

PARK CITY GROUP INC
Form 10-K
September 15, 2010

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, 2010
or

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

000-03718
(Commission file number)

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

Nevada	37-1454128
State or other jurisdiction of incorporation	(IRS Employer Identification No.)
3160 Pinebrook Road, Park City, Utah 84098	(435) 645-2000
(Address of principal executive offices)	(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

Yes No

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the issuer as of June 30, 2010, which is the last business day of the registrant's most recently completed fiscal year, was approximately \$17,817,235 (at a closing price of \$3.80 per share).

As of September 10, 2010, 10,975,090 shares of the Company's \$.01 par value common stock were outstanding.

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ON FORM 10-K
YEAR ENDED JUNE 30, 2010

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

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Forward-Looking Statements

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

Disclaimer

In this Annual Report on Form 10-K, unless otherwise stated, or the context otherwise requires, reference to the terms “we,” the “Company,” “Park City Group” or “Prescient” refer to the Park City Group, Inc., a Delaware corporation, as well as to Park City Group, Inc., a Nevada corporation. The stock trades under the symbol PCYG.OB.

PART I

ITEM I. BUSINESS

Overview

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

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

The Company designs, develops, markets and supports proprietary software products. These products are designed to be used to facilitate improved business processes between all key constituents in the supply chain, starting with the retailer and moving back to suppliers and eventually raw material providers. In addition, the Company has built a consulting practice for business process improvement that centers around the Company’s proprietary software products and through establishment of a neutral and “trusted” third party relationship between retailers and suppliers. The principal markets for the Company's products are multi-store retail and convenience store chains, branded food manufacturers, suppliers and distributors, and manufacturing companies which have operations in North America, Europe, Asia and the Pacific Rim.

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We market our services to businesses primarily on a subscription basis. However, we do deliver our services on a license basis. Our efforts are focused on a direct sales model and indirectly through qualified partners and service providers.

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

Company History

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

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

On August 7, 2002, Fields Technologies, Inc. changed its name from Fields Technologies, Inc. to Park City Group, Inc., and reincorporated in Nevada. Therefore, both the parent-holding company (Nevada) and its operating subsidiary (Delaware) are named Park City Group, Inc. Park City Group, Inc. (Nevada) has no other business operations other than in connection with its subsidiaries, including Prescient.

Acquisition of Prescient Applied Intelligence, Inc.

On January 13, 2009, the Company merged PAII Transitory Sub, Inc., a wholly-owned subsidiary of the Company, with and into Prescient (the "Prescient Merger"). Prescient is a leading provider of on-demand solutions for the retail marketplace, including both retailers and suppliers. Its solutions capture information at the point of sale, provide greater visibility into real-time demand and turn data into actionable information across the entire supply chain. As a result of the Prescient Merger, revenue has increased substantially, to \$10,874,560 for the year ended June 30, 2010, and the Company has increased considerably the number of active software implementations.

As a result of the Prescient Merger, the Company owns 100% of Prescient. The Company's consolidated financial statements contain the results of operations of Prescient, as well as the impact on the Company's financial position resulting from the Prescient Merger subsequent to the date of acquisition.

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The Prescient Merger was accounted for as a business combination. The Company was the acquirer. The assets acquired and the liabilities assumed of Prescient have been recorded at their respective fair values. The total consideration paid to acquire Prescient was \$11,391,318, \$1,170,089 of which was for direct transaction costs. The acquisition cost includes \$3,086,016 of cash acquired from Prescient. The acquisition cost, net of the \$3,086,016 acquired cash, was \$8,305,302.

Software-as-a-Service Delivery Model

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

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

Target Industries Overview

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

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Supermarkets

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

Convenience Stores

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

Suppliers

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

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Specialty Retailers

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

Benefits of our Solutions and Services

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

Key advantages of our solution include:

- Synchronize retailers and suppliers so they can actually exchange information;
- Align their financial interests with payment and invoicing protocols and systems;
 - Enlist brain power of suppliers to help retailers manage complex businesses;
- Provide information to each side to identify and fix out of stocks and overstocks;
 - Provide forecasting technology to improve store orders;
 - Provide forecasting to help suppliers replenish retailer warehouses;
- Provide systems for suppliers to actually manage inventory flow to retailers; and
 - Help suppliers with overall demand planning and line sequencing.

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

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Solutions and Services

Solutions

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

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

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

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

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Enterprise Supply Chain Planning Suite (ESCP). Our ESCP suite includes a solution to help users analyze POS data and other demand signals to gain insight into customer demand. Suppliers have visibility into historical data – seasonal events, promotions, and buying trends – to facilitate accurate forecasting. Our software assesses how inventory will be impacted, then calculates recommended stocking levels, considers service level goals, and develops a time-phased replenishment plan. The solution brings demand data into one place, and will determine whether orders should come from existing inventory or if new production or procurement is necessary. ESCP is extremely flexible and can be configured to meet the needs of any company’s supply chain processes.

Our ESCP suite includes modules designed to help customers achieve balance between inventory investment and optimal customer service levels. In addition, it synchronizes all the elements affecting inventory to ensure product is available for timely distribution to customers. Users can easily manage the complex sets of data and parameters that impact their businesses, including seasonal builds, desired service levels, and manufacturing constraints. The solution considers consumption rates and inventory levels and automatically calculates time-phase safety stocks and replenishment quantities for each item and each location.

Our ESCP suite also includes a module that facilitates new product introductions, conducts promotion analysis, and manages the product lifecycle. By providing a detailed analysis of past demand patterns and applying that data to similar products, these modules help customers understand what makes a product launch successful, how a promotion will impact demand forecasts and revenue streams, and how long a product is likely to be profitable. They also create seasonality profiles and help manage inventory pipeline fill requirements through increased visibility into consumer demand.

Production line sequencing rounds out the ESCP suite. The production line sequencing module is a robust software application that enables more effective use of resources to meet customer demand and corporate goals. Production line sequencing works with existing enterprise resource planning (ERP) systems, combining master data with the latest forecasts, customer orders, on-hand inventories, and planned receipts to generate production plans and master production schedules.

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

Fresh Market Manager. Addressing the inventory issues that plague today’s retailers, Fresh Market Manager is a suite of software product applications designed to help manage perishable food departments including bakery, deli, seafood, produce, meat, home meal replacement, dairy, frozen food, and floral. Although the supermarket and convenience store industries have invested substantial sums on Point-of-Sale (POS) and scanning systems, those systems are, almost without exception, limited to providing price look-up functions rather than decision support functions. These industries are a classic representation of “data rich” and “information poor”. Park City Group is capitalizing on that environment to bring together information from disparate legacy applications and databases to provide an end-to-end integrated merchandising, production planning, demand forecasting and perpetual inventory system to address the industry’s perishable department needs.

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Fresh Market Manager helps identify true cost of goods and provides accurate and actionable profitability data on a corporate, regional, store-by-store, and/or item-by-item basis. Fresh Market Manager also produces hour-by-hour forecasts, production plans, perpetual inventory, and places/receives orders. Fresh Market Manager automates the majority of the planning, forecasting, ordering, and administrative functions associated with fresh merchandise or products.

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

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

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

Services

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

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

Technology, Development and Operations

Product Development

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

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

Operations

We currently serve our customers from a third-party data center hosting facility. The facility is a Statement on Auditing Standards (SAS) No. 70 certified location and is secured by around-the-clock guards, biometric access screening and escort-controlled access, and is supported by on-site backup generators in the event of a power failure. As part of our current disaster recovery arrangements, all of our customers' data is currently backed-up in near real-time. This strategy is designed to both protect our customers' data and ensure service continuity in the event of a major disaster. Even with the disaster recovery arrangements, our service could be interrupted.

Customers

Our customers include some of the most notable names in retailing, including: SUPERVALU, Tesco-Lotus, Circle K Midwest/Great Lakes, The Home Depot, Wawa, Williams-Sonoma, Ahold, CVS, Meijer, Rite-Aid, Schnuck Markets, Sunoco, WinCo Foods, Win-Dixie and others.

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Our supplier customers include Allen's Canning, Bimbo Bakeries, BIC Corporation, Boar's Head, Bush Brothers, Churchill China, Cliffstar, Coors Brewing Company, Crayola, Dean Foods, Domino's Pizza, Dreyer's/ Edy's Grand Ice Cream, Flowers Foods, General Nutrition Corporation, George Weston Bakeries, Hallmark, I & K Distributors, Interstate Brands, J.M. Smucker Co., NutriSystem, Pepperidge Farm, Perfection Bakeries, Ranir, Riviana Foods, Rhodes International, Russell Stover Candies, Sara Lee Bakery Group, Schwan's Consumer Brands, Snyder's of Berlin, Well's Dairy, Wyeth, and Zondervan, and others.

None of our retailing or supplies customers accounted for more than ten percent of our revenues in fiscal 2010 or 2009.

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 the new Prescient solutions to legacy Park City Group accounts as well as introducing Park City solutions to legacy Prescient customers. To this end, we attend industry trade shows, conduct direct marketing programs, publish industry trade articles and white papers, participate in interviews, and selectively advertise in industry publications.

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.

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Competition

The market for the Company's products and services is very competitive. We believe the principal competitive factors include product quality, reliability, performance, price, vendor and product reputation, financial stability, features and functions, ease of use, quality of support and degree of integration effort required with other systems. While our competitors are often considerably larger companies in size with larger sales forces and marketing budgets, we believe that our deep industry knowledge and the breadth and depth of our offerings give us a competitive advantage. Our ability to continually improve our products, processes and services, as well as our ability to develop new products, enables the Company to meet evolving customer requirements. We compete with large enterprise-wide software vendors, developers and integrators, such as Oracle, SAP and EDS; B2B exchanges such as 1SYNC and Agentrics; consulting firms such as Capgemini; focused solution providers such as Workbrain, Radiant Systems, Kronos, Tomax; and business intelligence technology platforms such as Microsoft, MicroStrategy, SAS and Cognos; and others. Our supply chain solution competitors include supply chain vendors such as Logility/Demand Solutions; major enterprise resource planning (ERP) software vendors such as SAP, Oracle, and JDA; mid-market ERP vendors such as Ross Systems and Infor; and niche players for VMI and SLR, such as IBM and Market6.

