June 30, 2015, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated September 14, 2015 expressed an unqualified opinion on the effectiveness of Park City Group, Inc.'s internal control over financial reporting.

HJ & Associates, LLC
Salt Lake City, Utah
September 14, 2015

Table of ContentsPARK CITY GROUP, INC.
Consolidated Balance Sheets

| | June 30, 2016 | June 30, 2015 |
|---|----------------------|----------------------|
| Assets | | |
| Current Assets | | |
| Cash | \$ 11,443,388 | \$ 11,325,572 |
| Receivables, net allowance | 3,547,968 | 1,640,591 |
| Prepaid expense and other current assets | 393,275 | 463,427 |
| Total Current Assets | 15,384,631 | 13,429,590 |
| Property and equipment, net | 469,383 | 764,442 |
| Other Assets: | | |
| Deposits and other assets | 14,866 | 14,866 |
| Investments | 471,584 | - |
| Customer relationships | 1,182,600 | 1,314,000 |
| Goodwill | 20,883,886 | 20,883,886 |
| Capitalized software costs, net | 182,942 | - |
| Total Other Assets | 22,735,878 | 22,212,752 |
| Total Assets | \$ 38,589,892 | \$ 36,406,784 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities | | |
| Accounts payable | \$ 580,309 | \$ 817,119 |
| Accrued liabilities | 1,502,203 | 2,521,111 |
| Deferred revenue | 2,717,094 | 2,331,920 |
| Lines of credit | 2,500,000 | 2,500,000 |
| Current portion of notes payable | 239,199 | 227,301 |
| Total current liabilities | 7,538,805 | 8,397,451 |
| Long-term liabilities | | |
| Notes payable, less current portion | 491,253 | 349,192 |
| Other long term liabilities | 57,275 | 75,518 |
| Total liabilities | 8,087,333 | 8,822,161 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.01 par value, 30,000,000 shares authorized; 625,375 and 625,375 shares of Series B Preferred issued and outstanding at June 30, 2016 and 2015 respectively | 6,254 | 6,254 |
| 180,213 and 74,200 shares of Series B1 Preferred issued and outstanding at June 30, 2016 and 2015 respectively | 1,802 | 742 |

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| | | |
|--|---------------|---------------|
| Common stock, \$0.01 par value, 50,000,000 shares authorized; 19,229,313 and 18,875,586 issued and outstanding at June 30, 2016 and 2015, respectively | 192,296 | 188,759 |
| Additional paid-in capital | 73,272,620 | 70,296,496 |
| Accumulated deficit | (42,970,413) | (42,907,628) |
| Total stockholders equity | 30,502,559 | 27,584,623 |
| Total liabilities and stockholders' equity | \$ 38,589,892 | \$ 36,406,784 |

See accompanying notes to consolidated financial statements.

F-4

Table of Contents

PARK CITY GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

| | For the Years Ended June 30, | | |
|--|------------------------------|----------------|----------------|
| | 2016 | 2015 | 2014 |
| Revenue | \$ 14,010,693 | \$ 13,648,715 | \$ 11,928,416 |
| Operating expense: | | | |
| Cost of revenue and product support | 4,279,724 | 5,256,251 | 5,087,973 |
| Sales and marketing | 5,371,005 | 5,941,349 | 4,741,574 |
| General and administrative | 3,165,077 | 4,279,641 | 3,812,265 |
| Depreciation and amortization | 507,446 | 768,165 | 879,329 |
| Impairment of intangibles | - | 1,495,703 | - |
| Total operating expense | 13,323,252 | 17,741,109 | 14,521,141 |
| Income (loss) from operations | 687,441 | (4,092,394) | (2,592,725) |
| Other (expense) income: | | | |
| Interest income (expense), net | 5,190 | 242,621 | 102,580 |
| Loss on disposition of Investment | (26,128) | - | - |
| Income (loss) before income taxes | 666,503 | (3,849,773) | (2,490,145) |
| Provision for income taxes | - | - | - |
| Net income (loss) | 666,503 | (3,849,773) | (2,490,145) |
| Dividends on preferred stock | (729,288) | (568,821) | (617,891) |
| Restructuring of Series B Preferred | - | (2,141,980) | - |
| Net loss applicable to common shareholders | \$ (62,785) | \$ (6,560,574) | \$ (3,108,036) |
| Weighted average shares, basic and diluted | 19,151,000 | 17,375,000 | 16,710,000 |
| Basic and diluted loss per share | \$ (0.00) | \$ (0.38) | \$ (0.19) |

Table of Contents

PARK CITY GROUP, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income

| | For the Years Ended June 30, | | |
|--|------------------------------|----------------|----------------|
| | 2016 | 2015 | 2014 |
| Net income (loss) | \$ 666,503 | \$ (3,849,773) | \$ (2,490,145) |
| Other Comprehensive Income (Loss): | | | |
| Unrealized loss on marketable securities | (26,128) | - | - |
| Reclassification adjustment | 26,128 | - | - |
| Net income (loss) on marketable securities | - | - | - |
| Comprehensive income (loss) | \$ 666,503 | \$ (3,849,773) | \$ (2,490,145) |

See accompanying notes to consolidated financial statements.

