

PARK CITY GROUP INC
Form 424B3
May 20, 2011

Filed Pursuant to Rule 424(b)(3)

Registration No. 333-145087

PROSPECTUS SUPPLEMENT NO. 1
(to Prospectus dated December 22, 2010)

PARK CITY GROUP, INC.

This is a supplement to our prospectus dated December 22, 2011 (the "Prospectus") relating to the resale from time to time by selling stockholders of up to 2,371,268 shares of our common stock, including shares issuable upon exercise of outstanding warrants. On May 10, 2011, we filed with the Securities and Exchange Commission a Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, and on May 19, 2011 we filed a Current Report on Form 8-K. The text of the Quarterly Report on Form 10-Q and the Current Report on Form 8-K is attached to and is a part of this supplement.

This supplement should be read in conjunction with the Prospectus and may not be delivered or utilized without the Prospectus. This supplement is qualified by reference to the Prospectus, except to the extent that the information provided by this supplement supersedes the information contained in the Prospectus.

The securities offered by the Prospectus involve a high degree of risk. You should carefully consider the "Risk Factors" referenced on pages 2-11 of the Prospectus in determining whether to purchase the common stock.

The date of this prospectus supplement is May 19, 2011.

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

FORM 10-Q

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

For the quarterly period ended March 31, 2011.

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

For the transition period from _____ to _____.

Commission File Number 000-03718

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

Nevada
(State or other jurisdiction of incorporation or organization)

37-1454128
(IRS Employer Identification No.)

3160 Pinebrook Road; Park City, UT 84098
(Address of principal executive offices)

(435) 645-2000
(Registrant's telephone number)

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 and 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 (§232.405 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 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.

Edgar Filing: PARK CITY GROUP INC - Form 424B3

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
(Do not check if smaller reporting company)

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

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common Stock, \$0.01 par value: 11,416,633 shares as of May 5, 2011.

PARK CITY GROUP, INC.

Table of Contents to Quarterly Report on Form 10-Q

| | Page |
|--|------|
| PART I - FINANCIAL INFORMATION | |
| Item 1. <u>Financial Statements</u> | 1 |
| <u>Consolidated Condensed Balance Sheets as of March 31, 2011 (Unaudited) and June 30, 2010</u> | 1 |
| <u>Consolidated Condensed Statements of Operations for the Three and Nine Months Ended March 31, 2011 and 2010 (Unaudited)</u> | 2 |
| <u>Consolidated Condensed Statements of Cash Flows for the Nine Months Ended March 31, 2011 and 2010 (Unaudited)</u> | 3 |
| <u>Notes to Consolidated Condensed Financial Statements</u> | 4 |
| Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | 10 |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 23 |
| Item 4. <u>Controls and Procedures</u> | 24 |
| PART II – OTHER INFORMATION | |
| Item 1. <u>Legal Proceedings</u> | 24 |
| Item 1A. <u>Risk Factors</u> | 24 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 24 |
| Item 3. <u>Defaults Upon Senior Securities</u> | 24 |
| Item 5. <u>Other Information</u> | 24 |
| Item 6. <u>Exhibits</u> | 24 |
| Exhibit 31 Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | |
| Exhibit 32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | |
| <u>Signatures</u> | |

Table of Contents

PARK CITY GROUP, INC.

Consolidated Condensed Balance Sheets

| | March 31, 2011 (unaudited) | June 30, 2010 |
|---|----------------------------------|---------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$1,270,492 | \$1,157,431 |
| Receivables, net of allowance of \$25,000 and \$72,000 at March 31, 2011 and June 30, 2010, respectively | 1,041,308 | 1,031,020 |
| Unbilled receivables | 94,387 | 417,926 |
| Prepaid expenses and other current assets | 341,834 | 181,434 |
| Total current assets | 2,748,021 | 2,787,811 |
| Property and equipment, net | 406,388 | 544,576 |
| Other assets: | | |
| Deposits and other assets | 24,026 | 23,287 |
| Customer relationships | 3,290,546 | 3,607,283 |
| Goodwill | 4,805,933 | 4,805,933 |
| Capitalized software costs, net | 401,955 | 281,686 |
| Total other assets | 8,522,460 | 8,718,189 |
| Total assets | \$11,676,869 | \$12,050,576 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$602,557 | \$574,847 |
| Accrued liabilities | 978,293 | 1,286,218 |
| Deferred revenue | 1,339,189 | 1,364,390 |
| Capital lease obligations | 126,382 | 132,184 |
| Lines of credit | 600,000 | 600,000 |
| Notes payable | 2,296,588 | 766,705 |
| Total current liabilities | 5,943,009 | 4,724,344 |
| Long-term liabilities: | | |
| Notes payable, less current portion | 962,404 | 2,920,602 |
| Capital lease obligations, less current portion | 56,373 | 148,749 |
| Total liabilities | 6,961,786 | 7,793,695 |
| Commitments and contingencies | - | - |
| Stockholders' equity: | | |
| Series A Convertible Preferred Stock, \$0.01 par value, 30,000,000 shares authorized; 663,683 and 648,396 shares issued and outstanding at March 31, 2011 and June 30, 2010, respectively | 6,637 | 6,484 |

Edgar Filing: PARK CITY GROUP INC - Form 424B3

| | | |
|---|---------------------|---------------------|
| Series B Convertible Preferred Stock, \$0.01 par value, 30,000,000 shares authorized; 411,927 and zero shares issued and outstanding at March 31, 2011 and June 30, 2010, respectively | 4,119 | - |
| Common stock, \$0.01 par value, 50,000,000 shares authorized; 11,386,992 and 10,884,364 shares issued and outstanding at March 31, 2011 and June 30, 2010, respectively | 113,870 | 108,844 |
| Additional paid-in capital | 35,433,228 | 29,881,977 |
| Subscription payable for Series B Convertible Preferred Stock | - | 4,119,273 |
| Accumulated deficit | (30,842,771) | (29,859,697) |
| Total stockholders' equity | 4,715,083 | 4,256,881 |
| Total liabilities and stockholders' equity | \$11,676,869 | \$12,050,576 |

See accompanying notes to consolidated condensed financial statements.

Table of Contents

PARK CITY GROUP, INC.