Patents and Proprietary Rights

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. In addition, the Company has two patents currently pending. The Company has 14 international patents and patent applications pending. The patents referred to above are continuously reviewed and renewed as their expiration dates come due. From time to time, the Company may review its portfolio of intellectual property including its patents and either lease or sell its intellectual property.

Company policy is to seek patent protection for all developments, inventions and improvements that are patentable and have potential value to the Company and to protect its trade secrets and other confidential and proprietary information. The Company intends to vigorously defend its intellectual property rights to the extent its resources permit.

Future success may depend upon the strength of the Company's intellectual property. Although management believes that the scope of patents/patent applications are sufficiently broad to prevent competitors from introducing products of similar novelty and design to compete with the Company's current products and that such patents and patent applications are or will be valid and enforceable, there are no assurances that if such patents are challenged, this belief will prove correct. The Company has, however, successfully defended one of these patents in three separate instances and as such, has some level of confidence in the Company's ability to maintain its patents. In addition, patent applications filed in foreign countries and patents granted in such countries are subject to laws, rules and procedures, which differ from those in the U.S. Patent protection in such countries may be different from patent protection provided by U.S. laws and may not be as favorable.

The Company is not aware of any patent infringement claims against it; however, there are no assurances that litigation to enforce patents issued to the Company to protect proprietary information, or to defend against the Company's alleged infringement of the rights of others will not occur. Should any such litigation occur, the Company may incur significant litigation costs, Company resources may be diverted from other planned activities, and any litigation result may cause a materially adverse effect on the Company's operations and financial condition.

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

Employees

As of September 15, 2010, the Company had 52 employees, including 13 software developers and programmers, 11 sales, marketing and account management employees, 19 software service and support employees and 9 accounting and administrative employees. During 2010, the Company contracted with 7 programmers and 2 business analysts in India. The Company is planning to continue to expand its Indian workforce to augment its analytics services offerings, expand its professional services, and to provide additional programming resources. All of these employees and contractors work for the Company on a full time basis. The employees are not represented by any labor union.

Reports to Security Holders

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

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.

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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 substantial indebtedness in connection with the Prescient Merger, and there can be no assurance that the Company will be able to pay such indebtedness when it comes due.

As a result of the Prescient Merger, the Company's total liabilities increased to approximately \$12.5 million at June 30, 2009. As of June 30, 2010, approximately \$4.1 million was converted into a subscription payable for Series B Convertible Preferred Stock ("Series B Preferred"). The Series B Preferred Certificate of Designation was filed on July 21, 2010. The Series B Preferred are entitled to receive cash dividends out of funds legally available therefore at a rate of 12%, which rate increases to 15% beginning three years after the date of issuance, and 18% beginning five years after the date of issuance. No assurances can be given that the Company will be able to satisfy existing or additional liabilities when the same become due and payable.

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

The Company's marketing strategy emphasizes sales to clients acquired as a result of the Prescient Merger, as well as sales of subscription based services instead of annual licenses. If this marketing strategy fails, revenues and operations will be negatively affected.

For the fiscal year ended June 30, 2010, the Company had net income of \$176,991 compared to a net loss of \$4,041,377, for the fiscal year ended June 30, 2009. There can be no assurance that the Company will reliably or consistently operate profitably during future fiscal years. If the Company does not operate profitably in the future the Company's current cash resources will be used to fund the Company's operating losses. If this were to continue, in order to continue the Company's operations, the Company would need to raise additional capital. Continued losses would have an adverse effect on the long term value of the Company's common stock and any investment in the Company. The Company cannot give any assurance that the Company will ever generate significant revenue or have sustainable profits.

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

Historically, the Company has been successful in raising capital when necessary which includes stock issuances, securing loans from its officers, directors, including its Chief Executive Officer and majority stockholder in order to fund its operations in addition to proceeds collected from sales; however, there can be no assurances that it will be able to do so in the future. The Company anticipates that it will have adequate cash resources to fund its operations for at least the next 12 months. Thereafter, its liquidity and capital requirements will depend upon numerous other factors, including the following:

- The extent to which the Company's products and services gain market acceptance;

- The progress and scope of product evaluations;

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- The timing and costs of acquisitions and product and services introductions;
- The extent of the Company's ongoing research and development programs; and
- The costs of developing marketing and distribution capabilities.

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

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

Management expects a portion of the Company's revenue stream to come from the sale of subscriptions, license sales, maintenance and services charged to new customers that will fluctuate in amounts because predicting future sales is difficult and involve 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:

- Demand for and market acceptance of new products;
- Introduction or enhancement of products and services by the Company or its competitors;
- Capacity utilization;
- Technical difficulties, system downtime;
- Fluctuations in data communications and telecommunications costs;
- Maintenance subscriber retention;
- The timing and magnitude of capital expenditures and requirements;
- Costs relating to the expansion or upgrading of operations, facilities, and infrastructure;
- Changes in pricing policies and those of competitors;
- Composition and duration of product mix including license sales, consulting fees, and the timing of software rollouts;
- Changes in regulatory laws and policies; and
- General economic conditions, particularly those related to the information technology industry.

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

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

To achieve continual and consistent profitable operations on a fiscal year on-going basis, the Company must have significant growth in its revenues from the sale of its products and services. If the Company is able to achieve significant growth in future sales and expands the scope of its operations, the Company's management, financial condition, and operational capabilities, 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 the Chief Executive Officer, control approximately 51.37% of the Company's common stock. The Company's Chief Executive Officer, Randall K. Fields, individually, controls 46.66% of the Company's common stock.

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

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

The Company's certificate of incorporation currently authorizes the issuance of up to 30,000,000 shares of "blank check" preferred stock with designations, rights, and preferences as may be determined from time to time by the Company's board of directors. In June 2007, the Company completed the sale of 584,000 shares of its Series A Convertible Preferred Stock ("Series A Preferred"), of which 648,396 shares were issued and outstanding as of June 30, 2010. Effective June 30, 2010 the company authorized the issuance and right to sell Series B Convertible Preferred Stock. As of June 30, 2010, the Company incurred a subscription payable for the issuance of 411,927 shares of its newly created Series B Preferred in exchange for and in satisfaction of indebtedness of the Company totaling approximately \$4.1 million. The Series B Preferred Certificate of Designation was filed on July 21, 2010. 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.

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

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

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

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

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

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

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

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

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Business Operations Risks

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

The Company plans to concentrate its future sales efforts towards marketing the Company's applications and services. These applications and services are designed to be highly flexible so that they can work in multiple retail and supplier environments such as grocery stores, convenience stores, 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. 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 revenues may be negatively affected.

Historically, the Company offered applications and related maintenance contracts to new customers for a one-time, non-recurring up front license fee and provided an option for annually renewing their maintenance agreements. As a result of the Prescient Merger, and Prescient's reliance on subscription based revenue, and the Company's shift away from offering its solutions for a one-time licensing fee, the Company is now principally offering prospective customers monthly subscription based licensing of its products. 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;
- Because public awareness pertaining to the Company's Application Solution Provider services will be delayed until the Company begins its marketing campaign to promote those services, the Company's revenues may decrease over the short term; and
- There may be a threshold level (number of locations) at which the monthly based fee structure may not be economical to the customer, and a request to convert from monthly fees to an annual fee could occur.

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

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

- Development of new software, software solutions, or enhancements that are subject to constant change;
- Rapidly evolving technological change; and
- Unanticipated changes in customer needs.

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

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

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

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

The Company faces risks 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 applications 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 revenues will be negatively impacted if the Company fails to add new maintenance customers that will make additional purchases of the Company's products and services.

The Company faces risks associated with new product introductions.

The Company commercialized its Supply Chain Profit Link product and is continuing to receive and analyze market and product data. Additionally, the Company is scheduled to commercialize ScoreTracker during the second fiscal quarter of the 2011 fiscal year. The following risks apply to both Supply Chain Profit Link and ScoreTracker:

- It may be difficult for the Company to predict the amount of service and technological resources that will be needed by new SCPL or ScoreTracker customers, and if the Company underestimates the necessary resources, the quality of its service will be negatively impacted thereby undermining the value of the product to the customer.
- The Company lacks the experience with this new product and its market acceptance to accurately predict if it will be a profitable product.
- Technological issues between the Company and the customer may be experienced in capturing data, and these technological issues may result in unforeseen conflicts or technological setbacks when implementing the software. This may result in material delays and even result in a termination of the engagement with the customer.

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

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- If the customer does not use the product as the Company recommends and fails to implement any needed corrective action(s), it is unlikely that the customer will experience the business benefits from the software and may therefore be hesitant to continue the engagement as well as acquire any additional software products from the Company.
- Delays in proceeding with the implementation of the SCPL or ScoreTracker product by a new customer will negatively affect the Company's cash flow and its ability to predict cash flow.

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

The Company's success depends on the Company's ability to develop and protect existing and new proprietary technology and intellectual property rights. The Company seeks to protect 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 incorporates a number of third party software providers' licensed technologies into its products, the loss of which could prevent sales of the Company's products or increase the Company's costs due to more costly substitute products.

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

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The Company may discover software errors in its products that may result in a loss of revenues, 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 revenues 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, or 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.

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

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

Risks Relating to the Company's Common Stock

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

The Securities and Exchange Commission ("Commission") has adopted Rule 15g-9 under the Securities Exchange Act of 1934, as amended ("Exchange Act"), which establishes the definition of a "penny stock," for the purposes relevant to the Company, as any equity security that has a market price of less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require:

- That a broker or dealer approve a person's account for transactions in penny stocks; and
- The broker or dealer receives from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

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

- Obtain financial information and investment experience objectives of the person; and

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- Make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of valuating the risks of transactions in penny stocks.

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

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

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

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

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

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

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

The shares may be substantially diluted due to the following:

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

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

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

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

ITEM 2. PROPERTIES

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

ITEM 3. LEGAL PROCEEDINGS

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

We are from time to time involved in various additional legal proceedings incidental to the conduct of our business. We believe that the outcome of all such pending legal proceedings will not in the aggregate have a material adverse effect on our business, financial condition, results of operations or liquidity.