Table of Contents

PARK CITY GROUP, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity (Deficit)

| | Series B Preferred Stock | | Series B-1 Preferred Stock | | Common Stock | | Additional Paid-In Capital | Accumulated Deficit | Total |
|---------------------------------|-----------------------------|--------|-------------------------------|--------|--------------|-----------|----------------------------------|------------------------|--------------|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | |
| Balance, June 30, 2013 | 411,927 | 4,119 | - | - | 16,128,530 | \$161,285 | \$43,314,986 | \$(33,239,018) | \$10,241,000 |
| Stock issued for: | | | | | | | | | |
| Compensation | - | - | - | - | 312,364 | 3,124 | 1,089,574 | - | 1,092,700 |
| Cash | - | - | - | - | 277,092 | 2,771 | 1,659,922 | - | 1,662,700 |
| Charitable Contribution | - | - | - | - | 15,000 | 150 | 96,750 | - | 96,900 |
| Preferred Dividends-Declared | - | - | - | - | - | - | - | (617,891) | (617,891) |
| Exercise of Options/Warrants | - | - | - | - | 195,039 | 1,950 | 631,504 | - | 633,450 |
| Net loss | - | - | - | - | - | - | - | (2,490,145) | (2,490,145) |
| Balance, June 30, 2014 | 411,927 | 4,119 | - | - | 16,928,025 | 169,280 | 46,792,736 | (36,347,054) | 10,619,000 |
| Series B Restructure | 214,198 | 2,142 | - | - | - | - | 2,139,838 | (2,141,980) | - |
| Series B Redemption | (750) | (7) | - | - | - | - | (7,493) | - | (7,500) |
| Stock issued for: | | | | | | | | | |
| Accrued compensation | - | - | 30,000 | 300 | 366,033 | 3,664 | 2,156,229 | - | 2,160,000 |
| Cash | - | - | - | - | 693,090 | 6,931 | 7,802,664 | - | 7,809,600 |
| Charitable Contribution | - | - | - | - | 15,000 | 150 | 157,800 | - | 157,950 |
| Preferred Dividends-PIK | - | - | 44,200 | 442 | - | - | 441,560 | - | 442,000 |
| Acquisition | - | - | - | - | 873,438 | 8,734 | 10,813,162 | - | 10,821,900 |
| Preferred Dividends-Declared | - | - | - | - | - | - | - | (568,821) | (568,821) |
| Net loss | - | - | - | - | - | - | - | (3,849,773) | (3,849,773) |
| Balance, June 30, 2015 | 625,375 | 6,254 | 74,200 | 742 | 18,875,586 | 188,759 | 70,296,496 | (42,907,628) | 27,584,000 |
| Stock issued for: | | | | | | | | | |
| Accrued compensation | - | - | 40,000 | 400 | 320,770 | 3,208 | 2,084,133 | - | 2,087,900 |
| Cash | - | - | - | - | 23,528 | 235 | 199,613 | - | 199,840 |
| Preferred Dividends-PIK | - | - | 66,013 | 660 | - | - | 659,470 | - | 660,130 |

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| | | | | | | | | | |
|--------------------|---------|---------|---------|---------|------------|-----------|--------------|----------------|------------|
| Preferred | | | | | | | | | |
| Dividends-Declared | - | - | - | - | - | - | - | (729,288) | (729,288) |
| Exercise of | | | | | | | | | |
| Option/Warrant | - | - | - | - | 9,429 | 94 | 32,908 | - | 33,002 |
| Net income | - | - | - | - | - | - | - | 666,503 | 666,503 |
| Balance, June 30, | | | | | | | | | |
| 2016 | 625,375 | \$6,254 | 180,213 | \$1,802 | 19,229,313 | \$192,296 | \$73,272,620 | \$(42,970,413) | \$30,502 |

See accompanying notes to consolidated financial statements.

F-7

Table of Contents

PARK CITY GROUP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

| | For the Years Ended June 30, | | |
|--|------------------------------|----------------|----------------|
| | 2016 | 2015 | 2014 |
| Cash flows from operating activities: | | | |
| Net income (loss) | \$ 666,503 | \$ (3,849,773) | \$ (2,490,145) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 507,446 | 768,165 | 879,329 |
| Impairment of intangibles | - | 1,495,703 | - |
| Bad debt expense | 68,140 | 186,780 | 186,740 |
| Stock compensation expense | 1,010,312 | 2,760,329 | 1,719,375 |
| Charitable non-cash donations | - | 157,950 | 96,900 |
| Loss on short-term marketable securities | 26,128 | - | - |
| Decrease (increase) in: | | | |
| Trade receivables | (1,975,517) | 710,302 | (661,357) |
| Prepays and other assets | 70,152 | (501,957) | (20,747) |
| Increase (decrease) in: | | | |
| Accounts payable | (236,810) | (49,296) | 84,634 |
| Accrued liabilities | (18,305) | 136,517 | 49,252 |
| Deferred revenue | 385,174 | (107,123) | 63,485 |
| Net cash provided by (used in) operating activities | 503,223 | 1,707,597 | (92,534) |
| Cash flows from investing activities: | | | |
| Cash from sale of marketable securities | 4,612,908 | - | - |
| Payments received on notes receivable | - | 300,000 | - |
| Net cash received in acquisition | - | 22,119 | - |
| Cash advanced on Note Receivable | - | (2,559,460) | (1,200,000) |
| Cash from sale of property & equipment | - | - | 6,505 |
| Purchase of property and equipment | (80,987) | (369,536) | (459,230) |
| Capitalization of software costs | (182,942) | - | - |
| Purchase of long-term investments | (75,584) | - | - |
| Purchase of marketable securities | (4,639,036) | - | - |
| Net cash used in investing activities | (365,641) | (2,606,877) | (1,652,725) |
| Cash flows from financing activities: | | | |
| Proceeds from employee stock plans | 199,848 | 203,211 | 153,875 |
| Proceeds from exercises of options and warrants | 33,002 | - | 633,454 |
| Proceeds from issuance of note payable | - | 172,795 | 338,287 |
| Proceeds from issuance of stock | - | 7,606,384 | 1,493,818 |
| Net increase in lines of credit | - | 1,300,000 | - |
| Preferred stock redemption | - | (7,500) | - |
| Dividends paid | (10,575) | (157,147) | (586,999) |
| Payments on notes payable and capital leases | (242,041) | (245,450) | (551,202) |
| Net cash (used in) provided by financing activities | (19,766) | 8,872,293 | 1,481,233 |