Consolidated Condensed Statements of Operations (unaudited)

| | Three Months ended March 31, | | Nine Months ended March 31, | |
|---|---------------------------------|--------------|--------------------------------|--------------|
| | 2011 | 2010 | 2011 | 2010 |
| Revenues: | | | | |
| Subscription | \$ 1,700,022 | \$ 1,530,729 | \$ 4,844,914 | \$ 4,401,921 |
| Maintenance | 521,402 | 588,007 | 1,674,353 | 1,916,693 |
| Professional services and other revenue | 180,026 | 324,318 | 732,459 | 1,083,271 |
| Software licenses | 85,260 | 525,120 | 547,979 | 754,810 |
| | | | | |
| Total revenues | 2,486,710 | 2,968,174 | 7,799,705 | 8,156,695 |
| Operating expenses: | | | | |
| Cost of services and product support | 1,094,229 | 1,003,907 | 2,894,630 | 2,912,036 |
| Sales and marketing | 690,804 | 743,473 | 2,048,339 | 1,877,405 |
| General and administrative | 668,081 | 721,743 | 2,380,896 | 2,041,192 |
| Depreciation and amortization | 199,005 | 207,273 | 575,611 | 617,312 |
| | | | | |
| Total operating expenses | 2,652,119 | 2,676,396 | 7,899,476 | 7,447,945 |
| | | | | |
| (Loss) income from operations | (165,409) | 291,778 | (99,771) | 708,750 |
| Other income (expense): | | | | |
| Gain on refinance of note payable | - | - | - | 43,811 |
| Other gains | - | - | - | 24,185 |
| Interest expense | (80,643) | (168,569) | (263,820) | (553,161) |
| | | | | |
| (Loss) income before income taxes | (246,052) | 123,209 | (363,591) | 223,585 |
| | | | | |
| (Provision) benefit for income taxes | - | - | - | - |
| | | | | |
| Net (loss) income | (246,052) | 123,209 | (363,591) | 223,585 |
| | | | | |
| Dividends on preferred stock | (205,412) | (81,454) | (619,483) | (245,684) |
| | | | | |
| Net (loss) income applicable to common shareholders | \$ (451,464) | \$ 41,755 | \$ (983,074) | \$ (22,099) |
| | | | | |
| Weighted average shares, basic | 11,325,000 | 10,755,000 | 11,136,000 | 10,672,000 |
| Weighted average shares, diluted | 11,325,000 | 10,781,000 | 11,136,000 | 10,672,000 |
| Basic and diluted (loss) income per share | \$ (0.04) | \$ 0.00 | \$ (0.09) | \$ (0.00) |

See accompanying notes to consolidated condensed financial statements.

Table of Contents

PARK CITY GROUP, INC.
Consolidated Condensed Statements of Cash Flows (Unaudited)
For the Nine Months Ended March 31,

| | 2011 | 2010 |
|--|--------------------|-------------------|
| Cash Flows From Operating Activities: | | |
| Net (loss) income | \$(363,591) | \$223,585 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 575,611 | 617,312 |
| Bad debt expense | 13,596 | 173,612 |
| Stock compensation expense | 653,211 | 369,027 |
| Stock issued for litigation settlement | 375,000 | - |
| Amortization of discounts on debt | - | 1,589 |
| Gain on refinance of debt | - | (43,811) |
| Other gains | - | (24,185) |
| Decrease (increase) in: | | |
| Trade receivables | (23,884) | (474,835) |
| Unbilled receivables | 323,539 | (62,985) |
| Prepays and other assets | (161,139) | (1,163) |
| (Decrease) increase in: | | |
| Accounts payable | 27,710 | (161,514) |
| Accrued liabilities | (483,699) | (222,185) |
| Deferred revenue | (25,201) | (142,990) |
| Net cash provided by operating activities | 911,153 | 251,457 |
| Cash Flows From Investing Activities: | | |
| Purchase of property and equipment | (43,904) | (64,741) |
| Capitalization of software costs | (197,051) | - |
| Net cash used in investing activities | (240,955) | (64,741) |
| Cash Flows From Financing Activities: | | |
| Dividends paid | (247,156) | - |
| Net increase in lines of credit | | 400,000 |
| Proceeds from issuance of common stock | 140,800 | - |
| Proceeds from exercise of warrants | 75,712 | - |
| Payments on notes payable and capital leases | (526,493) | (548,203) |
| Net cash (used in) financing activities | (557,137) | (148,203) |
| Net increase in cash | 113,061 | 38,513 |
| Cash and cash equivalents at beginning of period | 1,157,431 | 656,279 |
| Cash and cash equivalents at end of period | \$1,270,492 | \$694,792 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid for income taxes | \$- | \$- |
| Cash paid for interest | \$272,987 | \$642,618 |

Supplemental Disclosure of Non-Cash Investing and Financing Activities:

| | | |
|---|-----------|-----------|
| Common stock to pay accrued liabilities | \$604,274 | \$369,027 |
| Dividends accrued on preferred stock | \$619,483 | \$245,684 |
| Dividends paid with preferred stock | \$245,490 | \$321,491 |
| Property and equipment purchased by capital lease | \$- | \$184,929 |

See accompanying notes to consolidated condensed financial statements.

Table of Contents

PARK CITY GROUP, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(unaudited)

NOTE 1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Park City Group, Inc. (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 acquired Prescient in January 2009 when Prescient was merged with a wholly-owned subsidiary of the Company (the "Prescient Merger").

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements of the Company have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") on a basis consistent with the Company's audited annual financial statements and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial information set forth therein. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to SEC rules and regulations, although the Company believes that the following disclosures, when read in conjunction with the audited annual financial statements and the notes thereto included in the Company's most recent Annual Report on Form 10-K, are adequate to make the information presented not misleading. Operating results for the three and nine months ended March 31, 2011 are not necessarily indicative of the operating results that may be expected for the fiscal year ending June 30, 2011.

Reclassification

Certain amounts in the 2010 financial statements have been reclassified to conform to the 2011 presentation.

Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2009-13, Multiple-Deliverable Revenue Arrangements, which amends FASB Accounting Standards Codification ("ASC") Topic 605, Revenue Recognition, and ASU 2009-14, Certain Arrangements That Include Software Elements, which amends FASB ASC Topic 985, Software. ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. ASU 2009-14 removes tangible products from the scope of software revenue guidance and provides guidance

on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. ASU 2009-13 and ASU 2009-14 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. The adoption of ASU 2009-13 and ASU 2009-14 did not have a material impact on the Company's results of operations or financial condition.