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

Fiscal Quarter	Quarterly Common Stock Price Ranges			
	2010		2009	
	High	Low	High	Low
September 30	\$2.75	\$1.40	\$3.20	\$2.25
December 31	3.60	2.60	2.60	0.55
March 31	3.95	3.25	1.70	1.10
June 30	4.50	3.65	1.55	1.05

Dividend Policy

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

On July 21, 2010, the Company filed a Certificate of Designation to designate 600,000 shares of our preferred stock, \$0.01 par value per share, as Series B Preferred. The Series B Preferred is entitled to receive, out of funds legally available therefore, dividends at a rate of 12% per annum for the first three years following the date of issuance, 15% per annum for the period beginning three years following the date of issuance and continuing until five years from the date of issuance, and 18% per annum beginning five years from the date of issuance. Dividends are payable quarterly in cash.

Holders of Record

At September 15, 2010 there were 615 holders of record of our common stock, and 10,975,090 shares were issued and outstanding. The number of holders of record and shares issued and outstanding was calculated by reference to the books and records of the Company’s transfer agent.

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Issuance of Securities

We issued shares of our common and preferred stock in unregistered transactions during fiscal year 2010 and subsequently. All of the shares of common and preferred stock issued were issued in non-registered transactions 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 Commission during the fiscal year ended June 30, 2010. No shares of common or preferred stock were issued subsequent to June 30, 2010, that have not been previously reported.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with our audited consolidated financial statements and related notes thereto and with Management's Discussion and Analysis of Financial Condition and Results of Operation, which are included elsewhere in this Form 10-K. The selected consolidated statement of operations data for fiscal 2010 and 2009, and the selected consolidated balance sheet data as of June 30, 2010 and 2009 are derived from, and are qualified by reference to, the audited consolidated financial statements included in this Form 10-K.

Consolidated Statement of Operations Data	Fiscal Year Ended June 30,	
	2010	2009
Revenue		
Subscription	\$6,048,318	\$2,883,196
Maintenance	2,501,511	1,927,773
Professional services	1,196,961	899,800
License	1,127,770	253,998
Total revenues	\$10,874,560	\$5,964,767
Income (loss) from Operations	841,692	(3,372,915)
Net Income (loss)	176,991	(4,041,377)
Consolidated Balance Sheet Data	June 30	
	2010	2009
Cash and cash equivalents	\$1,157,431	\$656,279
Working capital	(1,936,533)	(4,516,614)
Total Assets	12,050,576	12,046,958
Total Liabilities	7,793,695	12,549,030
Deferred Revenue	1,364,390	1,422,497
Total Debt (current and long-term)	4,287,307	8,678,712
Capital leases (current and long-term)	280,933	232,348
Stockholders' equity (deficit)	4,256,881	-502,072

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

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

Fiscal Year

Our fiscal year ends on June 30. References to fiscal 2010, for example, refer to the fiscal year ended June 30, 2010.

Sources of Revenue

The Company derives revenue from four sources: (1) subscription fees, (2) hosting, premium support and maintenance service fees beyond the standard services offered, (3) license fees, and (4) professional services consisting of development services, consulting, training and education.

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Subscription revenues are driven primarily by the number of connections between suppliers and retailers, the number of stores and SKU's. 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.

License arrangements are a perpetual license. Software license maintenance updates are typically annual contracts with customers that are paid in advance or specified as terms in the contract. This provides the customer access to new software releases, maintenance releases, patches and technical support personnel.

Professional 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.

Critical Accounting Policies

This Management's Discussion and Analysis of Financial Condition and Results of Operations discuss the Company's financial statements, which have been prepared in accordance with 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 and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and assumptions. 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.

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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.

Revenue Recognition

We recognize revenue when all of the following conditions are satisfied: (1) there is persuasive evidence of an arrangement; (2) the service has been provided to the customer; (3) the collection of our fees is reasonably assured; and (4) the amount of fees to be paid by the customer is fixed or determinable.

We recognize subscription revenues ratably over the length of the agreement beginning on the commencement dates of each agreement or when revenue recognition conditions are satisfied. For a bundled fee, subscriptions provide the customer with access to the software and data over the Internet, or on demand, and provide technical support services and software upgrades when and if available. Under subscriptions, customers do not have the right to take possession of the software and such arrangements are considered service contracts. Accordingly, we recognize subscription revenue ratably over the length of the agreement and professional services are recognized as incurred based on their relative fair values. In situations where we have contractually committed to an individual customer specific technology, we defer all of the revenue for that customer until the technology is delivered and accepted. Once delivery occurs, we then recognize the revenue ratably over the remaining contract term. When subscription service is paid in advance, deferred revenue is recognized and revenue is recording ratably over the term as services are consumed.

Set up fees paid by customers in connection with subscription services are deferred and recognized ratably over the life of the application agreement.

Hosting, premium support and maintenance service revenues are derived from services beyond the basic services provided in standard arrangements. We recognize hosting, premium service and maintenance revenues ratably over the contact terms beginning on the commencement dates of each contact or when revenue recognition conditions are satisfied. Instances where hosting, premium support or maintenance service is paid in advance, deferred revenue is recognized and revenue is recording ratably over the term as services are consumed.

Professional services revenue consists primarily of fees associated with application and data integration, data cleansing, business process re-engineering, change management, and education and training services. Fees charged for professional services are recognized when delivered. We believe the fees for professional services qualify for separate accounting because: a) the services have value to the customer on a stand-alone basis; b) objective and reliable evidence of fair value exists for these services; and c) performance of the services is considered probable and does not involve unique customer acceptance criteria.

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We also sell software licenses. For software license sales, we recognize revenue when all of the following conditions are satisfied: (1) there is persuasive evidence of an arrangement; (2) the service has been provided to the customer; (3) the collection of our fees is probable; and (4) the amount of fees to be paid by the customer is fixed or determinable. Licenses generally include multiple elements that are delivered up front or over time. Vendor specific objective evidence of fair value of the hosting and support elements is based on the price charged at renewal when sold separately, and the license element is recognized into revenue upon delivery. The hosting and support elements are recognized ratably over the contractual term.

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, revenues, and results of operation, liquidity or capital expenditures.

Results of Operations – Fiscal Years Ended June 30, 2010 and 2009

Revenues

	Fiscal Year Ended June 30,		Variance	
	2010	2009	Dollars	Percent
Subscription	\$ 6,048,318	\$ 2,883,196	\$ 3,165,122	110%
Maintenance	2,501,511	1,927,773	573,738	30%
Professional services	1,196,961	899,800	297,161	33%
License	1,127,770	253,998	873,772	344%
Total revenues	\$ 10,874,560	\$ 5,964,767	\$ 4,909,793	82%

During the fiscal year ended June 30, 2010, the Company had total revenues of \$10,874,560 when compared to \$5,964,767 for the year ended June 30, 2009, an 82% increase. This \$4,909,793 increase in total revenues is principally due to the Prescient Merger, which contributed approximately \$4,785,000 during the year ended June 30, 2010.

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In addition, significant changes occurred unrelated to the Prescient Merger during the year ended June 30, 2010. The following changes in the Company's revenues exclude the impact of the Prescient Merger:

- an increase in license sales of approximately \$562,000;
 - a decrease of \$55,000 in subscription revenue;
 - a decrease of \$104,000 in maintenance revenue;
- a decrease of \$278,000 in professional services revenue resulting from the completion of projects in 2009 that did not recur in the same period in 2010.

Management believes that the Company has benefitted from the product synergies resulting from the Prescient Merger, and the Company continues its focus on marketing the Company's combined products and services on a subscription basis. While no assurances can be given, management believes that total revenue will continue to be positively impacted as a result of the Prescient Merger.

Subscription Revenue

Subscription revenues were \$6,048,318 and \$2,883,196 in 2010 and 2009 respectively, an increase of 110%. This \$3,165,122 increase in the year ended June 30, 2010 when compared with the year ended June 30, 2009 was principally due to the Prescient Merger, which contributed \$3,230,935 in subscription revenue during the year ended June 30, 2010. The Company continues to focus its strategic initiatives on increasing the number of retailers, suppliers and manufacturers that use its software on a subscription basis. However, while management believes that marketing its suite of software solutions as a renewable and recurring subscription is an effective strategy, it cannot be assured that subscribers will renew the service at the same level in future years, propagate services to new categories, or recognize the need for expanding the service offering of the Company's suite of actionable products and services.

Maintenance Revenue

Maintenance revenues were \$2,501,511 and \$1,927,773 in 2010 and 2009 respectively, an increase of 30%. This \$573,738 increase in the year ended June 30, 2010 when compared with the year ended June 30, 2009 was principally due to the Prescient Merger, which contributed \$677,722 in maintenance revenue during the year ended June 30, 2010. The increase in maintenance revenue associated with the Prescient Merger was partially offset by cancellations of existing customers or reduction in the scope of maintenance. While management believes maintenance and support services is essential to its customers, due to macroeconomic conditions and the historical reliability of the Company's suite of products, from time to time, customers may not perceive the ongoing value of paying for maintenance when the frequency of maintenance activities needed by a customer becomes infrequent.

Professional Services Revenue

Professional services revenues were \$1,196,961 and \$899,800 in 2010 and 2009 respectively, an increase of 33%. This \$297,161 increase in the year ended June 30, 2010 when compared with the year ended June 30, 2009 was principally due to the Prescient Merger, which contributed \$565,104 in professional services revenue during the year ended June 30, 2010. This was offset by a \$278,500 decrease in professional services that was the result of the completion of projects in the year ended June 30, 2009 which did not recur in the same period 2010. Management believes that professional services may experience periodic fluctuations as a result of (i) timing of implementations, (ii) scope of services to be provided, (iii) size of the retailer or supplier, or (iv) the need for its analytics offerings and change-management services becomes a natural addition to its software-as-a-service product suite.