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| | | | |
|---|---------------|---------------|--------------|
| Net increase (decrease) in cash and cash equivalents | 117,816 | 7,973,013 | (264,026) |
| Cash and cash equivalents at beginning of period | 11,325,572 | 3,352,559 | 3,616,585 |
| Cash and cash equivalents at end of period | \$ 11,443,388 | \$ 11,325,572 | \$ 3,352,559 |
| Supplemental Disclosure of Cash Flow Information | | | |
| Cash paid for income taxes | \$ - | \$ - | \$ 6,634 |
| Cash paid for interest | \$ 46,508 | \$ 80,534 | \$ 75,343 |
| Supplemental Disclosure of Non-Cash Investing and Financing Activities | | | |
| Preferred Stock to pay accrued liabilities | \$ 400,000 | \$ 300,000 | \$ - |
| Common Stock to pay accrued liabilities | \$ 1,687,741 | \$ 1,860,191 | \$ 1,107,698 |
| Dividends accrued on preferred stock | \$ 729,288 | \$ 568,821 | \$ 617,891 |
| Dividends paid with preferred stock | \$ 660,130 | \$ 442,002 | \$ - |
| Conversion of accounts receivable into notes receivable | \$ - | \$ - | \$ 1,622,863 |
| Series B restructure | \$ - | \$ 2,141,980 | \$ - |
| Note payable for long-term investment | \$ 396,000 | \$ - | \$ - |

See accompanying notes to consolidated financial statements.

Table of Contents

Supplemental Disclosure of Non-Cash Investing and Financing Activities, continued

On June 30, 2015, the Company purchased 100% of the outstanding common stock of ReposiTrak, Inc. The fair values of ReposiTrak's assets and liabilities at the date of acquisition and the consideration paid, net of cash acquired, are as follows:

| | |
|---|------------|
| Receivables | \$ 152,340 |
| Prepaid expense | 17,500 |
| Customer relationships | 1,314,000 |
| Goodwill | 16,077,953 |
| Accounts payable | (128,126) |
| Deferred revenue | (598,232) |
| Net assets acquired | 16,835,435 |
| Common stock issued | 10,821,897 |
| Receivables eliminated in consolidation | 6,035,657 |
| Cash received in acquisition | \$ 22,119 |

See accompanying notes to consolidated financial statements.

Table of Contents

PARK CITY GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2016 and June 30, 2015

NOTE 1. DESCRIPTION OF BUSINESS AND ACQUISITION OF REPOSITRAK, INC.

Summary of Business

The Company is incorporated in the state of Nevada. The Company has three subsidiaries, PC Group, Inc. (formerly, Park City Group, Inc.), a Utah Corporation (98.76% owned), and Park City Group, Inc., (formerly, Prescient Applied Intelligence, Inc.), a Delaware Corporation (100% owned) and ReposiTrak, Inc., a Utah corporation (100% owned). All intercompany transactions and balances have been eliminated in consolidation.

The Company designs, develops, markets and supports proprietary software products. These products are designed for businesses having multiple locations to assist in the management of business operations on a daily basis and communicate results of operations in a timely manner. In addition, the Company has built a consulting practice for business improvement that centers on the Company's proprietary software products. The principal markets for the Company's products are multi-store retail and convenience store chains, branded food manufacturers, suppliers and distributors, and manufacturing companies, which have operations in North America, Europe, Asia and the Pacific Rim. As a result of the acquisition of ReposiTrak, Inc. ("ReposiTrak") in June 2015, as more particularly described below, the Company also provides food, pharmaceutical, and dietary supplement retailers and suppliers with a robust cloud-based solution to help protect their brands and remain in compliance with business records and regulatory requirements, such as the Food Safety Modernization Act ("FSMA") and the Drug Quality and Security Act ("DQSA").

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

Use of Estimates

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

Table of Contents

Concentration of Credit Risk and Significant Customers

The Company maintains cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

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

The Company's accounts receivable are derived from sales of products and services primarily to customers operating multi-location retail and grocery stores. Amounts that have been invoiced are recorded in accounts receivable and in deferred revenue or revenue, depending on whether the revenue recognition criteria have been met.

During the years ended June 30, 2016, there were no customers that accounted for greater than 10% of total revenue. During the years ended June 30, 2015 and 2014, the Company had one customer, ReposiTrak, Inc. (acquired on June 30, 2015) that accounted for greater than 10% of total revenue in both years.

Receivables

Trade account and notes receivable are stated at the amount the Company expects to collect. Receivables are reviewed individually for collectability. If the financial condition of the Company's customers were to deteriorate, adversely affecting their ability to make payments, allowances may be required.

Allowance for Doubtful Accounts Receivable

The Company offers credit terms on the sale of the Company's products to a significant majority of the Company's customers and requires no collateral from these customers. The Company performs ongoing credit evaluations of customers' financial condition and maintains an allowance for doubtful accounts receivable based upon the Company's historical experience and a specific review of accounts receivable at the end of each period. As of June 30, 2016, 2015 and 2014, the allowance for doubtful accounts was \$75,000, \$94,000, and \$70,000, respectively.

Depreciation and Amortization

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

| | Years |
|--------------------------------|-----------|
| Furniture and fixtures | 5-7 |
| Computer Equipment | 3 |
| Equipment under capital leases | 3 |
| Leasehold improvements | See below |

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

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Amortization of intangible assets are computed using the straight line method based on the following estimated useful lives:

| | Years |
|-----------------------------|-----------|
| Customer relationships | 10 |
| Acquired developed software | 5 |
| Developed software | 3 |
| Goodwill | See below |

F-11

Table of Contents

Goodwill and intangible assets deemed to have indefinite lives are subject to annual impairment tests. Other intangible assets are amortized over their useful lives. See Note 7 regarding impairment charges for the year ended June 30, 2015.

Warranties

The Company offers a limited warranty against software defects. Customers who are not completely satisfied with their software purchase may attempt to be reimbursed for their purchases outside the warranty period. For the years ending June 30, 2016, 2015 and 2014, the Company did not incur any expense associated with warranty claims.