Table of Contents

In December 2009, the FASB issued ASU 2009-17, Improvements to Financial Reporting Involved with Variable Interest Entities, which codifies SFAS No. 167, Amendments to FASB Interpretation No. 46(R) issued in June 2009. ASU 2009-17 requires a qualitative approach to identifying a controlling financial interest in a variable interest entity ("VIE"), and requires ongoing assessment of whether an entity is a VIE and whether an interest in a VIE makes the holder the primary beneficiary of the VIE. ASU 2009-17 is effective for annual reporting periods beginning after November 15, 2009. The adoption of ASU 2009-17 did not have a material impact on the Company's consolidated financial statements.

In January 2010, the FASB issued ASU 2010-6, Improving Disclosures About Fair Value Measurements, which requires reporting entities to make new disclosures about recurring or nonrecurring fair-value measurements including significant transfers into and out of Level 1 and Level 2 fair-value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair-value measurements. ASU 2010-6 is effective for annual reporting periods beginning after December 15, 2009, except for Level 3 reconciliation disclosures which are effective for annual periods beginning after December 15, 2010. The adoption of ASU 2010-6 did not have a material impact on the Company's consolidated financial statements.

In April 2010, the FASB issued ASU 2010-17, Revenue Recognition – Milestone Method (Topic 605): Milestone Method of Revenue Recognition, a consensus of the FASB Emerging Issues Task Force, which provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. ASU 2010-17 is effective for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. The adoption of this standard did not have an impact on the Company's consolidated financial statements.

Use of Estimates in the Preparation of Financial Statements

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

Net Income and Income Per Common Share

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

For the three months ended March 31, 2011 and 2010 options and warrants to purchase 654,756 and 793,622 shares of common stock, respectively, were not included in the computation of diluted EPS due to the anti-dilutive effect. For the nine months ended March 31, 2011 and 2010 options and warrants to purchase 654,756 and 858,502 shares of common stock, respectively, were not included in the computation of diluted EPS due to the anti-dilutive

effect.

For three and nine months ended March 31, 2011 and 2010, 3,242,094 and 2,205,613 shares of common stock issuable upon conversion of the Company's Series A Convertible Preferred Stock ("Series A Preferred") and Series B Convertible Preferred Stock ("Series B Preferred"), respectively, were not included in the diluted EPS calculation as the effect would have been anti-dilutive.

-5-

Table of Contents

NOTE 3. LIQUIDITY

Historically, the Company has financed its operations through operating revenues, loans from directors, officers, stockholders, loans from the Chief Executive Officer and majority shareholder, bank financing, and private placements of equity securities. As a result of the consummation of the Prescient Merger, the Company has increased revenue and instituted strict cost control measures, resulting in an increase in cash flow from operating activities. Management believes that projected revenue growth together with continued cost control initiatives will be sufficient to address the Company's short-term and long-term working capital requirements, including satisfying its debt service requirements. Although no assurances can be given, in the event the Company is unable to generate sufficient cash flow from operating activities to address its debt service requirements, management believes that it will be able to successfully refinance or restructure such debt on terms acceptable to the Company.

As shown in the consolidated condensed financial statements, the Company experienced cash provided by operating activities in the amount \$911,153 and \$251,457 for the nine months ended March 31, 2011 and 2010, respectively.

On August 25, 2009, the Company issued a promissory note in favor of a lender in the principal amount of approximately \$2.0 million. The note replaced a three year promissory note due August 25, 2009 originally issued by Prescient, and assumed by the Company in connection with the Prescient Merger. As a result of the restructuring, the new note maturity date was August 1, 2012. The note required monthly principal and interest payments in the amount of \$60,419, with a final payment of unpaid principal and interest due August 1, 2012. On August 1, 2010, the Company entered into a loan modification agreement. Under the terms of the modification, the maturity date of the note has been extended from August 1, 2012 to September 1, 2013. The amount due under the terms of the note at the time of modification was \$1,387,068. As a result of the amendment, the monthly principal and interest payments have been reduced from \$60,419 to \$40,104, and the annual interest rate remained 4.25%.

On May 5, 2010, the Company entered into a Term Loan Agreement ("Loan Agreement") with U.S. Bank N.A. ("Bank"), and issued a Term Note to the Bank in the principal amount of \$455,712, which Loan Agreement and Term Note replaces a Term Note in the principal amount of \$500,000 originally issued on September 30, 2009 ("Original Note"). The Term Note bears interest at an annual rate of 4.9%. Principal and accrued interest under the terms of the Term Note are payable in 52 installments of \$9,359 each beginning May 15, 2010 and on the same date on each consecutive month thereafter until maturity, or September 15, 2014. Amounts due under the terms of the Term Note are secured by certain assets of the Company pursuant to a Security Agreement, dated February 15, 2006.

On August 6, 2010, the Company entered into a loan modification agreement with its principal lender pursuant to which the maturity date of the credit agreement provides for maximum borrowings of \$1.2 million, of which \$600,000 was outstanding at March 31, 2011. The maturity date has been extended to September 30, 2011. The modified credit facility accrues interest at an annual rate of 3.5% plus one-month LIBOR rate or a minimum of 4.25% as of March 31, 2011.

At March 31, 2011, the Company had negative working capital of \$3,194,988 when compared with negative working capital of \$1,936,533 at June 30, 2010. This \$1,258,455 decrease in working capital is principally a result of the reclassification of certain notes payable from long-term liabilities to current liabilities, for amounts becoming due and payable during the next twelve months. These notes have a maturity date of July 12, 2011. While no assurances can be given, the Company intends to meet its maturing debt obligations through one or a combination of methods, including payment using internally generated cash, cash derived from the exercise of certain expiring warrants, and restructuring or replacement of such debt. The consequence of such efforts is either an elimination of the debt, reclassifications of such indebtedness to long-term debt on the Company's balance sheet, or some combination thereof.

On September 21, 2010, the Company entered into a Multiple Advance Promissory Note with the Bank in the total aggregate amount of \$350,000. The Company may take advances on the Note. At the end of each annual period, for the next three periods, the advanced capital will be converted to a three year amortizing Term Note. Interest on the advance prior to conversion is 4.5% plus the one month LIBOR rate. Interest on the three year amortizing Term Note is fixed over the term at 3.5% plus the three year Money Market rate.

Table of Contents

NOTE 4. STOCK-BASED COMPENSATION

The Company has agreements with a number of employees to issue stock grants vesting over 3-10 year terms. The vested portions of these grants are to be paid on each anniversary of the grant dates. Total shares under these agreements vesting and payable annually to employees are 209,166. The stock grant agreements were dated effective between November 2, 2007 and February 17, 2011.