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License Revenue

License fees were \$1,127,770 and \$253,998 for the fiscal years ended June 30, 2010 and 2009, respectively, a 344% increase. This \$873,772 increase in license revenue for the year ended June 30, 2010 when compared with the same period June 30, 2009 was principally the result of the sale of a new license of \$490,000 during the most recently completed fiscal year, and an increase in additional license sales to existing customers during the year that did not occur during the year ended June 30, 2009. Management believes it is difficult to predict and forecast future software license sales. Therefore, the Company will continue to focus its resources on recurring subscription based revenues. The Company has not eliminated the sale of its suite of products on a license basis.

Cost of Services and Product Support

	Fiscal Year Ended June 30,		Variance	
	2010	2009	Dollars	Percent
Cost of services and product support	\$4,428,481	\$3,580,567	\$847,914	24 %
Percent of total revenues	41 %	60 %		

Cost of services and product support were \$4,428,481 or 41% of total revenues, and \$3,580,567 or 60% of total revenues for the years ended June 30, 2010 and 2009, respectively; a 24% increase. This increase of \$847,914 for the year ended June 30, 2010 when compared with the same period ended June 30, 2009 is principally due to (i) a \$638,886 increase in salary, commission and payroll related expense, principally attributable to the Prescient Merger, (ii) a \$164,498 increase in contractor, outside consulting support and recruiting expenses, (iii) \$54,014 in travel related expenses, and (iv) a \$183,156 increase in non-employee commissions incurred as a result of a license sale that did not occur in the comparable period in 2009. These increases were partially offset by a decrease in overhead related expenses due to the consolidation of data centers related to the Prescient Merger. The Company continues to focus on rationalizing expenses while completing the final stages of its integration of operations with Prescient.

Sales and Marketing Expense

	Fiscal Year Ended June 30,		Variance	
	2010	2009	Dollars	Percent
Sales and marketing	\$1,602,231	\$1,347,705	\$254,526	19 %
Percent of total revenues	15 %	23 %		

Sales and marketing expenses were \$1,602,231, or 15% of total revenues, and \$1,347,705 or 23% of total revenues, for the fiscal years ended June 30, 2010 and 2009, respectively, a 19% increase. This \$254,526 increase over the previous year was primarily the result of (i) a \$152,212 increase in salary, commission and payroll related expense, (ii) \$115,203 increase in contractor, outside consulting support and recruiting expenses, (iii) \$59,694 in travel related expenses. These increases were partially offset by a decrease of \$43,839 in tradeshow and conference related expenses. The increases were further offset by a reduction in overhead expenses allocated to sales and marketing due to consolidation and integration with Prescient.

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General and Administrative Expense

	Fiscal Year Ended June 30,		Variance		
	2010	2009	Dollars	Percent	
General and administrative	\$3,190,255	\$2,225,960	\$964,295	43	%
Percent of total revenues	29	% 37	%		

General and administrative expenses were \$3,190,255, or 29% of total revenues, and \$2,225,960 or 37% of total revenues for the years ended June 30, 2010 and 2009, respectively, a 43% increase. This \$964,295 increase when comparing expenditures for the year ended June 30, 2010 with the same period ended June 30, 2009 is principally due to (i) an increase of \$452,803 in salary, bonuses, payroll and related expenses of which approximately \$180,717 is attributable to the Prescient Merger, (ii) a \$143,986 increase in non-capitalized computer equipment, computer hardware leases, software maintenance and support, and training as a result of the acquisition of additional third party applications, (iii) a \$229,602 increase in legal, accounting and professional fees, a (iv) \$71,467 increase in board fees, (v) a \$91,896 increase in bad debt expense, (vi) a \$29,009 increase in taxes, bank charges, and other miscellaneous overhead related expenses, and (vii) a \$16,643 increase in travel expenses. These increases were partially offset by a decrease in investor relations and shareholder costs of approximately \$67,000.

Depreciation and Amortization Expense

	Fiscal Year Ended June 30,		Variance		
	2010	2009	Dollars	Percent	
Depreciation and amortization	\$811,900	\$726,067	\$85,833	12	%
Percent of total revenues	7	% 12	%		

Depreciation and amortization expenses were \$811,900 and \$726,067 for the year ended June 30, 2010 and 2009, respectively, an increase of 12%. This increase of \$85,833 for the year ended June 30, 2010 when compared to the year ended June 30, 2009 is partially due to the Prescient Merger, which resulted in an additional \$33,000 in depreciation and amortization expense compared to the comparable period in 2009.

Impairment of Capitalized Software Costs

	Fiscal Year Ended June 30,		Variance	
	2010	2009	Dollars	
Impairment of software	\$-	\$1,457,383	\$(1,457,383)	
Percent of total revenues	0	% 24	%	

There was no impairment of capitalized software costs during the year ended June 30, 2010 compared to an impairment of capitalized software costs of \$1,457,383 for the year ended June 30, 2009. During the three months ended March 31, 2009, the Company evaluated its intangible assets including the software technology platform acquired in the acquisition of Prescient. In conducting the assessment, Management determined that \$310,517 of capitalized development costs were unlikely to be recovered, and such costs should be adjusted for impairment when evaluating its post-merger software offerings. In addition \$1,146,866 of the acquired software technology through the Prescient Merger was determined by management to be impaired. Although the SmallTalk software platform it acquired from Prescient has high functionality, given the development limitations of the technology, it was determined that the software code base has a significantly lower value and reduced expected life. Management determined that the software carrying value exceeded the fair value and was impaired by \$1,457,383. No further impairment was required at June 30, 2010 and 2009.

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Other Income and Expense

	Fiscal Year Ended				Variance		Percent
	2010	June 30,		2009	Dollars		
Equity in subsidiary loss							
Sundry debtors	729,738	943,801	1,174,494	1,005,557	750,026	519,149	5,122,765
Cost and estimated earnings in excess of billings	107,409	45,076	210,680	461,246	108,332	78,591	1,011,334
Billings in excess of cost and estimated earnings	(9197)	(9375)	(32229)	(21696)	(36242)	(38507)	(147246)
Advance from customers	(214)	(805)	(5,391)		(1,715)	(112)	(8,237)

The Group evaluates segment performance and allocates resources based on revenue growth. Revenue in relation to segments is categorized based on items that are individually identifiable to that segment. Costs are not specifically allocable to individual segments as the underlying resources and services are used interchangeably. Fixed assets used in Group's business or liabilities contracted have not been identified to any of the reportable segments, as the fixed assets and services are used interchangeably between segments.

Until 31 December 2006, the Company reported Product Engineering Services (PES) and Independent Software Vendors (ISV) as separate business segments. The PES business is primarily related to embedded technology services for products and the ISV unit provided the user interface for these products. Both these segments form part of technology services. The integration of these business segments would facilitate improved client service. Accordingly, effective 1 January 2007, the Company has integrated these two business segments with the primary focus on the following synergies (i) demand for providing end-to-end solutions from product engineering clients, and (ii) leveraging the domain skills & platform skills to provide end-to-end solutions. Segment data for previous period has been reclassified to conform to current period presentation.

7 In July 2007, Patni Computer Systems (UK) Limited, a wholly owned subsidiary of the Company, acquired Logan-Orviss International (LOI), a European telecommunications consulting services company. Patni Computer Systems, Inc. (USA) a wholly owned subsidiary of the Company acquired Taratec Development Corporation (Taratec), a US based consulting company in Life Sciences industry. The Company has also set up a subsidiary in Brazil.

8 Previous period figures have been appropriately reclassified /regrouped to conform to the current period's presentations.

Reconciliation of significant differences between Consolidated Net Income determined in accordance with Indian Generally Accepted Accounting Principles (Indian GAAP) and Consolidated Net Income determined in accordance with US Generally Accepted Accounting Principles (US GAAP) (Unaudited)

	Rs. in thousands except share data				Year ended 31 December 2006
	Quarter ended 30 June 2007		Six months ended 30 June 2007		
	2007	2006	2007	2006	
Consolidated net income as per Indian GAAP	1,479,487	(933,239)	2,818,840	(227,170)	2,447,821
Income taxes	7,861	(83,933)	(1,708)	(71,567)	(133,791)
Foreign currency differences	(86,717)	145,297	(149,709)	111,309	(153,501)
Employee retirement benefits	19,636	10,530	23,616	16,436	3,895
ESOP related					
Compensation Cost	(44,559)	(48,833)	(90,243)	(88,545)	(182,732)
Business acquisition	(9,793)	(9,904)	(20,270)	(19,571)	(41,176)
Prior period adjustment		774,816		774,816	765,595
Others	3,522	(436)	17,606	(243)	(21,878)
Total	(110,051)	787,537	(220,706)	722,635	236,412
Consolidated net income as per US GAAP	1,369,436	(145,702)	2,598,133	495,465	2,684,233

Note:

The consolidated net income as per USGAAP shown in the table above differs from the consolidated net income shown under Summary of financials statements prepared as per USGAAP - Convenience Translation for reasons explained below the same table.

Audited financial results of Patni Computer Systems Limited for the quarter and six months ended 30 June 2007, as per Indian GAAP (Standalone)

Rs. in thousands except share data

	Quarter ended 30 June		Six months ended 30 June		Year ended
	2007	2006	2007	2006	31 December
	(Audited)	(Audited)	(Audited)	(Audited)	2006
					(Audited)
Income					
Sales and service income	2,801,856	2,448,574	5,467,738	4,760,804	9,978,301
Other income	772,447	11,455	1,114,373	57,066	477,509
	3,574,303	2,460,029	6,582,111	4,817,870	10,455,810
Expenditure					
Personnel costs	1,356,784	1,155,260	2,521,232	2,171,603	4,461,532
Selling, general and administration costs	677,799	516,669	1,269,922	1,018,316	2,120,996
Depreciation	206,453	177,910	403,328	345,082	725,602
Interest costs	19,820	62,277	30,827	89,461	88,792
	2,260,856	1,912,116	4,225,309	3,624,462	7,396,922
Profit for the period / year before taxation	1,313,447	547,913	2,356,802	1,193,408	3,058,888
Provision for taxation	189,810	709,229	282,844	847,474	971,681
MAT credit entitlement	(93,031)		(110,823)		(5,735)
Provision for taxation-Fringe benefits	9,715	10,000	17,895	21,500	35,313
Profit/ (Loss) for the period after taxation	1,206,953	(171,316)	2,166,886	324,434	2,057,629
	277,327	275,826	277,327	275,826	276,564
Paid up equity share capital (Rs. per equity share of Rs 2 each)					21,801,849
Reserves excluding revaluation reserves					
Earnings per equity share of Rs 2 each					
- Basic	8.71	(1.24)	15.65	2.35	14.91
- Diluted	8.60	(1.24)	15.48	2.33	14.80

Notes

1 The above statement of financial results was reviewed by the audit committee and approved by the Board of Directors at its adjourned meeting held on 26 July 2007.