Revenue Recognition

The Company recognizes revenue when all of the following conditions are satisfied: (i) there is persuasive evidence of an arrangement, (ii) the service has been provided to the customer, (iii) the collection of our fees is probable and (iv) the amount of fees to be paid by the customer is fixed or determinable.

The Company recognizes subscription, hosting, premium support, and maintenance revenue ratably over the length of the agreement beginning on the commencement dates of each agreement or when revenue recognition conditions are satisfied. Revenue from license and professional services agreements are recognized as delivered.

Amounts that have been invoiced are recorded in accounts receivable and in deferred revenue or revenue, depending on whether the revenue recognition criteria have been met.

Agreements with multiple deliverables such as subscriptions, support, and professional services, are accounted for separately if the deliverables have standalone value upon delivery. Subscription services have standalone value as the services are typically sold separately. When considering whether professional services have standalone value, the Company considers the following factors: (i) availability of services from other vendors, (ii) the nature and timing of professional services, and (iii) sales of similar services sold separately. Multiple deliverable arrangements are separated into units of accounting and the total contract consideration is allocated to each unit based on relative selling prices.

Software Development Costs

The Company accounts for research costs of computer software to be sold, leased or otherwise marketed as expense until technological feasibility has been established for the product. Once technological feasibility is established, all software costs are capitalized until the product is available for general release to customers. Judgment is required in determining when technological feasibility of a product is established. We have determined that technological feasibility for our software products is reached shortly after a working prototype is complete and meets or exceeds design specifications including functions, features, and technical performance requirements. Costs incurred after technological feasibility is established have been and will continue to be capitalized until such time as when the product or enhancement is available for general release to customers.

During 2016, 2015 and 2014 capitalized development costs of \$0, \$0, and \$73,082 respectively, were amortized into expense. The Company amortizes its developed and purchased software on a straight-line basis over three and five years, respectively.

Research and Development Costs

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

F-12

Table of Contents

Advertising Costs

Advertising is expensed as incurred. Advertising costs were approximately \$113,000, \$21,000, and \$14,000 for the years ended June 30, 2016, 2015 and 2014, respectively.

Income Taxes

The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of temporary differences between tax bases and financial reporting bases of other assets and liabilities.

Earnings Per Share

Basic net income or loss per common share (“Basic EPS”) excludes dilution and is computed by dividing net income or loss by the weighted average number of common shares outstanding during the period. Diluted net income or loss per common share (“Diluted EPS”) reflects the potential dilution that could occur if stock options or other contracts to issue shares of common stock were exercised or converted into common stock. The computation of Diluted EPS does not assume exercise or conversion of securities that would have an anti-dilutive effect on net income (loss) per common share.

For the year ended June 30, 2016, 2015 and 2014 warrants to purchase 1,416,749, 1,426,178 and 317,373 shares of common stock, respectively, were not included in the computation of diluted EPS due to the anti-dilutive effect. Warrants to purchase shares of common stock were outstanding at prices ranging from \$3.50 to \$10.00 per share at June 30, 2016.

1,029,818 shares of common stock issuable upon conversion of the Company’s Series B Preferred were not included in the diluted EPS calculation for the year ended June 30, 2014, as the effect would have been anti-dilutive. Series B Preferred was no longer convertible to common stock for the year ended June 30, 2016 and 2015.

| | Year ended June 30, 2016 | Year ended June 30, 2015 | Year ended June 30, 2014 |
|---|--------------------------------|--------------------------------|--------------------------------|
| Dilutive effect of warrants | - | - | - |
| Weighted average shares outstanding assuming dilution | 19,151,000 | 17,375,000 | 16,710,000 |

Stock-Based Compensation

The Company recognizes the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards. The Company records compensation expense on a straight-line basis. The fair value of options granted are estimated at the date of grant using a Black-Scholes option pricing model with assumptions for the risk-free interest rate, expected life, volatility, dividend yield and forfeiture rate.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are stated at fair value.

Marketable Securities

Management determines the appropriate classification of marketable securities at the time of purchase and reevaluates such determination at each balance sheet date. Securities are classified as available for sale and are carried at fair value, with the change in unrealized gains and losses, net of tax, reported as a separate component on the consolidated statements of comprehensive income. Fair value is determined based on quoted market rates when observable or utilizing data points that are observable, such as quoted prices, interest rates and yield curves. The cost of securities sold is based on the specific-identification method. Interest on securities classified as available for sale is also included as a component of interest income.

F-13

Table of Contents

Fair Value of Financial Instruments

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

Reclassifications

Certain prior-year amounts have been reclassified to conform with the current year's presentation.

NOTE 3. INVESTMENTS

Investee companies that are not consolidated, but over which the Company exercises significant influence, are accounted for under the equity method of accounting. Whether or not the Company exercises significant influence with respect to an investee depends on an evaluation of several factors including, among others, representation on the investee company's board of directors and ownership level, which is generally a 20% to 50% interest in the voting securities of the investee company. Under the equity method of accounting, an investee company's accounts are not reflected within the Company's consolidated balance sheets and statements of operations; however, the Company's share of the earnings or losses of the investee company is reflected in the consolidated statements of operations. The Company's carrying value in an equity method investee company is reflected in the caption "Investments" in the Company's consolidated balance sheets.

As of June 30, 2016, investments represent a 36% ownership in a privately-held corporation, and represents initial (January 2016) and subsequent investments. There were nominal earnings for the year ended June 30, 2016.

When the Company's carrying value in an equity method investee company is reduced to zero, no further losses are recorded in the Company's consolidated financial statements unless the Company guaranteed obligations of the investee company or has committed additional funding. When the investee company subsequently reports income, the Company will not record its share of such income until it equals the amount of its share of losses not previously recognized.

