

## **On fire online**

**By Alex Walsh | Tampa Bay Editor - Thursday, January 28, 2010**

### **REVIEW SUMMARY**

**Company.** Jagged Peak

**Industry.** Technology

**Key.** A unique product could allow Jagged Peak to capitalize on an enormous — and still growing — market space for e-commerce.

### **AT A GLANCE**

**Company Name:** Jagged Peak

**Headquarters:** Tampa, FL

**CEO:** Paul Demirdjian

**FY 2008 Revenues:** \$16.24 million

**Stock symbol:** JGPK.OB

**Recent stock price:** \$.12

**52-week stock-price range:** \$.11 - .29

**Price-earnings ratio (trailing 12 months):** N/A

**Dividend:** N/A

**Market capitalization:** 1.76M

**Source:** Yahoo! Finance

Have you ever been a victim of sales prevention?

You walk into a store, cash in hand, ready to make a purchase and somehow leave without having spent a dime. Whether the product was out of stock, a customer service problem occurred or something else went wrong, you were ready to buy and the sale was somehow prevented.

It happens all the time. And in 1999, it happened to Paul Demirdjian.

Demirdjian wanted to buy a laptop online, and decided to use the site Egghead.com to complete his purchase. He browsed the site's options, made his choice, gave his credit card information, and considered the purchase done.

Three days later, however, he received an e-mail from Egghead, saying the model he'd selected was out of stock, requesting he select a different laptop.

Twice more, Demirdjian would choose a laptop, make the purchase, and find out three days later that Egghead didn't have what he wanted. After his third attempt, he called the company's customer service line, and tried asking someone what computers they did have in stock.

After several minutes, the response: "We don't know."

At that point, Demirdjian saw an incredible business opportunity. How can a company afford to do business without being fully aware of its own inventory? For Egghead, and likely for many other online businesses, a major problem needed solving.

Today, Demirdjian is chief executive officer of Jagged Peak, a publicly traded, Tampa-based company that aims at the solution.

Jagged Peak works with manufacturers to develop sales channels that directly connect them to the customer. Ideally, clients of Jagged Peak will never have to tell a customer that they don't know what's in stock.

At the same time, the company aims to optimize its clients' distribution systems. As a result, not only do they know what they have in stock, they also know how to ship it as quickly and cheaply as possible.

It's an advantage Jagged Peak tries to give its clients: high-powered software that can save clients hundreds of thousands of dollars on shipping costs.

### **Trends in e-commerce**

Jagged Peak specializes in e-commerce solutions, helping product manufacturers sell direct to consumers via the Internet.

The e-commerce market space is already massive, and continues to grow. In 2003, Forrester Research estimated that consumers spent a total of \$12.2 billion online. In 2008, that estimate increased to \$204 billion in online sales, and Forrester's projects that number could grow to \$335 billion by 2012.

Demirdjian is well aware of the growth trend in e-commerce. "This is not a mature market," he argues. "We see the momentum, and it is here to stay."

At the same time, Demirdjian recognizes that most manufacturers are not prepared to take advantage of that growth in online activity.

In fact, his company estimates that 90% of online orders are not connected to inventory infrastructures. That means many potential online buyers are likely encountering the same experience Demirdjian did in trying to purchase a computer, where the retailer simply doesn't know what's in stock.

That 90% represents a lot potential clients for Jagged Peak's main product.

The product is called EDGE, which stands for E-Business Dynamic Global Engine. It's described as a software system that can help businesses manage every aspect of the demand chain for online orders, including capturing orders, tracking inventory, optimizing warehouse network usage, and more.

It could be the solution for all those companies suffering from a disconnect between physical inventories and online sales. For several big name manufacturers – Nokia, Tag Heuer, Swatch – it's already true.

### **Cost effective**

The company's EDGE software aims to be more than just a stopgap. It can improve customer experience and, most important of all, can do so cheaply.

Successful online retailers have shown that customer experience is crucial to doing well. It's a large part of what made Amazon.com, the online mega-retailer with zero physical stores, a household name. That company brought in a staggering \$21.7 billion in revenue between Sept. 30, 2008 and Sept. 30, 2009.

Amazon.com's focus on customer experience was demonstrated in its recent acquisition of Zappos.com, a competing online retailer that built a solid customer base by providing many repeat users with free overnight shipping.

Demirdjian is well aware of what made Zappos so successful. As he sees it, "They're using supply chain excellence as part of their brand."

Certainly, delivering customer orders overnight can improve user experience. But keeping customers extremely happy can sometimes be an expensive proposition.

In Zappos' case, that's all too true. Their overnight shipping is done via air — more costly than the ground shipment alternative. Demirdjian knows this, and is quick to point out an advantage his company has over the competition.

Jagged Peak's technology promises the same sort of accelerated delivery option that Zappos provides its users, but Demirdjian's company is able to provide that service via ground. That saves clients money, and gives Jagged Peak an edge of a different sort in the e-commerce marketplace.

### **Approaching profitability**

The potential savings for customers are keeping Jagged Peak's revenues going. But saving money hasn't exactly been easy to do from the company's outset.

Demirdjian is blunt about his company's most difficult challenge: "Enterprise software is very, very expensive."

Furthermore, the problem of software development being very costly is made worse by resulting cash flows — it's all upfront. Imagine paying highly skilled employees for hours and hours of development work before being able to sell a dime's worth of product.