2 Investor complaints for the quarter ended 30 June 2007:

Pending as on	Received	Disposed of	Unresolved at
1	during	during	the
April 2007	the	the	end of
	quarter	quarter	the
			quarter
	27	27	

3 Statement of Utilisation of ADS Funds as of 30 June 2007

	No of shares	Price	Amount
Amount raised through ADS (61,56,250 ADSs @ \$ 20.34 per ADS)	12,312,500	466	5,739,262
Share issue expenses			369,406
Net proceeds			5,369,856
Deployment :			
1 Held as short term investments			3,058,194
2 Utilised for Capital expenditure for office facilities			2,190,839
3 Exchange loss			120,823
Total			5,369,856

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4 During 2006, the Company received a demand from the Income tax department for Rs. 630,166 (Including interest demand of Rs. 186,850) for the Assessment Year 2004-05. The tax demand is mainly on account of disallowance of deduction claimed by the Company under Section 10A of the Income Tax Act 1961, in respect of profits earned by its various eligible undertakings. The Company has filed an appeal challenging the disallowance within the time available under the Income Tax Act. The Company has made payment of Rs. 147,436 as deposit in this regard. Considering the facts and nature of disallowance and based on the advice obtained from the Company's legal counsel, management believes that the disallowance is not tenable, is confident of a favourable outcome in appeal proceedings and hence no provision for such income tax demand is considered necessary.

5 The Finance Act, 2007 has introduced Fringe Benefit Tax (FBT) on employee stock options. The difference between the fair value of the underlying share on the date of vesting and the exercise price paid by the employee is subject to FBT. The Company will recover such tax from the employee. The Company's obligation to pay FBT arises only upon the exercise of stock options and hence the FBT liability and the related recovery will be recorded at the time of the exercise.

6 In July 2007, Patni Computer Systems (UK) Limited, a wholly owned subsidiary of the Company, acquired Logan-Orviss International (LOI), a European telecommunications consulting services company. Patni Computer Systems, Inc. (USA) a wholly owned subsidiary of the Company acquired Taratec Development Corporation (Taratec), a US based consulting company in Life Sciences industry. The Company has also set up a subsidiary in Brazil.

7 Paid up equity share capital does not include Rs 3,966 (2006 : Rs 2,688) which represents share application money received from employees, on exercise of stock options, pending allotment of shares.

8 Aggregate of Non-Promoter Shareholding

	As of 30 June 2007	2006	As of 31 December 2006
- Number of Shares	77,690,548	76,320,051	77,309,051
- Percentage of Shareholding	56.03%	55.34%	55.91%

9 Previous period figures have been appropriately reclassified to conform to the current period's presentations.

10 Text of this advertisement was approved by the Board of Directors at the meeting held on 26 July 2007.

**By Order of the Board
for Patni Computer Systems Limited**

**Mumbai
26 July 2007**

**Narendra K. Patni
Chairman and Chief Executive Officer**

For Press Release

Patni's Q2 2007 Revenues up 14.2% YoY at \$163.3 million (Rs. 6,628.1 million),

Net Income up 98.9 % at \$ 33.2 million (Rs 1,347.5 million)

Mumbai, India, Cambridge, USA, July 26th 2007: Patni Computer Systems Limited (**Patni**) today announced its financial results for the second quarter ended 30th June 2007.

Performance Highlights

Important note:

As stated in our Q2 2006 release, prior years' tax review by the IRS and a review by the Department of Labor of Patni's US operations had resulted in additional provisions which led to an increase in gross profit and operating income by approximately US\$ 7.0 million and decrease in net income by US\$ 19.9 million for Q2 2006. Variations in Patni's Q2 2006 financial performance as a result of these reviews had been referred to as 'additional provisions' in the said press release. Financial Performance for Q2 2006 excluding these additional provisions has been considered for comparative performance review with Q2 2007 in this release.

Performance Highlights for the quarter ended June 30th 2007

Revenues for the quarter at US\$ 163.3 million (Rs. 6,628.1 million)

Up 4.7% sequentially from US\$ 156.0 million (Rs. 6,724.0 million)

Up 14.2% YoY from US\$ 143.0 million (Rs 6,560.7 million)

Operating Income for the quarter at US\$ 32.4 million (Rs. 1,313.5 million)

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Up 6.8% sequentially from US\$ 30.3 million (Rs 1,306.0 million)

Rupee Appreciation impact of ~200 basis points.

Compensation increase impact of ~260 basis points

Up 87.5% YoY from US\$ 17.3 million (Rs 792.0 million)

Net Income for the quarter at US\$ 33.2 million (Rs 1,347.5 million)

Up 19.2% sequentially from US\$ 27.8 million (Rs 1,200.3 million)

Up 98.9% YoY from US\$ 16.7 million (Rs 766.0 million)

EPS for the quarter at US\$ 0.24 per share(US\$ 0.48 per ADS) up 19.0% sequentially and 97.8% YoY

Stock based expense for the quarter was US\$ 1.1 million as compared to US\$ 1.0 million during previous quarter.

Top Customer contribution towards revenue decreased to 10.7% during the quarter from 11.1% in Q1 2007. Revenue concentration of Top 10 clients also reduced to 46.9% from 48.8% in the previous quarter.

Acquired 25 new clients during the quarter. Number of active clients was 267 at quarter end as compared to 252 in Q1 2007.

Future Outlook:

Q3 2007 revenues are expected to be in the range of US\$ 167 - 168 million and net income (excluding the foreign exchange gain/loss) is expected to be in the range of US\$ 18.5- US\$ 19.0 million at a constant \$ value of Re. 40.8 per US \$ for the quarter.

Management comments

Commenting on the Q2 2007 performance, **Mr. Narendra K Patni, Chairman and CEO, Patni Computer Systems Ltd.**, said *We continue to invest in our business to strengthen our long term prospects. We are focusing heavily in Europe in line with our strategy and have strengthened the leadership team and also made inorganic investment in the region. We are confidently optimistic about the future and are committed to enhancing all round stake-holder value.*

Commenting on the performance, **Mr. Mrinal Sattawala, Chief Operating Officer, Patni**, said, *Our client and service offering profiles have strengthened over the last quarter. During the quarter we not only added 25 new clients but also reduced dependence on the Top 5 and Top 10 clients. Inorganic assets acquired recently are being integrated to drive synergy benefits faster*

Speaking on the occasion, **Mr. Surjeet Singh, Chief Financial Officer, Patni**, added, *Timely and effective hedging of our foreign currency exposures enabled us to neutralize the negative foreign exchange effect for the quarter besides overall control of operating metrics and costs. We continue to make organic and inorganic investments in our business for long term profitable growth*

Management Discussion & Analysis of Performance*(Figures in Million US\$ except EPS and Share Data)***CONSOLIDATED STATEMENT OF INCOME****For the quarter / period ended**

Particulars	Jun 30 2007	Mar 31 2007	QoQ Change %	Jun 30 2006	2006	Additional Provision in 2006	2006 (Excluding additional provisions)	Jun 30 2006 (Excluding additional provisions)
Revenue	163.3	156.0	4.7%	143.0	578.9		578.9	143.0
Cost of revenues	106.0	97.5	8.7%	86.8	359.8	-7.0(1)	366.9	93.9
Depreciation	4.4	3.8	14.3%	3.2	13.2		13.2	3.2
Gross Profit	52.9	54.7	-3.2%	53.0	205.8	7.0(1)	198.8	45.9
Sales and marketing expenses	11.9	11.2	5.5%	11.0	43.1		43.1	11.0
General and administrative expenses	16.7	15.1	10.6%	17.6	64.3		64.3	17.6
Provision for doubtful debts and advances	0.6	0.6	-10.8%	0.2	1.2		1.2	0.2
Foreign exchange (gain) / loss, net	(8.6)	(2.6)	225.9%	(0.1)	2.7		2.4	(0.1)
Operation income	32.4	30.3	6.8%	24.3	94.5	7.0(1)	87.4	17.3
Other income / (expense), net	7.1	3.6	97.3%	3.9	12.5	0.2	12.4	3.8
Income before income taxes	39.4	33.9	16.4%	28.3	106.9	7.2(2)	99.8	21.1
Income taxes	6.2	6.0	3.2%	31.5	47.7	27.1	20.6	4.4
Net income/(loss)	33.2	27.8	19.2%	(3.2)	59.3	-19.9(3)	79.2	16.7
Earning per share								
- Basic	\$ 0.24	\$ 0.20		\$ (0.02)	\$ 0.43		\$ 0.57	\$ 0.12
- Diluted	\$ 0.24	\$ 0.20		\$ (0.02)	\$ 0.43		\$ 0.57	\$ 0.12
Weighted average number of common shares used in computing earnings per share								
- Basic	138,646,132	138,342,512		137,889,376	137,957,477		137,957,477	137,889,376
- Diluted	139,978,442	139,413,330		137,889,376	138,904,860		138,904,860	137,889,376

** Prior year's tax review by IRS and the Department of Labor Review by Patni's US Operations has resulted in the net reversal of additional provisions leading to an increase in Q2 2006 Gross Profit and Operation Income and a decrease in Q2 2006 Net Income.

- (1) due to reversal of payroll taxes for earlier years, net of accrual from DOL review
- (2) impact of 1, net of write-back of interest/penalty for earlier years

(3) impact of re-assessed corporate taxes for earlier years, net of 2

Revenues

Revenues during the quarter were in line with expectations at US\$ 163.3 million (Rs 6,628.1 million) representing sequential increase of 4.7% and 14.2% on YoY basis. 25 new clients were added during the quarter.