NOTE 4. RECEIVABLES

Accounts receivable consist of the following:

| | 2016 | 2015 |
|---------------------------------|--------------|--------------|
| Accounts receivable | \$ 3,622,968 | \$ 1,734,591 |
| Allowance for doubtful accounts | (75,000) | (94,000) |
| | \$ 3,547,968 | \$ 1,640,591 |

Accounts receivable consist of trade accounts receivable and unbilled amounts recognized as revenue during the year for which invoicing occurs subsequent to year-end. Amounts that have been invoiced are recorded in accounts receivable and in deferred revenue or revenue, depending on whether the revenue recognition criteria have been met.

Table of Contents

NOTE 5. PROPERTY AND EQUIPMENT

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

| | 2016 | 2015 |
|--|--------------|--------------|
| Computer equipment | \$ 3,350,390 | \$ 3,269,403 |
| Furniture and fixtures | 260,574 | 260,574 |
| Leasehold improvements | 231,782 | 231,782 |
| | 3,842,746 | 3,761,759 |
| Less accumulated depreciation and amortization | (3,373,363) | (2,997,317) |
| | \$ 469,383 | \$ 764,442 |

Depreciation expense for the years ended June 30, 2016 and 2015 was \$376,046 and \$345,847, respectively.

NOTE 6. CAPITALIZED SOFTWARE COSTS

Capitalized software costs consist of the following at June 30:

| | 2016 | 2015 |
|-------------------------------|--------------|--------------|
| Capitalized software costs | \$ 2,626,070 | \$ 2,443,128 |
| Less accumulated amortization | (2,443,128) | (2,443,128) |
| | \$ 182,942 | \$ - |

Amortization expense for the years ended June 30, 2016 and 2015 was \$0 and \$0, respectively.

NOTE 7. ACQUISITION RELATED INTANGIBLE ASSETS, NET

Customer relationships consist of the following at June 30:

| | 2016 | 2015 |
|-------------------------------|--------------|--------------|
| Customer relationships | \$ 5,537,161 | \$ 5,537,161 |
| Less accumulated amortization | (4,354,561) | (2,727,458) |
| Less impairment charge | - | (1,495,703) |
| | \$ 1,182,600 | \$ 1,314,000 |

Amortization expense for the years ended June 30, 2016 and 2015 was \$131,400 and \$422,316, respectively.

The Company recognized a non-cash impairment charge of \$1.5 million during the year ended June 30, 2015, due principally to decreased margins on customers acquired in connection with the Prescient acquisition. In management's determination, the carrying value of these relationships exceeded their estimated fair values as determined by future discounted cash flow projections. When projecting the stream of future cash flows for purposes of determining long-lived asset recoverability, management makes assumptions, incorporating market conditions, sales growth rates, and operating expense.

Estimated aggregate amortization expense per year are as follows:

Years ending June 30:

| | |
|------|---------|
| 2017 | 131,400 |
| 2018 | 131,400 |

| | |
|------------|---------|
| 2019 | 131,400 |
| 2020 | 131,400 |
| Thereafter | 657,000 |

NOTE 8. ACCRUED LIABILITIES

Accrued liabilities consist of the following at June 30, 2016 and 2015:

| | 2016 | 2015 |
|----------------------------------|--------------|--------------|
| Accrued stock-based compensation | \$ 768,055 | \$ 1,665,731 |
| Accrued compensation | 336,957 | 506,064 |
| Accrued other liabilities | 214,432 | 225,140 |
| Accrued dividends | 182,759 | 124,176 |
| | \$ 1,502,203 | \$ 2,521,111 |

Table of Contents

NOTE 9. NOTES PAYABLE

The Company had the following notes payable obligations at June 30, 2016 and 2015:

| Notes Payable: | 2016 | 2015 |
|---|------------|------------|
| Note payable to a bank, due in monthly installments of \$7,860 bearing interest at 3.73% due February 9, 2017, this note is a conversion of a multi-advance note payable initially put in place on February 19, 2012, secured by related capital equipment purchases. | 62,445 | 152,530 |
| Note payable to a bank, due in monthly installments of \$7,860 bearing interest at 4.17% due August 26, 2018, this note is a conversion of a multi-advance note payable initially put in place on August 26, 2013, secured by related capital equipment purchases. | 187,799 | 272,191 |
| Note payable to a bank, due in monthly installments of \$4,932 bearing interest at 4.91% due March 18, 2018, secured by related capital equipment purchases. | 98,980 | 151,772 |
| Note payable to an entity, due in monthly installments of \$4,009 bearing interest at 4.00% due July 1, 2019, secured by long-term investments. | 381,228 | - |
| | 730,452 | 576,493 |
| Less current portion notes payable | (239,199) | (227,301) |
| | \$ 491,253 | \$ 349,192 |

Maturities of notes payable and capital leases at June 30, 2016 are as follows:

| Year ending June 30: | |
|----------------------|------------|
| 2017 | \$ 239,199 |
| 2018 | \$ 170,232 |
| 2019 | \$ 44,200 |
| 2020 | \$ 276,821 |
| 2021 | \$ - |

NOTE 10. LINES OF CREDIT

The Company's line of credit with a bank has an annual interest rate of 1.71% + the greater of zero percent or LIBOR. The line of credit is scheduled to mature on December 27, 2016. The balance on the line of credit was \$2,500,000 at June 30, 2016 and June 30, 2015.