NOTE 5. OUTSTANDING STOCK OPTIONS

The following tables summarize information about fixed stock options and warrants outstanding and exercisable at March 31, 2011:

| Range of exercise prices Options | Options and Warrants Outstanding at March 31, 2011 | | | Options and Warrants Exercisable at March 31, 2011 | |
|-------------------------------------|--|---|--|--|--|
| | Number Outstanding at March 31, 2011 | Weighted average remaining contractual life (years) | Weighted average exercise price | Number Exercisable at March 31, 2011 | Weighted average exercise price |
| \$ 1.50 - 2.50 | 14,880 | 2.34 | \$1.76 | 14,880 | \$1.76 |
| Warrants | | | | | |
| \$ 1.80 - 4.00 | 639,876 | 0.69 | \$3.62 | 639,876 | \$3.62 |
| | 654,756 | | | 654,756 | |

NOTE 6. RELATED PARTY TRANSACTIONS

On September 2, 2008, the Company executed and delivered three promissory notes in an aggregate amount of \$2,200,000. Each of such notes was unsecured, was due on or before December 1, 2008 and accrued interest at the rate of 10% per annum. The loan proceeds were used by the Company to fund a portion of the purchase price of shares of Series E Preferred Stock of Prescient purchased by the Company. The purchase transaction was the first step in a plan to acquire Prescient in a merger transaction. The purchase transaction and the merger transaction are described in a Form 8-K filed by the Company on September 3, 2008 and a Schedule 13D filed by the Company with the Securities and Exchange Commission on September 15, 2008.

Effective June 30, 2010 the Company authorized the issuance and right to sell Series B Convertible Preferred Stock. Effective June 30, 2010, the Company entered into a Stock Purchase Agreement with certain holders of the aforementioned promissory notes of the Company aggregating approximately \$4.1 million (the "Notes"), pursuant to which incurred a subscription payable for the future issuance of 411,927 shares of its newly created Series B Convertible Preferred Stock, \$0.01 per share ("Series B Preferred"), in consideration for the surrender and termination of such Notes. The purchase price for the Series B Preferred was \$10.00 per share. The Stock Purchase Agreement contains various standard terms and conditions. Due to the timing of the filing of the certificate of designation for the Series B Preferred, this conversion was recorded as a subscription payable at June 30, 2010, although the Series B Preferred were issued on July 30, 2010. The amounts of the related party promissory notes, subscriptions payable and Series B Preferred shares issued in satisfaction of the subscriptions payable are presented as follows:

| | | |
|---------------------------------|-------------------------|-------------------------------------|
| Balance of 12% Notes Payable | Subscription Payable | Shares Issued in Satisfaction of |
|---------------------------------|-------------------------|-------------------------------------|

Edgar Filing: PARK CITY GROUP INC - Form 424B3

| | at Conversion | at 6/30/2010 | Subscription Payable |
|---------------------------------------|---------------|--------------|----------------------|
| Riverview Financial Corp ¹ | \$ 3,496,259 | \$ 3,496,259 | 349,626 |
| Robert Allen ² | 523,014 | 523,014 | 52,301 |
| Julie Fields ³ | 100,000 | 100,000 | 10,000 |
| | \$ 4,119,273 | \$ 4,119,273 | 411,927 |

¹Riverview Financial Corp is controlled by Randy Fields, the Company's Chief Executive Officer.

²Mr. Allen is a director of the Company.

³Ms. Fields is the spouse of Randy Fields, the Company's Chief Executive Officer.

-7-

On January 12, 2009, the Company entered into a Purchase Agreement with Robert W. Allen, pursuant to which the Company issued a Subordinated Promissory Note to Mr. Allen in the principal amount of \$523,013.70 (the "Allen Note"). The Allen Note was issued by the Company to replace the promissory note issued to Mr. Allen on September 2, 2008 in the principal amount of \$500,000. The Company and Mr. Allen extended the maturity date of the original note to January 12, 2009, from its original maturity date, December 1, 2008. The principal amount of the Allen Note reflects the principal amount of the original note issued to Mr. Allen, plus accrued interest of \$23,013.70. The Allen Note bore interest computed at a rate of twelve percent (12%) per annum, and was due and payable on the earlier to occur of July 12, 2011 or upon an event of default. In addition to the Allen Note, Mr. Allen was issued 116,667 shares of the Company's Common Stock in consideration for the exchange of the original note. Effective June 30, 2010 the Company incurred a subscription payable for the issuance of 52,301 shares of Series B Convertible Preferred Stock in consideration for the surrender and termination of the note.

On April 1, 2009, the Company issued a Subordinated Promissory Note to Riverview in the principal amount of \$620,558.53 ("New Note"). The New Note was issued in consideration for the cancellation of the promissory note, dated September 2, 2008, issued by the Company to Riverview in the original principal amount of \$1,500,000 (the "Old Note"), which principal amount was reduced by \$1.0 million as a result of a payment made to Riverview by the Company on February 3, 2009. The New Note includes accrued but unpaid interest under the Old Note of \$80,171.84, certain fees owed to Riverview by the Company in the amount of \$35,123.68 for guaranteeing amounts owed by the Company under a line of credit with a bank, and \$5,263.01 representing certain late fees owed Riverview by the Company resulting from the failure by the Company to pay certain amounts to Riverview under the terms of a Services Agreement between the Company and Riverview, dated July 1, 2005, described above. The New Note, which bore interest computed at a rate of twelve percent (12%) per annum, was due on the earlier of September 30, 2011 or upon an event of default. On June 30, 2010 Riverview Financial assumed from the Company the \$2,875,701 line of credit with a Bank guaranteed by Riverview Financial. Effective June 30, 2010 the Company incurred a subscription payable for the issuance of 349,626 shares of Series B Preferred in consideration for the surrender and termination of the Note and consideration for the assumption of the line of credit.

On April 1, 2009, the Company issued a Subordinated Promissory Note to Julie Fields, spouse of CEO Randy Fields, in the principal amount of \$100,000 (the "J. Fields Note"). The New Note was issued in consideration for the cancellation of the promissory note, dated December 24, 2008, issued by the Company to Mrs. Fields in the original principal amount of \$200,000 (Mrs. Fields purchased the note originally held by Robert Hermanns issued on September 2, 2008), which principal amount was reduced by \$100,000 as a result of a payment made to Mrs. Fields by the Company on March 6, 2009. The J. Fields Note bore interest computed at a rate of twelve percent (12%) per annum, and was due and payable on the earlier to occur of March 31, 2010 or upon an event of default. In addition to the J. Fields Note, Mrs. Fields was issued 30,667 shares of the Company's Common Stock in consideration for the exchange of the original note. Effective June 30, 2010 the Company incurred a subscription payable for the issuance of 10,000 shares of Series B Convertible Preferred Stock in consideration for the surrender and termination of the note.