Gross profit

Gross margins were at 32.4% as compared to 35.0% in Q1 2007 due to the following

Rupee appreciation impact of ~200 basis points.

Annual wage increase impact of ~260 basis points

Positive impact due to period costs reduction of ~180 basis points largely due to visa costs

Other efficiency gains of around 20 basis points.

Gross Margins in Q2 07 at US\$ 52.9 million (Rs 2,148.4 million) were lower by 3.2% sequentially and increased by 15.3% on YoY basis.

Selling and Marketing Expenses

Overall sales and marketing costs were stable at 7.2% of sales with marginal absolute increase to US\$ 11.9 million (Rs. 481.4 million), as compared to \$11.2 million (Rs. 484.6 million) in the previous quarter

G&A expenses

Overall G&A increase to 10.2% against 9.7% to US \$16.7 million (Rs. 678.1 million) compared to US \$ 15.1 million (Rs. 651.2 million) in the previous quarter on account of increase in people costs due to compensation increase and forex impact.

Foreign exchange gain/loss

The Foreign exchange gain for the quarter was US\$ 8.6 million (Rs.347.9 million) on account of mark to market of forex contracts , revaluation of debtors and tax liabilities, as compared to a similar gain of US\$ 2.6 million (Rs 113.4 million) in Q1 2007.

The quarter end rate for debtors revaluation was Rs 40.72. At the end of Q2 2007, we had outstanding contracts of about US\$ 211 million taken in the range of Rs. 41.07 to Rs. 46.44.

Operating income

Net of Gross margin and SG&A cost changes and foreign exchange gain, Operating income including foreign exchange gain on hedging was higher at 19.8% at \$32.4 million (Rs 1,313.5 million) against 19.4% or \$30.3 million (Rs 1,306.0 million) in Q1 2007. Without hedging gain/loss the operating margins declined sequentially from 17.7% to 14.6% . Operating Income grew 87.5% on YoY basis as compared to \$17.3 million (Rs 792.0 million) in corresponding quarter of previous year (after adjusting for additional provisions) and grew by 38.6% excluding foreign exchange (gain)/loss on like to like basis.

Other income

Other income (including interest and dividend income net of interest expenses, profit/loss on sale of investments and other miscellaneous income) was higher at US\$ 7.1 million (Rs 286.7 million) as compared to US \$ 3.6 million (Rs 154.4 million) in the previous quarter. This is on account of higher amount of fixed maturity treasury investments maturing during the quarter per estimates

Profit before tax

Profit before tax for the quarter was consequently higher by 16.4% at US\$ 39.4 million (Rs. 1,600.2 million) as compared to US\$ 33.9 million (Rs. 1,460.3 million) during previous quarter.

Income taxes

Income tax for the quarter was at US\$ 6.2 million (Rs 252.7 million) at 15.8% effective tax rate on profit before tax lower than the previous quarter rate of 17.8%. Part of the reduction in Effective Tax rate sequentially is due to higher component of other income during the quarter.

Net income

Consequently, net income for the quarter was at US\$ 33.2 million (Rs 1,347.5 million), an increase of 19.2% as compared to Q1 2007 net income of US\$ 27.8 million (Rs 1,200.3 million). Increased focus on margin improvement during previous few quarters resulted in YoY increase of Net Income at 98.9% as compared to corresponding quarter of previous year after adjusting it for additional provisions.

EPS

EPS for the quarter was at US\$ 0.24 and US\$ 0.48 per ADS marginally higher than US\$ 0.20 per share and US \$ 0.40 per ADS. EPS increased by 97.8 % on YoY basis from \$0.12 per share or \$0.24 per ADS after adjusting it for additional provisions.

Balance Sheet and Cash Flow changes

During the quarter, against net income of US\$ 33.2 million (Rs 1,347.5 million), cash from operating activities was at US\$ 36.2 million (Rs 1,467.9) net of changes in current assets and liabilities of US\$ 2.0 million and non cash charges of US\$ 1.0 million. These non cash charges comprise of depreciation and amortization of US\$ 7.3 million and other charges of US\$ (-)6.3 million.

Net Cash used in investing activities was at US\$ 9.4 million (Rs 381.7 million) which include net capital expenditure of US\$ 18.5 million (Rs 750.1 million) and net investment in securities at US\$ 9.1 million (Rs. 368.4 million).

Net cash inflow used in financing activities was at US\$ 10.1 million (Rs 408.4 million) consisting of proceeds from common shares issued of US\$ 0.2 million (Rs. 9.1 million) and dividend on common shares of US\$ 10.2 (Rs. 412.8 million) and 0.1 million (Rs. 4.6 million) on other

financing activities.

Overall cash and cash equivalents (including short term investments) at the close of 30th June 2007 were at US\$ 330.7 million (Rs 13,418.2 million), compared to US\$ 295.1 million (Rs 12,717.5 million) at the close of Q1 2007.

At the end of Q2 2007, receivables were at US\$ 123.8 million (Rs 5,024.5 million) as compared to US\$ 122.6 million (Rs 5,281.9 million) in the previous sequential quarter. Days outstanding for the current quarter were at 70 days as compared to 72 days in Q1 2007.

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Figures in Million INR except EPS and Share Data

CONSOLIDATED STATEMENT OF INCOME (RS. 000): BASED ON CONVENIENCE TRANSLATION

For the quarter / period ended

Particulars	Jun 30 2007	Mar 31 2007	Jun 30 2006	2006	Additional Provision in 2006	2006 (Excluding additional provisions)	Jun 30 2006 (Excluding additional provisions)
Exchange rate \$1 = INR	40.58	43.10	45.87	44.11	44.11	44.11	45.87
Revenue	6,628.1	6,724.1	6,560.7	25,533.1		25,533.1	6,560.7
Cost of revenues	4,303.0	4,203.8	3,982.9	15,872.2	(312.3)	16,184.5	4,307.6
Depreciation	176.7	164.2	146.3	581.1		581.1	146.3
Gross Profit	2,148.4	2,356.1	2,431.5	9,079.9	312.3(1)	8,767.6(1)	2,106.7
Sales and marketing expenses	481.4	484.6	505.7	1,900.7		1,900.7	505.7
General and administrative expenses	678.1	651.2	806.1	2,838.2		2,838.2	806.1
Provision for doubtful debts and advances	23.3	27.7	7.4	52.5		52.5	7.4
Foreign exchange (gain) / loss, net	(347.9)	(113.4)	(4.5)	121.2		121.2	(4.5)
Operation income	1,313.5	1,306.0	1,116.8	4,167.2	312.3	3,855.0	792.0
Other income / (expense), net	286.7	154.4	180.8	550.0	4.6	545.4	176.0
Income before income taxes	1,600.2	1,460.3	1,297.6	4,717.2	316.9(2)	4,400.4(2)	968.1
Income taxes	252.7	260.1	1,444.5	2,103.7	1,194.8	908.9	202.1
Net income/(loss)	1,347.5	1,200.3	(146.9)	2,613.6	(877.9)(3)	3,491.4(3)	766.0
Earning per share							
- Basic	9.72	8.68	(1.07)	18.94		25.31	5.55
- Diluted	9.63	8.61	(1.07)	18.82		25.14	5.55
Weighted average number of common shares used in computing earnings per share							
- Basic	138,646,132	138,342,512	137,889,376	137,957,477		137,957,477	137,889,376
- Diluted	139,978,442	139,413,330	137,889,376	138,904,860		138,904,860	137,889,376

** Prior year's tax review by IRS and the Department of Labor Review by Patni's US Operations has resulted in the net reversal of additional provisions leading to an increase in Q2 2006 Gross Profit and Operation Income and a decrease in Q2 2006 Net Income.

- (1) due to reversal of payroll taxes for earlier years, net of accrual from DOL review
- (2) impact of 1, net of write-back of interest/penalty for earlier years
- (3) impact of re-assessed corporate taxes for earlier years, net of 2

Important Notes to this release:

Fiscal Year

Patni follows a January - December fiscal year. The current review covers the financial and operating performance of the Company for the second quarter ended 30th June 2007

U.S. GAAP

A Consolidated Statement of Income in US GAAP is available on page 3 of the Fact Sheet attached to this release

Percentage analysis

Any percentage amounts, as set forth in this release, unless otherwise indicated, have been calculated on the basis of the U.S. Dollar amounts derived from our consolidated financial statements prepared in accordance with U.S. GAAP, and not on the basis of any translated Rupee amount. Calculation of percentage amounts on the basis of Rupee amounts may lead to results that are different, in a material way, from those calculated as per U.S. Dollar amounts.

Convenience translation

A Consolidated Statement of Income as per Convenience Translation prepared in accordance with US GAAP is available on page 8 of the Fact Sheet attached to this release. We have translated the financial data derived from our consolidated financial statements prepared in accordance with U.S. GAAP for each period at the noon buying rate in the City of New York on the last business day of such period for cable transfers in Rupees as certified for customs purposes by the Federal Reserve Bank of New York. The translations should not be considered as a representation that such US Dollar amounts have been, could have been or could be converted into Rupees at any particular rate, the rate stated elsewhere in this document, or at all. Investors are cautioned to not rely on such translated amounts.

Attached Fact Sheet (results & analysis tables)

About Patni Computer Systems Ltd:

About Patni

Patni Computer Systems Limited (**BSE: PATNI COMPUT, NSE: PATNI, NYSE: PTI**) is a global provider of IT Services and business solutions, servicing Global 2000 clients. Patni caters to its clients through its industry-focused practices, including insurance, financial services, manufacturing, telecommunications and media, and its technology-focused practices.

With an employee strength of over 12,000; multiple global development centres spread across 12 cities worldwide; 21 international offices across the Americas, Europe and Asia-Pacific; Patni has registered revenues of US\$ 579 million for the year 2006.

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Patni's service offerings include application development and maintenance, enterprise application solutions, product engineering services, infrastructure management services, business process outsourcing, quality assurance and engineering services.