In that sense, the company is proud to have even survived for this long. "It's about perseverance," Demirdjian says. "It's not easy."

Fortunately for the company, at least the cash flow issue has eased. From 2004 to 2008, Jagged Peak exceeded \$10 million in revenue, and will almost certainly do so again in 2009 (fourth quarter results have not yet been filed).

Now that revenues are both consistent, the company is focusing on turning some of those revenues into profits. In 2008, the company posted a net loss of \$194,800, representing 1.2% of total revenues, which were \$16,546,700 for the year.

Based on economic circumstances, 2009 doesn't look like it'll be profitable either. Going forward, then, Jagged Peak will need to maintain that edge in cost savings over competitors. "There's only so many people who can actually do what we do," Dimerdjian says.

The company's potential for success also comes back to the immaturity of the e-commerce marketplace. While online retail sales continue to grow rapidly, many manufacturers still need to improve their online sales models.

To see Jagged Peak, Inc. by the numbers download it here. [Bythenumbers.pdf](#)

**BY THE NUMBERS**
**JAGGED PEAK, INC.**
**FINANCIAL STATEMENT**

	Thirteen-Week Period Ended:		Thirty-Nine-Week Period Ended:	
	Sept. 26, 2008	Sept. 26, 2008	Sept. 26, 2008	Sept. 25, 2009
Revenue	4,225,500	\$4,097,400	\$12,029,800	11,700,900
Cost of revenues	2,991,200	3,103,700	8,755,100	8,741,600
Gross profit	1,234,300	993,700	3,274,700	2,959,300
Selling, general, admin expenses	1,081,700	1,026,700	3,076,700	3,190,000
Operating (loss) income	152,600	-33,000	198,000	-230,700
Other expenses, net	—	1,200	—	1,200
Interest expense	129,200	115,500	394,600	347,400
Profit before tax expense	23,400	-149,700	-196,600	-579,300
Provision for income tax expense	14,300	-58,100	-52,100	-207,700
Net (loss) income	\$9,100	(\$91,600)	(\$144,500)	(\$371,600)
Shares outstanding – basic	14,659,261	14,677,594	14,639,354	14,677,594
Average of common shares outstanding	14,975,555	14,677,594	14,639,354	14,677,594
Net loss per share	\$0.00	(\$0.01)	(\$0.01)	(\$0.03)

**BALANCE SHEET**

	Dec. 26, 2008 (Audited)	Sept. 25, 2009 (Unaudited)
<b>Assets</b>		
Current assets:		
Cash	\$126,500	\$149,200
Accounts receivable	1,923,800	1,671,000
Other receivables	135,000	123,000
Work in process,	149,700	109,100
Deferred tax asset	268,600	192,200
Other current assets	443,800	150,100
Total current assets	3,047,400	2,394,600
Property and equipment	327,400	243,900
Other assets:		
EDGE and other applications,	79,400	353,100
Deferred tax asset	1,138,700	1,422,800
Total long-term assets	1,545,500	2,019,800
Total assets	\$4,592,900	\$4,414,400

**Liabilities and Stockholders' Equity**

Current liabilities:		
Accounts payable, trade	\$1,641,500	\$1,551,000
Accrued payroll and bonuses	407,800	374,800
Other accrued expenses	61,900	77,200
Revolving Note	0	393,700
Deferred rent	34,900	34,900
Notes payable	1,415,000	1,010,000
Deferred revenue and customer deposits	600,200	937,800
Total current liabilities	4,161,300	4,379,400
Long-term liabilities:		
Deferred rent, long term	57,200	29,200
Total long-term liabilities	57,200	29,200
Stockholders' equity:		
Common stock	14,800	14,800
Additional paid-in capital	3,388,400	3,391,400
Accumulated deficit	-3,028,800	-3,400,400
Total stockholders' equity	374,400	5,800
Total liabilities and stockholders' equity	\$4,592,900	\$4,414,400

**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

	39-Week Period Ended	
	Sept. 26, 2008	Sept. 26, 2008
Operating activities		
Net loss	(\$144,500)	(\$371,600)
Depreciation and amortization	209,800	208,100
Non-cash consulting expense	8,800	—
Non-cash amortization of equity compensation	40,600	3,000
Amortization of warrants related to long term debt	241,000	241,000
Adjustment to allowance for bad debt expense	84,300	134,100
Changes in:		
Accounts receivable	688,600	118,700
Work-in-process	-81,600	40,600
Other receivables	13,000	12,000
Other current assets	-28,400	52,700
Deferred tax asset and liability, net	-52,100	-207,700
Accounts payable	-252,000	-90,500
Accrued payroll	9,500	-33,000
Accrued expenses	-11,500	15,300
Deferred rent	-20,600	-28,000
Other liabilities	152,000	337,600
Net cash provided by operating activities	856,900	432,300
Investing activities		
Acquisition of property and equipment	-114,700	-72,500
Acquisition/development of software/ Edge platform	-20,700	-325,800
Cash flows used by investing activities	-135,400	-398,300
Financing activities		
Net proceeds and payments on the revolving note	-165,300	393,700
Payments on notes payable	-405,000	-405,000
Cash flows used by financing activities	-570,300	-11,300
Net increase in cash	151,200	22,700
Cash, beginning of period	74,000	126,500
Cash, end of period	\$225,200	\$149,200
Cash paid during the period for taxes	—	—
Cash paid during the period for interest	\$155,600	\$106,400

Source: Yahoo Business