Table of Contents

NOTE 7. PROPERTY AND EQUIPMENT

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

| | March 31, 2011 (unaudited) | June 30, 2010 |
|--|-------------------------------|---------------|
| Computer equipment | \$ 1,683,202 | \$ 1,641,669 |
| Furniture and fixtures | 314,823 | 313,803 |
| Leasehold improvements | 141,043 | 139,693 |
| | 2,139,068 | 2,095,165 |
| Less accumulated depreciation and amortization | (1,732,680) | (1,550,589) |
| | \$ 406,388 | \$ 544,576 |

NOTE 8. CAPITALIZED SOFTWARE COSTS

Capitalized software costs consist of the following as of:

| | March 31, 2011 (unaudited) | June 30, 2010 |
|-------------------------------|-------------------------------|---------------|
| Capitalized software costs | \$ 579,339 | \$ 2,246,077 |
| Less accumulated amortization | (177,384) | (1,964,391) |
| | \$ 401,955 | \$ 281,686 |

For current year presentation at March 31, 2011, costs capitalized and fully amortized have been removed.

NOTE 9. ACCRUED LIABILITIES

Accrued liabilities consist of the following as of:

| | March 31, 2011 (unaudited) | June 30, 2010 |
|---|-------------------------------|---------------|
| Accrued compensation | \$ 206,834 | \$ 370,035 |
| Unclaimed consideration related to Prescient Merger | 263,714 | 263,714 |
| Accrued stock grants | 332,647 | 268,166 |
| Accrued dividends | 87,010 | 83,752 |
| Accrued interest | 28,310 | 39,532 |
| Other accrued liabilities | 44,778 | 211,071 |
| Accrued board compensation | 15,000 | 15,000 |
| Accrued legal fees | - | 34,948 |
| | \$ 978,293 | \$ 1,286,218 |

NOTE 10. INCOME TAXES

The Company or its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various states. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2006.

NOTE 11. SUBSEQUENT EVENTS

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

Table of Contents

Included in the balance at March 31, 2011 are nominal amounts of income tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred income tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective income tax rate but would accelerate the payment of cash to the income taxing authority to an earlier period.

The Company's policy is to recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the three and nine months ended March 31, 2011 and 2010, the Company did not recognize any interest or penalties.

ITEM 2.MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company's Annual Report on Form 10-K for the year ended June 30, 2010 is incorporated herein by reference.

Forward-Looking Statements

This Quarterly Report on Form 10-Q 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 those risks factors contained in our June 30, 2010 Annual Report on Form 10-K, incorporated herein by reference. Statements made herein are as of the date of the filing of this Form 10-Q 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.

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.

Historically, the Company offered applications and related maintenance contracts to new customers for a one-time, non-recurring up front license fee. Although not completely abandoning the license fee and maintenance model, the Company continues to focus its strategic initiatives and resources to marketing and selling prospective customers a subscription based product offering. In order to support the strategic shift toward a subscription based model, the Company is examining its internal processes and investing in scalable solutions where necessary and feasible. For example, the Company intends to scale its contracting process, streamline its customer on-boarding and implement a financial package that integrates multiple systems in an automated fashion.

Table of Contents

Results of Operations

Comparison of the Three Months Ended March 31, 2011 to the Three Months Ended March 31, 2010.

Revenues

| | Fiscal Quarter Ended March 31, | | | |
|---|--------------------------------|--------------|---------------|----------|
| | 2011 | 2010 | Variance | Percent |
| Subscription | \$ 1,700,022 | \$ 1,530,729 | \$ 169,293 | 11.06 % |
| Maintenance | 521,402 | 588,007 | (66,605) | -11.33 % |
| Professional services and other revenue | 180,026 | 324,318 | (144,292) | -44.49 % |
| Software licenses | 85,260 | 525,120 | (439,860) | -83.76 % |
| Total revenues | \$ 2,486,710 | \$ 2,968,174 | \$ (481,464) | -16.22 % |

Total revenues were \$2,486,710 and \$2,968,174 for the three months ended March 31, 2011 and 2010, respectively, a 16.22% decrease. This \$481,464 decrease in total revenues is due to an decrease in maintenance revenues of \$66,605, a decrease in professional services and other revenue of \$144,292 and software licenses revenue of \$439,860, partially offset by a \$169,293 increase in subscription revenue. Management believes that, as a percentage of total revenue, subscription revenue will increase and license revenue will decrease, as the Company continues its emphasis of marketing its services based on the SaaS model.

Subscription Revenue

Subscription revenues were \$1,700,022 and \$1,530,729 for the three months ended March 31, 2011 and 2010, respectively, an increase of 11.06% in the three months ended March 31, 2011 when compared with the three months ended March 31, 2010. The net increase of \$169,293 is principally due to (i) the increase of subscription customers added to the Company's customer base which contributed approximately \$174,000 of new subscription revenue, (ii) a \$100,000 increase attributable to the growth of existing retailer and supplier subscriptions. The increase in subscription revenue was partially offset by a decrease of approximately \$102,000 resulting from the non-renewal of existing customers primarily due to bankruptcy or acquisitions. 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, as well as contracting with suppliers ("spokes") to connect to our retail customers ("hubs") signed up in previous quarters, therefore leveraging our "hub and spoke" business model. The Company's named supplier connection pipeline increased to 670 connections as of March 31, 2011. 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 and support revenues were \$521,402 and \$588,007 for the three months ended March 31, 2011 and 2010, respectively, a decrease of 11.33% in the three months ended March 31, 2011 compared with the three months ended March 31, 2010. The net decrease of \$66,605 is principally due to (i) the non renewal of maintenance contracts resulting in a reduction of maintenance revenue of \$98,000. This decrease in revenue was partially offset by the addition of approximately \$16,000 in new maintenance revenue and approximately \$18,000 of net increases to existing customers. Large one-time license sales and associated maintenance is expected to continue to decline over time. The decrease in maintenance revenue is due to the Company's emphasis on subscription based sales. While management believes maintenance and support services are essential to its customers, due to macroeconomic

conditions, business combinations, 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.