NOTE 11. DEFERRED REVENUE

Deferred revenue consisted of the following at June 30:

| | 2016 | 2015 |
|--------------|--------------|--------------|
| Subscription | \$ 2,221,264 | \$ 1,742,909 |
| Other | 495,830 | 589,011 |
| | \$ 2,717,094 | \$ 2,331,920 |

Table of Contents

NOTE 12. INCOME TAXES

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

Net deferred tax liabilities consist of the following components at June 30:

| | 2016 | 2015 |
|---------------------------|---------------|---------------|
| Deferred tax assets: | | |
| NOL carryover | \$ 48,359,356 | \$ 45,886,227 |
| Amortization | - | 21,115 |
| Allowance for bad debts | 29,250 | 19,500 |
| Accrued expense | 254,971 | 649,635 |
| Deferred revenue | 1,059,667 | 676,138 |
| Deferred tax liabilities: | | |
| Depreciation | (88,495) | (140,838) |
| Amortization | (184,989) | - |
| Valuation allowance | (49,429,760) | (47,211,777) |
| Net deferred tax asset | \$ - | \$ - |

The income tax provision differs from the amounts of income tax determined by applying the US federal income tax rate to pretax income from continuing operations for the years ended June 30, 2016 and 2015 due to the following:

| | 2016 | 2015 |
|---|------------|----------------|
| Book income (loss) | \$ 259,941 | \$ (1,500,591) |
| Stock for services | 134,721 | 172,502 |
| Stock for charity | - | 61,601 |
| Intangible impairment | - | 583,324 |
| Change in accrual stock | (394,664) | 211,982 |
| Life insurance | 26,438 | 26,438 |
| Meals & entertainment | 10,785 | 12,885 |
| Change in deferred revenue | 383,528 | (41,778) |
| Change in allowance for doubtful accounts | (7,410) | (7,800) |
| Change in depreciation | 103,589 | (137,747) |
| NOL utilization | (516,928) | - |
| Valuation allowance | - | 619,719 |
| | \$ - | \$ - |

At June 30, 2016, the Company had net operating loss carry-forwards of approximately \$123,998,300 that may be offset against past and future taxable income from the year 2013 through 2035. No tax benefit has been reported in the June 30, 2016 consolidated financial statements since the potential tax benefit is offset by a valuation allowance of the same amount.

Due to the change in ownership provisions of the Tax Reform Act of 1986, net operating loss carryforwards for Federal income tax reporting purposes are subject to annual limitations. In January 2009 the Company acquired Prescient Applied Intelligence, Inc., which had significant net operating loss carry-forwards. Due to change in ownership, Prescient's net operating loss carryforwards may be limited as to use in future years. The limitation will be determined on a year-to-year basis.

The Company determines whether it is more likely than not that a tax position will be sustained upon examination based upon the technical merits of the position. If the more-likely-than-not threshold is met, the Company measures the tax position to determine the amount to recognize in the financial statements. The Company performed a review of its material tax positions in accordance with these recognition and measurement standards.

F-17

Table of Contents

The Company has concluded that there are no significant uncertain tax positions requiring disclosure, and there are not material amounts of unrecognized tax benefits.

The Company includes interest and penalties arising from the underpayment of income taxes in the consolidated statements of operations in the provision for income taxes. As of June 30, 2016, the Company had no accrued interest or penalties related to uncertain tax positions.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before June 30, 2012.

NOTE 13. COMMITMENTS AND CONTINGENCIES

Operating Leases

In September, 2012, the Company entered into an office lease at 299 So. Main Street, Suite 2370, Salt Lake City, Utah, 84111, providing for the lease of approximately 5,300 square feet for a period of seven years, commencing on November 1, 2012. The monthly rent is \$13,122.

Minimum future rental payments under the non-cancelable operating leases are as follows:

Year ending June 30:

| | |
|------|------------|
| 2017 | \$ 165,024 |
| 2018 | \$ 169,993 |
| 2019 | \$ 73,847 |
| 2020 | \$ - |
| 2021 | \$ - |

From time to time the Company may enter into or exit from diminutive operating lease agreements for equipment such as copiers, temporary back up servers, etc. These leases are not of a material amount and thus will not in the aggregate have a material adverse effect on our business, financial condition, results of operation or liquidity.

NOTE 14. EMPLOYEE BENEFIT PLAN

The Company offers an employee benefit plan under Benefit Plan Section 401(k) of the Internal Revenue Code. Employees who have attained the age of 18 are eligible to participate. The Company, at its discretion, may match employee's contributions at a percentage determined annually by the Board of Directors. The Company does not currently match contributions. There were no expenses for the years ended June 30, 2016 and 2015.

NOTE 15. STOCKHOLDERS EQUITY

Officers and Directors Stock Compensation

Effective November 2008, the Board of Directors approved the following compensation for directors who are not employed by the Company:

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

Upon appointment, outside independent directors receive a grant of \$150,000 payable in shares of the Company's restricted Common Stock calculated based on the market value of the shares of Common Stock on the date of grant. The shares vest ratably over a five-year period.

Reimbursement of all travel expenses related to performance of Directors' duties on behalf of the Company.

Officers, Key Employees, Consultants and Directors Stock Compensation.

In January 2013, the Board of Directors approved the Second Amended and Restated the 2011 Stock Plan (the "Amended 2011 Plan"), which Amended 2011 Plan was approved by shareholders on March 29, 2013. Under the terms of the Amended 2011 Plan, all employees, consultants and directors of the Company are eligible to participate. The maximum aggregate number of shares of common stock that may be granted under the 2011 Plan was increased from 250,000 shares to 550,000 shares. A Committee of independent members of the Company's Board of Directors administers the 2011 Plan. The exercise price for each share of common stock purchasable under any incentive stock option granted under the 2011 Plan shall be not less than 100% of the fair market value of the common stock, as determined by the stock exchange on which the common stock trades on the date of grant. If the incentive stock option is granted to a shareholder who possesses more than 10% of the Company's voting power, then the exercise price shall be not less than 110% of the fair market value on the date of grant. Each option shall be exercisable in whole or in installments as determined by the Committee at the time of the grant of such options. All incentive stock options expire after 10 years. If the incentive stock option is held by a shareholder who possesses more than 10% of the Company's voting power, then the incentive stock option expires after five years. If the option holder is terminated, then the incentive stock options granted to such holder expire no later than three months after the date of termination. For option holders granted incentive stock options exercisable for the first time during any fiscal year and in excess of \$100,000 (determined by the fair market value of the shares of common stock as of the grant date), the excess shares of common stock shall not be deemed to be purchased pursuant to incentive stock options.

During the year ended June 30, 2016 the Company issued 37,729 shares to its directors and 278,000 shares to employees and consultants under these plans, 311,538 of which are included in the rollforward of Restricted Stock units below.