Committed to quality, Patni adds value to its clients' businesses through well-established and structured methodologies, tools and techniques. Patni is an ISO 9001: 2000 certified and SEI-CMMi Level 5 organization, assessed enterprise wide at P-CMM Level 3. In keeping with its focus on continuous process improvements, Patni adopts Six Sigma practices as an integral part of its quality and process frameworks.

For more information on Patni, visit www.patni.com.

FOR MORE INFORMATION PLEASE CONTACT:

Investor Relations:

Gaurav Agarwal, Patni US; +1-617-914-8360; investors@patni.com

Gavin Desa, Citigate Dewe Rogerson India; +91-22-4007 5037; gavin@cdr-india.com

Media Relations:

Heena Kanal, Patni India; +91-22-6693 0500; heena.kanal@patni.com

Tony Viola, Patni US; +1-617-354-7424; tony.viola@patni.com

IMPORTANT NOTE:

Certain statements in this release concerning our future growth prospects are forward-looking statements, which involve a number of risks, and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. The risks and uncertainties relating to these statements include, but are not limited to, risks and uncertainties regarding fluctuations in earnings, our ability to manage growth, intense competition in IT services including those factors which may affect our cost advantage, wage increases in India, our ability to attract and retain highly skilled professionals, time and cost overruns on fixed-price, fixed-time frame contracts, client concentration, restrictions on immigration, our ability to manage our international operations, reduced demand for technology in our key focus areas, disruptions in telecommunication networks, liability for damages on our service contracts, the success of the companies in which Patni has made strategic investments, withdrawal of governmental fiscal incentives, political instability, legal restrictions on raising capital or acquiring companies outside India, and unauthorized use of our intellectual property and general economic conditions affecting our industry. The company does not undertake to update any forward-looking statement that may be made from time to time by or on behalf of the Company.

Ends

PATNI COMPUTER SYSTEMS LIMITED

**FINANCIAL AND OPERATIONS INFORMATION FOR THE
SECOND QUARTER ENDED JUN 30, 2007**

July 26, 2007

NOTES:

Fiscal Year

Patni follows a January - December fiscal year. The current review covers the financial and operating performance of the Company for the quarter ended Jun 30, 2007.

U.S. GAAP

All figures in this release pertain to accounts presented as per U.S. GAAP unless stated otherwise.

Percentage analysis

Any percentage amounts, as set forth in this release, unless otherwise indicated, have been calculated on the basis of the U.S. Dollar amounts derived from our consolidated financial statements prepared in accordance with U.S. GAAP, and not on the basis of any translated Rupee amount. Calculation of percentage amounts on the basis of Rupee amounts may lead to results that are different, in a material way, from those calculated as per U.S. Dollar amounts.

Convenience translation

We have translated the financial data derived from our consolidated financial statements prepared in accordance with U.S. GAAP for each period at the noon buying rate in the City of New York on the last business day of such period for cable transfers in Rupees as certified for customs purposes by the Federal Reserve Bank of New York. The translations should not be considered as a representation that such US Dollar amounts have been, could have been or could be converted into Rupees at any particular rate, the rate stated elsewhere, or at all. Investors are cautioned to not rely on such translated amounts.

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A1) CONSOLIDATED STATEMENT OF INCOME - US GAAP (US\$ 000)
For the quarter / period ended

Particulars	Jun 30 2007	Jun 30 2006	YoY Change %	Mar 31 2007	QoQ Change %	2006
Revenue	163,334	143,027	14.2%	156,011	4.7%	578,851
Cost of revenues	106,039	86,830	22.1%	97,535	8.7%	359,832
Depreciation	4,353	3,190	36.5%	3,809	14.3%	13,173
Gross Profit	52,942	53,007	-0.1%	54,667	-3.2%	205,846
Sales and marketing expenses	11,862	11,024	7.6%	11,244	5.5%	43,090
General and administrative expenses	16,710	17,574	-4.9%	15,109	10.6%	64,343
Provision for doubtful debts and advances	574	161	256.3%	643	-10.8%	1,191
Foreign exchange (gain) / loss, net	(8,572)	(98)	8644.6%	(2,630)	225.9%	2,748
Operating income	32,368	24,346	32.9%	30,301	6.8%	94,474
Other income / (expense), net	7,065	3,941	79.3%	3,581	97.3%	12,468
Income before income taxes	39,433	28,287	39.4%	33,882	16.4%	106,942
Income taxes	6,226	31,492	-80.2%	6,034	3.2%	47,692
Net income/(loss)	33,207	(3,205)	-1136.3%	27,848	19.2%	59,250
Earning per share						
- Basic	\$ 0.24	\$ (0.02)	-1130.8%	\$ 0.20	19.0%	\$ 0.43
- Diluted	\$ 0.24	\$ (0.02)	-1121.0%	\$ 0.20	18.8%	\$ 0.43
Weighted average number of common shares used in computing earnings per share						
- Basic	138,646,132	137,889,376		138,342,512		137,957,477
- Diluted	139,978,442	137,889,376		139,413,330		138,904,860

A2) CONSOLIDATED BALANCE SHEET USGAAP (US\$ 000)

Particulars	As on 30-Jun-07	As on 31-Mar-07	As on 30-Jun-06
Assets			
Total current assets	529,718	477,983	426,014
Goodwill	51,246	39,832	39,883
Intangible assets, net	9,163	9,425	10,212
Property, plant, and equipment, net	159,000	142,040	101,368
Other assets	19,692	15,445	14,502
Total assets	768,819	684,724	591,980
Liabilities			
Total current liabilities	145,054	120,755	144,228
Capital lease obligations excluding current installments	280	381	480
Other liabilities	13,222	12,543	12,525
Total liabilities	158,556	133,679	157,232
Total shareholders' equity	610,262	551,045	434,747
Total liabilities & shareholders' equity	768,819	684,724	591,980

A3) CONSOLIDATED CASH FLOW STATEMENT USGAAP (US\$ 000)

Particulars	Jun 30 2007	Mar 31 2007	Jun 30 2006	2006
Net cash provided by operating activities	36,173	14,140	16,787	59,091
Net cash used in investing activities	(9,406)	(26,123)	(12,046)	(155,426)
Capital expenditure, net	(18,484)	(18,394)	(12,656)	(48,537)
Investment in securities, net	9,078	(7,729)	1,107	(94,547)
Investment in subsidiary incl tax benefit on incentive stock option of Patni Telecom			(498)	(12,342)
Net cash provided / (used) in financing activities	(10,063)	1,137	(7,303)	(7,106)
Others	(114)	(121)	(99)	(391)
Common shares issued, net of expenses incl tax benefit arising on exercise of stock options	224	1,258	184	1,848
Dividend on common shares	(10,174)	(0)	(7,388)	(8,563)
Net increase / (decrease) in cash and equivalents	16,704	(10,845)	(2,563)	(103,441)
Effect of exchange rate changes on cash and equivalents	7,511	1,942	(5,061)	1,132
Cash and equivalents at the beginning of the period	37,607	46,510	60,652	148,820
Cash and equivalents at the end of the period	61,822	37,607	53,027	46,510

B1) CONSOLIDATED STATEMENT OF INCOME - INDIAN GAAP (RS. 000)

For the quarter / period ended

Particulars	Jun 30 2007	Jun 30 2006	Y_Y Change %	Mar 31 2007	Q_Q Change %	2006
Sales and service income	6,587,768	6,490,885	1.5%	6,796,257	-3.1%	26,080,258
Other income	761,320	49,775	1429.5%	365,019	108.6%	556,869
Total income	7,349,088	6,540,660	12.4%	7,161,276	2.6%	26,637,127
Staff costs	3,871,450	3,538,407	9.4%	3,706,781	4.4%	14,447,266
Selling, general and administration expenses	1,685,230	1,648,341	2.2%	1,820,190	-7.4%	6,763,551
Interest	38,699	128,655	-69.9%	30,553	26.7%	189,635
Total expenditure	5,595,379	5,315,403	5.3%	5,557,524	0.7%	21,400,452
Net profit before tax and adjustments	1,753,709	1,225,257	43.1%	1,603,752	9.4%	5,236,675
Provision for taxation	274,222	1,866,598	-85.3%	264,399	3.7%	2,567,682
Prior period adjustment		291,898				221,172
Profit/(loss) for the year after taxation	1,479,487	(933,239)	-258.5%	1,339,353	10.5%	2,447,821
Profit and loss account, brought forward	11,993,647	9,583,348	25.2%	10,646,309	12.7%	8,877,279
Add: Adjustment on account of Employee Benefits				7,985		
Amount available for appropriation	13,473,134	8,650,109	55.8%	11,993,647	12.3%	11,325,100
Proposed dividend on equity shares	1,144	289				414,846
Dividend on equity shares of subsidiary						
Dividend tax	12,515	40				58,182
Transfer to general reserve						205,763
Profit and loss account, carried forward	13,459,475	8,649,780	55.6%	11,993,647	12.2%	10,646,309
Earning per share (Rs. per equity share of Rs. 2 each)						
- Basic	10.67	(6.77)		9.68		17.74
- Diluted	10.54	(6.77)		9.59		17.60
Weighted average number of common shares used in computing earnings per share						
- Basic	138,646,132	137,889,376		138,342,512		137,957,477
- Diluted	140,340,936	137,889,376		139,652,025		139,067,699

B2) CONSOLIDATED BALANCE SHEET - INDIAN GAAP (RS. 000):

Particulars	As on 30-Jun-07	As on 31-Mar-07	As on 30-Jun-06
Assets			
Current assets, loans and advances	10,414,510	9,405,367	9,233,033
Goodwill	3,705,687	3,374,817	3,506,131
Fixed assets(Net of Depreciation)	6,888,925	6,464,593	4,887,766
Investments	10,861,216	11,042,104	9,921,888
Deferred tax asset, net	429,501	539,687	594,815
Total assets	32,299,839	30,826,568	28,143,633
Liabilities			
Current liabilities and provisions	6,341,723	6,127,642	6,884,978
Secured loans	24,679	29,377	31,462
Deferred tax liability, net		18,820	95,354
Total liabilities	6,366,402	6,175,839	7,011,794
Total shareholders equity	25,933,437	24,650,729	21,131,839
Total liabilities & shareholders equity	32,299,839	30,826,568	28,143,633