-11-

Table of Contents

Professional Services and Other Revenue

Professional services and other revenue were \$180,026 and \$324,318 for the three months ended March 31, 2011 and 2010, respectively, a decrease of 44.49 %. The \$144,292 decrease in professional services revenue for the three months ended March 31, 2011 when compared to the three months ended March 31, 2010 is due to several large customer implementations that occurred during the prior year period. 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 Company's analytics offerings and change-management services becoming a natural addition to its software as a service (SaaS) product suite.

Software Licenses Revenue

Software licenses revenues were \$85,260 and \$525,120 for the three months ended March 31, 2011 and 2010, respectively, a decrease of 83.76%. The \$439,860 decrease in license revenue for the three months ended March 31, 2011 when compared to the three months ended March 31, 2010 is primarily due to a non-recurring license sale related to certain of the Company's patents that occurred in the prior year. Management believes that it is difficult to predict and forecast future software license sales. While the Company continues its emphasis on the sale of subscription based services, large one-time license sales and associated maintenance is expected to continue to decline over time. The Company has not eliminated the sale of its suite of products on a license basis and from time to time it will sell additional licenses to new or existing customers; however, it is difficult to ascertain the timing or the amount of the license.

Cost of Services and Product Support

| | Fiscal Quarter Ended March 31, | | Variance | |
|--------------------------------------|-----------------------------------|--------------|-----------|---------|
| | 2011 | 2010 | Dollars | Percent |
| Cost of services and product support | \$ 1,094,229 | \$ 1,003,907 | \$ 90,322 | 9.00 % |
| Percent of total revenues | 44 % | 34 % | | |

Cost of services and product support was \$1,094,229 and \$1,003,907 for the three months ended March 31, 2011 and 2010, respectively, a 9.00 % increase in the three months ended March 31, 2011 compared with the three months ended March 31, 2010. This increase of \$90,322 for the quarter ended March 31, 2011 when compared with the same period ended March 31, 2010 is principally due to (i) a \$77,000 increase related to employee stock grants and other stock-based compensation, (ii) an increase of \$17,600 from the use of contractors and outside consulting support, and (iii) a \$2,500 increase in travel related expenses. These increases were partially offset by (i) a \$6,500 comparative decrease resulting from a decrease in hardware and software maintenance and support contracts.

Sales and Marketing Expense

| | Fiscal Quarter Ended March 31, | | Variance | |
|---------------------------|-----------------------------------|------------|--------------|---------|
| | 2011 | 2010 | Dollars | Percent |
| Sales and marketing | \$ 690,804 | \$ 743,473 | \$ (52,669) | -7.08 % |
| Percent of total revenues | 28 % | 25 % | | |

Table of Contents

Sales and marketing expenses were \$690,804 and \$743,473 for the three months ended March 31, 2011 and 2010, respectively, a 7.08% decrease. This \$52,669 decrease over the comparable quarter was primarily the result of (i) a decrease of approximately \$167,000 in non-employee commissions primarily related to the non-recurring sale of certain of the Company's patents in the prior year, (ii) a \$27,500 decrease in recruiting fees, (iii) a decrease of \$12,500 in travel and related expenditures. These decreases were partially offset by (i) an increase of approximately \$56,000 in payroll and related expenses associated with a net increase of four additional sales staff hired during the quarter ended March 31, 2011 in anticipation of future revenue growth attributable to supplier subscriptions; (ii) an increase in bonuses, stipends, and commission expenses of \$34,400; (iii) an increase of approximately \$13,000 in training related expenditures; (iv) an increase of approximately \$16,300 in advertising, marketing and tradeshow related expenses; and (iv) a \$35,200 increase in contractor and outside consulting support.

General and Administrative Expense

| | Fiscal Quarter Ended March 31, | | Variance | |
|----------------------------|-----------------------------------|------------|--------------|---------|
| | 2011 | 2010 | Dollars | Percent |
| General and administrative | \$ 668,081 | \$ 721,743 | \$ (53,662) | -7.44 % |
| Percent of total revenues | 27 % | 24 % | | |

General and administrative expenses were \$668,081 and \$721,743 for the three months ended March 31, 2011 and 2010, respectively, a 7.44% decrease in the three months ended March 31, 2011 compared with the three months ended March 31, 2010. This \$53,662 decrease when comparing expenditures for the quarter ended March 31, 2011 with the same period ended March 31, 2010 is principally due to (i) a decrease of \$55,000 in rent, utilities, building maintenance and other facilities related expenses, (ii) a \$95,000 decrease in professional fees, (iii) a \$21,000 decrease in bad debt due to increased collection efforts. These decreases are partially offset by (i) an approximate \$52,000 increase in stock-based compensation expense of certain employees and board members that are based on multi-year vesting schedules, (ii) a \$25,500 increase in salary, employee relations, employee benefits and insurance, (iii) a \$37,000 increase in travel and investor relations related expenditures, and (iv) a \$6,000 increase in bank charges and miscellaneous expenses.

Depreciation and Amortization Expense

| | Fiscal Quarter Ended March 31, | | Variance | |
|-------------------------------|-----------------------------------|------------|-------------|---------|
| | 2011 | 2010 | Dollars | Percent |
| Depreciation and amortization | \$ 199,005 | \$ 207,273 | \$ (8,268) | -3.99 % |
| Percent of total revenues | 8 % | 7 % | | |

Depreciation and amortization expenses were \$199,005 and \$207,273 for the three months ended March 31, 2011 and 2010, respectively, a decrease of 3.99% in the three months ended March 31, 2011 compared with the three months ended March 31, 2010. This decrease of \$8,268 for the quarter ended March 31, 2011 when compared to the quarter ended March 31, 2010 is primarily due to a decrease in depreciation as a result of full depreciation of certain capital assets.

Table of Contents

Other Income and Expense

| | Fiscal Quarter Ended March 31, | | | | Variance | |
|---------------------------|-----------------------------------|---|------------|---|-----------|----------|
| | 2011 | | 2010 | | Dollars | Percent |
| Interest expense | \$ 80,643 | | \$ 168,569 | | \$ 87,926 | -52.16 % |
| Percent of total revenues | 3 | % | 6 | % | | |

Net interest expense was \$80,643 and \$168,569 for the three months ended March 31, 2011 and 2010, respectively. This \$87,926 decrease is principally due to a decrease in interest expense resulting from the conversion of certain notes payable to Series B Convertible Preferred Stock in fiscal year-end 2010.