Table of Contents

Restricted Stock Units

| | Restricted Stock Units | Weighted Average Grant Date Fair Value (\$/share) |
|------------------------------|---------------------------|---|
| Outstanding at July 1, 2014 | 1,586,964 | \$5.05 |
| Granted | 145,339 | 9.54 |
| Vested and issued | (348,186) | 4.74 |
| Forfeited | (33,147) | 9.35 |
| Outstanding at June 30, 2015 | 1,350,970 | 5.51 |
| Granted | 48,228 | 10.51 |
| Vested and issued | (311,538) | 5.10 |
| Forfeited | (36,516) | 6.51 |
| Outstanding at June 30, 2016 | 1,051,144 | \$5.82 |

The number of restricted stock units outstanding at June 30, 2016 included 2,000 units that have vested but for which shares of common stock had not yet been issued pursuant to the terms of the agreement.

As of June 30, 2016, there was approximately \$6.1 million of unrecognized stock-based compensation expense under our equity compensation plans, which is expected to be recognized on a straight line basis over a weighted average period of 5.19 years.

Warrants

Outstanding warrants were issued in connection with private placements of the Company's common stock and with the Series B Preferred Restructure. The following table summarizes information about fixed stock warrants outstanding at June 30, 2016:

| Range of exercise prices | Number Outstanding | Warrants Outstanding at June 30, 2016 | | Warrants Exercisable at June 30, 2016 | |
|-----------------------------|-----------------------|---|---------------------------------------|--|---------------------------------------|
| | | Weighted average remaining contractual life (years) | Weighted average exercise price | Number exercisable | Weighted average exercise price |
| \$ 3.50 – 4.00 | 1,316,268 | 3.26 | \$ 3.92 | 1,316,268 | \$ 3.92 |
| \$ 6.45 – 10.00 | 100,481 | 2.49 | \$ 7.29 | 100,481 | \$ 7.29 |
| | 1,416,749 | 3.21 | \$ 4.16 | 1,416,749 | \$ 4.16 |

Preferred Stock

The Company's certificate of incorporation currently authorizes the issuance of up to 30,000,000 shares of 'blank check' preferred stock with designations, rights, and preferences as may be determined from time to time by the Company's Board of Directors, of which 700,000 shares are currently designated as Series B Preferred Stock ("Series B Preferred")

and 300,000 shares are designated as Series B-1 Preferred Stock (“Series B-1 Preferred”). As of June 30, 2016, a total of 625,375 shares of Series B Preferred and 180,213 shares of Series B-1 Preferred were issued and outstanding. Both classes of Series B Preferred Stock pay dividends at a rate of 7% per annum if paid by the Company in cash, or 9% if paid by the Company in PIK Shares, the Company may elect to pay accrued dividends on outstanding shares of Series B Preferred in either cash or by the issuance of additional shares of Series B Preferred (“PIK Shares”).

During the year ended June 30, 2016, the Company issued 66,013 shares for dividends in kind and 40,000 shares in satisfaction of an accrued bonus payable to the Company's CEO.

NOTE 16. ACQUISITION OF REPOSITRAK

On June 30, 2015, the Company consummated the acquisition of 100% of the outstanding capital stock of ReposiTrak, Inc. The accompanying audited consolidated financial statements of the Company as of and for the year ended June 30, 2015 contain the results of operations of ReposiTrak from June 30, 2015. We issued 873,438 shares of our common stock in connection with this acquisition.

We have accounted for the acquisition as the purchase of a business. The assets acquired and the liabilities assumed of ReposiTrak have been recorded at their respective fair values. The excess of the purchase price over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill. Goodwill is attributed to buyer-specific value resulting from expected synergies, including long-term cost savings, as well as industry relationships that are not included in the fair values of assets. Goodwill will not be amortized, but tested annually for impairment.

Table of Contents

The purchase price consisted of the 873,438 shares of our common stock. The fair value of the shares issued was \$10,821,897 and was determined using the closing price of our common stock on June 30, 2015. The price paid to acquire ReposiTrak was \$10,830,897, approximately \$9,000 of which was for direct transaction costs associated with the issuance of equity. The net acquisition cost of \$10,799,778 which excludes \$31,119 of cash acquired from ReposiTrak were allocated based on their estimated fair value of the assets acquired and liabilities assumed, as follows:

| | |
|---|------------|
| Receivables | \$ 152,340 |
| Prepaid expense | 17,500 |
| Customer relationships | 1,314,000 |
| Goodwill | 16,077,953 |
| Accounts payable | (128,126) |
| Deferred revenue | (598,232) |
| Net assets acquired | 16,835,435 |
| Common stock issued | 10,821,897 |
| Receivables eliminated in consolidation | 6,035,657 |
| | |
| Cash received in acquisition | \$ 22,119 |

Unaudited pro-forma results of operations for the twelve months ended June 30, 2015 and 2014, as though ReposiTrak had been acquired as of July 1, 2013, are as follows:

| | Three Months Ended | | | | | |
|---|--------------------|-----------------|-----------------|-----------------|--------------------|--------------------|
| | Sep 30, 2014 | Dec 31, 2014 | Mar 31, 2015 | Jun 30, 2015 | Year Ended 2015 | Year Ended 2014 |
| Revenue | \$ 2,826,813 | \$ 2,932,825 | \$ 2,870,646 | \$ 2,941,511 | \$ 11,571,795 | \$ 9,777,431 |
| Loss from Operations | (1,046,986) | (1,290,524) | (1,302,437) | (3,222,538) | (6,862,485) | (5,232,552) |
| Net Loss | (1,049,834) | (1,317,510) | (1,317,858) | (3,241,545) | (6,926,747) | (5,303,773) |
| Net Loss Applicable to Common Shareholders | (1,204,307) | (1,471,983) | (3,595,537) | (3,365,721) | (9,637,548) | (5,921,664) |
| Basic and Diluted EPS | (0.07) | (0.08) | (0.20) | (0.18) | (0.53) | (0.34) |