B3) CONSOLIDATED CASH FLOW STATEMENT - INDIAN GAAP (RS 000)

Particulars	Jun 30 2007	Mar 31 2007	Jun 30 2006	2006
Cash flows from / (used in) operating activities (A)	1,379,839	489,142	891,573	2,292,436
Cash flows used in investing activities (B)	(261,690)	(1,015,863)	(572,121)	(6,631,107)
Cash flows from / (used in) from financing activities (C)	(415,533)	59,390	(594,040)	(310,356)
Effect of changes in exchange rates (D)	179,631	42,118	6,673	2,296
Net decrease in cash and cash equivalents during the period (A+B+C+D)	882,247	(425,213)	(267,915)	(4,646,731)
Cash and cash equivalents at the beginning of the period	1,635,385	2,060,598	2,704,497	6,707,329
Cash and cash equivalents at the end of the period	2,517,632	1,635,385	2,436,582	2,060,598

C) Reconciliation of Income as per Indian GAAP and US GAAP(RS. 000):

Particulars	Jun 30 2007	Jun 30 2006	Mar 31 2007	2006
Consolidated net income as per Indian GAAP	1,479,487	(933,239)	1,339,353	2,447,821
Acquisition of entity under common control				
Income taxes	7,861	(83,933)	(9,569)	(133,791)
Fixed assets and depreciation				
Amortisation of miscellaneous expenditure				
Foreign currency differences	(86,717)	145,297	(62,991)	(153,501)
Employee retirement benefits	19,636	10,530	3,980	3,895
ESOP related Compensation Cost	(44,559)	(48,833)	(45,683)	(182,732)
Short provision for branch profit taxes in earlier years under Indian GAAP				
Provision for decline in fair value of investment				
Amortisation of Intangibles , arising on Business acquisition	(9,793)	(9,904)	(10,477)	(41,176)
Prior period adjustment - Impact of prior period tax estimate		774,816		765,595
Others	3,522	(436)	14,085	(21,878)
Total	(110,051)	787,537	(110,655)	236,412
Consolidated net income as per US GAAP	1,369,436	(145,702)	1,228,698	2,684,233

D1) CONSOLIDATED STATEMENT OF INCOME (RS. 000): BASED ON CONVENIENCE TRANSLATION
For the quarter / period ended

Particulars	Jun 30 2007	Jun 30 2006	Mar 31 2007	2006
Exchange rate\$1 = INR	40.58	45.87	43.10	44.11
Revenues	6,628,074	6,560,658	6,724,053	25,533,112
Cost of revenues	4,303,041	3,982,891	4,203,757	15,872,183
Depreciation	176,651	146,314	164,154	581,072
Gross Profit	2,148,382	2,431,453	2,356,141	9,079,857
Sales and marketing expenses	481,367	505,678	484,613	1,900,705
General and administrative expenses	678,110	806,120	651,189	2,838,156
Provision for doubtful debts and advances	23,285	7,387	27,719	52,536
Foreign exchange (gain) / loss, net	(347,853)	(4,497)	(113,352)	121,211
Operating income	1,313,473	1,116,765	1,305,972	4,167,249
Other income / (expense), net	286,727	180,801	154,376	549,986
Income before income taxes	1,600,200	1,297,566	1,460,348	4,717,235
Income taxes	252,660	1,444,527	260,068	2,103,684
Net income/(loss)	1,347,540	(146,961)	1,200,280	2,613,551
Earning per share				
- Basic	9.72	(1.07)	8.68	18.94
- Diluted	9.63	(1.07)	8.61	18.82
Weighted average number of common shares used in computing earnings per share				
- Basic	138,646,132	137,889,376	138,342,512	137,957,477
- Diluted	139,978,442	137,889,376	139,413,330	138,904,860

D2) CONSOLIDATED BALANCE SHEET USGAAP (RS. 000): BASED ON CONVENIENCE TRANSLATION

Particulars	As on 30-Jun-07	As on 31-Mar-07	As on 30-Jun-06
Exchange rate \$1 = INR	40.58	43.10	45.87
Assets			
Total current assets	21,495,966	20,601,059	19,541,278
Goodwill	2,079,563	1,716,745	1,829,424
Intangible assets, net	371,824	406,221	468,432
Property, plant, and equipment, net	6,452,229	6,121,934	4,649,758
Other assets	799,089	665,667	665,220
Total assets	31,198,670	29,511,625	27,154,112
Liabilities			
Total current liabilities	5,886,300	5,204,555	6,615,720
Capital lease obligations excl. installments	11,370	16,426	22,008
Other liabilities	536,549	540,589	574,516
Total liabilities	6,434,219	5,761,570	7,212,244
Total shareholders' equity	24,764,451	23,750,055	19,941,868
Total liabilities & shareholders' equity	31,198,670	29,511,625	27,154,112

D3) CONSOLIDATED CASH FLOW STATEMENT USGAAP (RS. 000): BASED ON CONVENIENCE TRANSLATION

Particulars	Jun 30 2007	Mar 31 2007	Jun 30 2006	2006
Exchange rate \$1 = INR	40.58	43.10	45.87	44.11
Net cash provided by operating activities	1,467,914	609,452	770,001	2,606,508
Net cash used in investing activities	(381,692)	(1,125,912)	(552,570)	(6,855,856)
Capital expenditure, net	(750,073)	(792,789)	(580,526)	(2,140,979)
Investment in securities, net	368,381	(333,122)	50,794	(4,170,457)
Investment in subsidiary, net of cash acquired			(22,838)	(544,421)
Net cash provided / (used) in financing activities	(408,365)	49,025	(335,002)	(313,441)
Others	(4,624)	(5,194)	(4,536)	(17,242)
Common shares issued, net of expenses	9,102	54,240	8,418	81,500
Dividend on common shares	(412,843)	(21)	(338,884)	(377,699)
Net increase / (decrease) in cash and equivalents	677,857	(467,434)	(117,570)	(4,562,790)
Effect of exchange rate changes on cash and equivalents	304,798	83,706	(232,164)	49,914
Cash and equivalents at the beginning of the period	1,526,084	2,004,581	2,782,103	6,564,433
Cash and equivalents at the end of the period	2,508,739	1,620,853	2,432,370	2,051,557

E1) REVENUE ANALYSIS

Revenue By Geographical Segments	Jun 30 2007	Mar 31 2007	Jun 30 2006	2006
United States	77.4%	78.7%	81.0%	80.8%
Europe	14.2%	14.2%	11.2%	11.6%
Japan	3.0%	3.0%	3.9%	3.8%
Asia-Pacific (excluding Japan)	3.5%	2.8%	2.3%	2.3%
Rest of the world	2.0%	1.3%	1.7%	1.5%
Total	100.0%	100.0%	100.0%	100.0%

Revenue by Industry Verticals	Jun 30 2007	Mar 31 2007	Jun 30 2006	2006
Insurance	23.6%	24.4%	23.2%	23.2%
Manufacturing	22.0%	21.9%	21.4%	21.7%
Financial Services	14.6%	14.0%	15.5%	15.3%
Telecommunications	14.1%	14.7%	20.2%	18.9%
Growth Industries	8.4%	8.2%	5.8%	6.7%
Product Engineering Services	17.3%	16.8%	13.9%	14.2%
Total	100.0%	100.0%	100.0%	100.0%

Revenue by Service Offerings	Jun 30 2007	Mar 31 2007	Jun 30 2006	2006
Application Development & Maintenance	64.4%	65.6%	71.8%	70.8%
Enterprise Application Systems	14.3%	13.5%	13.6%	13.2%
Embedded Technology Services	11.5%	11.5%	9.0%	9.5%
Enterprise Systems Management	5.8%	5.6%	4.0%	4.6%
Others	4.0%	3.8%	1.6%	1.9%
Total	100.0%	100.0%	100.0%	100.0%

Revenue by Project Type	Jun 30 2007	Mar 31 2007	Jun 30 2006	2006
Time and Material	68.1%	67.9%	64.0%	64.8%
Fixed Price (including Fixed Price SLA)	31.9%	32.1%	36.0%	35.2%
Total	100.0%	100.0%	100.0%	100.0%

E2) CLIENT- REVENUE METRICS

	Jun 30 2007	Mar 31 2007	Jun 30 2006	2006
Particulates				
Top client	10.7%	11.1%	14.5%	14.6%
Top 5 Clients	33.5%	35.9%	38.2%	37.1%
Top 10 Clients	46.9%	48.8%	54.1%	53.1%
Client data				
No of \$1 million clients	72	74	64	74
No of new clients	25	26	23	92
No. of active Clients	267	252	220	239
% of Repeat Business	92.7%	93.8%	92.0%	91.5%

E3) EFFORTS AND UTILISATION

	Jun 30 2007	Mar 31 2007	Jun 30 2006	2006
Efforts Mix				
Onsite efforts	30.7%	31.7%	33.7%	33.3%
Offshore efforts	69.3%	68.3%	66.3%	66.7%
Total	100.0%	100.0%	100.0%	100.0%

	Jun 30 2007	Mar 31 2007	Jun 30 2006	2006
Utilisation				
Utilisation	71.7%	72.8%	70.2%	71.4%

E4) EMPLOYEE METRICS

	Jun 30 2007	Mar 31 2007	Jun 30 2006	2006
Total Employees	13,723	13,096	12,608	12,804
Offshore	10,832	10,169	9,908	10,009
Onsite	2,891	2,927	2,700	2,795
Total	13,723	13,096	12,608	12,804
Sales & Support Staff	1,370	1,273	1,306	1,251
Net Additions	627	292	460	1,002
Attrition (LTM) excluding BPO	30.1%	29.2%	20.8%	27.5%

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PATNI COMPUTER SYSTEMS LIMITED

Dated: July 26, 2007

By: */s/ ARUN KANAKAL*
Arun Kanakal
Company Secretary