Dividends on Preferred Stock

| | Fiscal Quarter Ended March 31, | | | | Variance | |
|------------------------------|-----------------------------------|---|-----------|---|------------|----------|
| | 2011 | | 2010 | | Dollars | Percent |
| Dividends on preferred stock | \$ 205,412 | | \$ 81,454 | | \$ 123,958 | 152.18 % |
| Percent of total revenues | 8 | % | 3 | % | | |

Dividends accrued on the Company's Series A Preferred and Series B Preferred was \$205,412 and \$81,454 for the three months ended March 31, 2011 and 2010, respectively. The \$123,958 increase in accrued dividends is principally the result of the conversion of certain notes payable into Series B Preferred in July 2010. Holders of Series A Preferred are entitled to a 5.00% annual dividend payable quarterly in either cash or additional Series A Preferred at the option of the Company with fractional shares paid in cash.

Dividends accrued on the Series B Preferred were \$123,578 for the three months ended March 31, 2011. Holders of Series B Preferred are entitled to a 12.00% annual dividend payable quarterly in cash.

Comparison of the Nine Months Ended March 31, 2011 to the Nine Months Ended March 31, 2010.

Revenues

| | Nine Months Ended March 31, | | | | Variance | |
|---|-----------------------------|--|--------------|--|---------------|----------|
| | 2011 | | 2010 | | Dollars | Percent |
| Subscription | \$ 4,844,914 | | \$ 4,401,921 | | \$ 442,993 | 10.06 % |
| Maintenance | 1,674,353 | | 1,916,693 | | (242,340) | -12.64 % |
| Professional services and other revenue | 732,459 | | 1,083,271 | | (350,812) | -32.38 % |
| Software licenses | 547,979 | | 754,810 | | (206,831) | -27.40 % |
| Total revenues | \$ 7,799,705 | | \$ 8,156,695 | | \$ (356,990) | -4.38 % |

Total revenues were \$7,799,705 and \$8,156,695 for the nine months ended March 31, 2011 and 2010, respectively, a 4.38% decrease. This \$356,990 decrease in total revenues is principally due to a \$242,340 decrease in maintenance revenue, a \$350,812 decrease in professional services and other revenue and a decrease of \$206,831 in software licenses revenues, offset by an increase in subscription revenues of \$442,993. Management believes that, as a percentage of total revenue, subscription revenue will increase and license revenue will decrease, as the Company continues its emphasis of marketing its services based on the SaaS model.

Table of Contents

Subscription Revenue

Subscription revenues were \$4,844,914 and \$4,401,921, for the nine months ended March 31, 2011 and 2010 respectively, an increase of 10.06% in the nine months ended March 31, 2011 when compared with the nine months ended March 31, 2010. The \$442,993 increase is principally due to (i) the increase of subscription customers added to the Company's customer base which contributed approximately \$465,000 of new subscription revenue, (ii) a \$51,500 increase attributable to the growth of existing retailers, and (iii) growth of existing supplier subscriptions of approximately \$218,500. The increase in subscription revenue was partially offset by a decrease of approximately \$291,000 resulting from the non-renewal of existing customers primarily related to bankruptcy or acquisitions. 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, as well as contracting with suppliers ("spokes") to connect to our retail customers ("hubs") signed up in previous quarters, therefore leveraging our "hub and spoke" business model. The Company's named supplier connection pipeline increased to 670 connections as of March 31, 2011. 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 \$1,674,353 and \$1,916,693 for the nine months ended March 31, 2011 and 2010, respectively, a decrease of 12.64% in the nine months ended March 31, 2011 compared with the nine months ended March 31, 2010. The net decrease of \$242,340 is principally due to (i) the non renewal of maintenance contracts resulting in a reduction of maintenance revenue of \$276,000, partially offset by increases in annual maintenance of \$11,000 and new maintenance contracts of \$23,000. Large one-time license sales and associated maintenance is expected to continue to decline over time. The decrease in maintenance revenue is due to the Company's emphasis on subscription based sales. While management believes maintenance and support services are essential to its customers, due to macroeconomic conditions, business combinations, 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 and Other Revenue

Professional services and other revenue were \$732,459 and \$1,083,271 for the nine months ended March 31, 2011 and 2010, respectively, a decrease of 32.38%. The \$350,812 decrease in professional services revenue for the nine months ended March 31, 2011 when compared to the nine months ended March 31, 2010 is due to several large customer implementations that occurred during the prior year period. 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 Company's analytics offerings and change-management services becoming a natural addition to its software as a service (SaaS) product suite.

Software Licenses Revenue

Software licenses revenues were \$547,979 and \$754,810 for the nine months ended March 31, 2011 and 2010, respectively, a decrease of 27.40%. The \$206,831 decrease in software license revenue for the nine months ended March 31, 2011 when compared to the nine months ended March 31, 2010 is due to non-recurring license sales that contributed a net increase of approximately \$286,000 in revenue, offset by a non-recurring license sale related to certain of the Company's patents of \$490,000 that occurred in the prior year. Management believes that it is difficult to predict and forecast future software license sales. While the Company continues its emphasis on the sale of

subscription based services, large one-time license sales and associated maintenance is expected to continue to decline over time. The decrease in license revenue is due to the Company's emphasis on subscription based sales. The Company has not eliminated the sale of its suite of products on a license basis and from time to time it will sell additional licenses to new or existing customers; however, it is difficult to ascertain the timing or the amount of the license.

-15-

Table of Contents

Cost of Services and Product Support

| | Nine Months Ended March 31, | | Variance | |
|--------------------------------------|--------------------------------|--------------|--------------|---------|
| | 2011 | 2010 | Dollars | Percent |
| Cost of services and product support | 2,894,630 | \$ 2,912,036 | \$ (17,406) | -0.60 % |
| Percent of total revenues | 37 % | 36 % | | |

Cost of services and product support was \$2,894,630 and \$2,912,036 for the nine months ended March 31, 2011 and 2010, respectively, a 0.60 % decrease in the nine months ended March 31, 2011 compared with the nine months ended March 31, 2010. This decrease of \$17,406 for the nine months ended March 31, 2011 when compared with the same period ended March 31, 2010 is principally due to (i) a \$197,000 decrease related to software development costs capitalized in the current period with less corresponding capitalization in the prior period, (ii) a decrease of \$18,600 in travel and related expenses, (iii) a decrease of \$73,000 from the reduced use of contractors and outside consulting support and the conversion of certain contractors to employee status, and (iv) a \$28,000 decrease related to refinance of certain operating leases, and the non-renewal of equipment rental due to more efficient use of existing computer hardware for product support. These decreases were partially offset by (i) a \$98,000 comparative increase resulting from prior year network costs, negotiated vendor credits, and other expenses related to the closure of a data center and (ii) an approximate increase of \$160,000 in stock-based compensation.