NOTE 17. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, August 2015, April 2016 and May 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09 (ASC Topic 606), Revenue from Contracts with Customers, ASU 2015-14 (ASC Topic 606) Revenue from Contracts with Customers, Deferral of the Effective Date, ASU 2016-10 (ASC Topic 606) Revenue from Contracts with Customers, Identifying Performance Obligations and Licensing, and ASU 2016-12 (ASC Topic 606) Revenue from Contracts with Customers, Narrow-Scope Improvements and Practical Expedients, respectively. ASC Topic 606 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. It also requires entities to disclose both quantitative and qualitative information that enable financial statements users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The amendments in these ASUs are effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted for annual periods beginning after December 15, 2016. This standard may be applied retrospectively to all prior periods presented, or retrospectively with a cumulative adjustment to retained earnings in the year of adoption. The Company is in the process of assessing the impact, if any, on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09 (ASC Topic 718), Stock Compensation—Improvements to Employee Share-Based Payment Accounting. The amendments in this ASU are intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax consequences, classification on the consolidated statement of cash flows and treatment of forfeitures. The amendments in this ASU are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The Company is in the process of assessing the impact, if any, of this ASU on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 (ASC Topic 842), Leases. The ASU amends a number of aspects of lease accounting, including requiring lessees to recognize operating leases with a term greater than one year on their balance sheet as a right-of-use asset and corresponding lease liability, measured at the present value of the lease payments. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is in the process of assessing the impact on its consolidated financial statements.

Table of Contents

In April 2015 and August 2015, the FASB issued ASU 2015-03 (ASC Subtopic 835-30), Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs and ASU 2015-15 (ASC Subtopic 835-30), Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements- Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting, respectively. The ASUs require that debt issuance costs related to a recognized debt liability, with the exception of those related to line-of-credit arrangements, be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The amendments in these ASUs are effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued. The adoption of this new guidance is not expected to have a material impact on the Company's consolidated financial statements and disclosures.

NOTE 18. RELATED PARTY TRANSACTIONS

Series B Restructuring

On February 4, 2015, holders of the Company's Series B Convertible Preferred Stock ("Series B Preferred"), consisting of Randall K. Fields, the Company's Chief Executive Officer, his spouse, and Robert W. Allen, a director of the Company (the "Holders"), entered into a restructuring agreement (the "Restructuring Agreement"), pursuant to which the Holders consented to the filing of an amendment (the "Series B Amendment") to the Certificate of Designation of the Relative Rights, Powers and Preference of the Series B Preferred (the "Series B Certificate of Designation"), pursuant to which (i) the rate at which the Series B Preferred accrues dividends was lowered to 7% per annum if paid by the Company in cash, or 9% if paid by the Company in PIK Shares (as defined below), (ii) the Company may now elect to pay accrued dividends on outstanding shares of Series B Preferred in either cash or by the issuance of additional shares of Series B Preferred ("PIK Shares"), (iii) the conversion feature of the Series B Preferred was eliminated, and (iv) the number of shares of the Company's preferred stock designated as Series B Preferred was increased from 600,000 to 900,000 shares (the "Series B Restructuring"). In consideration for the Series B Restructuring, the Company issued to the Holders: (y) an aggregate of 214,198 additional shares of Series B Preferred, which shares had a stated value equal to the amount that, but for the Series B Restructuring, would have been paid to the Holders as dividends over the next five years ("Additional Shares"), and (z) five-year warrants to purchase an aggregate of 1,085,068 shares of common stock for \$4.00 per share ("Series B Warrants"), an amount and per share purchase price equal to what the Holders would otherwise be entitled to receive upon conversion of their shares of Series B Preferred ("Warrant Shares").

The terms of the Series B Restructuring were amended on March 31, 2015 as follows: (i) the Series B Certificate of Designation was further amended (the "Second Series B Amendment") to (x) reduce the number of shares of the Company's preferred stock designated thereunder from 900,000 to 700,000, (y) require that, should the Company pay dividends on the Series B Preferred in PIK Shares, shares Series B-1 Preferred will be issued, rather than shares of Series B Preferred, and (z) in the event any Holder elects to exercise a Series B Warrant, one share of Series B Preferred will be automatically converted into one share of Series B-1 Preferred for every 2.5 Warrant Shares received by such Holder; and (ii) the Restructuring Agreement was amended to substitute the Additional Shares for shares of Series B-1 Preferred. The Second Series B Amendment was filed with the Nevada Secretary of State on March 31, 2015.

The Company issued 58,103 and 7,910 PIK Shares to Messrs. Fields and Allen in the year ended June 30, 2016, and 38,055, 5,488, and 657 PIK Shares to Messrs. Fields, Allen, and Ms. Fields in the year ended June 30, 2015, respectively.

Service Agreement. During the year ended June 30, 2016, the Company was a party to a Service Agreement with Fields Management, Inc. ("FMI"), pursuant to which FMI provided certain executive management services to the Company, including designating Mr. Randall K. Fields to perform the functions of President and Chief Executive

Officer for the Company. Randall K. Fields, FMI's designated Executive, who also serves as the Company's Chairman of the Board of Directors, controls FMI.

The Company had payables of \$32,253 and \$37,893 to FMI at June 30, 2016 and 2015 respectively, under this Agreement.

NOTE 19. SUBSEQUENT EVENTS

Subsequent to June 30, 2016, the Company issued 57,117 shares of common stock in connection with issuances under the Company's Employee Stock Purchase Plan and for the vesting of employee stock grants. The Company also issued 28,011 shares of Series B-1 Preferred for dividends paid in kind on the outstanding shares of Series B Preferred, and for an accrued bonus.

In accordance with the Subsequent Events Topic of the FASB ASC 855, we have evaluated subsequent events, through the filing date and noted no additional subsequent events that are reasonably likely to impact the financial statements.

F-21