Sales and Marketing Expense

| | Nine Months Ended March 31, | | Variance | |
|---------------------------|--------------------------------|-----------|------------|---------|
| | 2010 | 2009 | Dollars | Percent |
| Sales and marketing | 2,048,339 | 1,877,405 | \$ 170,934 | 9.10 % |
| Percent of total revenues | 26 % | 23 % | | |

Sales and marketing expenses were \$2,048,339 and \$1,877,405 for the nine months ended March 31, 2011 and 2010, respectively, a 9.10 % increase. This \$170,934 increase over the nine months ended March 31, 2010 was primarily the result of (i) an increase of approximately \$167,000 in salary, stock-based compensation and commission expenses primarily related to the non-recurring sale of certain of the Company's patents in the prior year, (ii) an increase of approximately \$43,000 in travel and related expenditures, (iii) a \$68,600 increase in public relations, advertising, marketing and tradeshow expenses, (iv) a \$106,000 increase in contractor expenses, (v) a \$30,700 increase in employee benefit and training expenses, and (vi) and a \$5,000 increase in computer and other miscellaneous expenses. These increases are offset by decreases of approximately (i) \$86,000 in recruiting expenses and (ii) \$163,000 in non-employee commissions primarily related to the sale of a patent license in the prior year.

General and Administrative Expense

| | Nine Months Ended March 31, | | Variance | |
|----------------------------|--------------------------------|--------------|------------|---------|
| | 2011 | 2010 | Dollars | Percent |
| General and administrative | \$ 2,380,896 | \$ 2,041,192 | \$ 339,704 | 16.64 % |
| Percent of total revenues | 31 % | 25 % | | |

Table of Contents

General and administrative expenses were \$2,380,896 and \$2,041,192 for the nine months ended March 31, 2011 and 2010, respectively, a 16.64 % increase in the nine months ended March 31, 2011 compared with the nine months ended March 31, 2010. This \$339,704 increase when comparing expenditures for the nine months ended March 31, 2010 with the same period ended March 31, 2010 is principally due to (i) a \$156,500 increase in stock-based compensation expense of certain employees and board members that are based on multi-year vesting schedules, (ii) a \$86,500 increase in salary, employee benefits, employee relations and insurance, (iii) the settlement of a lawsuit through the combination of cash and equity, (iv) a \$17,700 increase in estimated state income tax payments, (v) a \$53,000 increase in investor relations and other professional fees and (vi) a \$17,500 increase in computer equipment purchases. These increases were partially offset by (i) a \$160,000 decrease in bad debt expense, (ii) a \$150,500 decrease in rent expense related to the closure and non renewal of lease contracts for office facilities related to the Prescient Merger.

Depreciation and Amortization Expense

| | Nine Months Ended March 31, | | | | Variance | |
|-------------------------------|--------------------------------|------------|--------------|---------|----------|---|
| | 2011 | 2010 | Dollars | Percent | | |
| Depreciation and amortization | \$ 575,611 | \$ 617,312 | \$ (41,701) | -6.76 | % | |
| Percent of total revenues | 7 | 8 | | | | % |

Depreciation and amortization expenses were \$575,611 and \$617,312 for the nine months ended March 31, 2011 and 2010, respectively, a decrease of 6.76 % in the nine months ended March 31, 2011 compared with the nine months ended March 31, 2010. This decrease of \$41,701 for the nine months ended March 31, 2011 when compared to the nine months ended March 31, 2010 is due to a decrease in amortization expense as a result of the full amortization of the ScoreTracker platform, which is included in capitalized software costs, in fiscal year 2010, partially offset by the start of Ops Expert amortization in the current year.

Other Income and Expense

| | Nine Months Ended March 31, | | | | Variance | |
|-----------------------------------|--------------------------------|---------------|--------------|---------|----------|--|
| | 2011 | 2010 | Dollars | Percent | | |
| Gain on refinance of note payable | \$ - | \$ 43,811 | \$ (43,811) | -100.00 | % | |
| Other gains | - | 24,185 | (24,185) | -100.00 | % | |
| Interest expense | (263,820) | (553,161) | 289,341 | 52.31 | % | |
| Total other income and expense | \$ (263,820) | \$ (485,165) | \$ 221,345 | 45.62 | % | |
| Percent of total revenues | 2011 | 2010 | | | | |
| Gain on refinance of note payable | N/A | 0.54 | % | | | |
| Other gains | N/A | 0.30 | % | | | |
| Interest expense | -3.38 | -6.78 | % | | | |

Net interest expense was \$263,820 and \$553,161 for the nine months ended March 31, 2011 and 2010, respectively. This \$289,341 decrease is principally due to a decrease in interest expense resulting from the conversion of certain notes payable to Series B Preferred in July 2010. There were no gains on refinance of note payable or other gains during the nine months ended March 31, 2011.

Table of Contents

Dividends on Preferred Stock

| | Nine Months Ended | | | | Variance | |
|------------------------------|-------------------|------------|------------|------|----------|---------|
| | March 31, | | March 31, | | Dollars | Percent |
| | 2011 | 2010 | 2011 | 2010 | | |
| Dividends on preferred stock | \$ 619,483 | \$ 245,684 | \$ 373,799 | | 152.15 | % |
| Percent of total revenues | 8 | % | 3 | % | | |

Dividends on the Company's Series A Preferred and Series B Preferred were \$619,483 and \$245,684 for the nine months ended March 31, 2011 and 2010, respectively. This \$373,799 increase in dividends on preferred stock is principally the result of the conversion of certain notes payable into Series B Preferred in July 2010, which resulted in \$370,000 of dividends on preferred stock in the period ended March 31, 2011. Holders of the Series A Preferred are entitled to a 5.00% annual dividend payable quarterly in either cash or additional Series A Preferred at the option of the Company with fractional shares paid in cash.

Dividends accrued on the Series B Preferred were \$370,735 for the nine months ended March 31, 2011. Holders of Series B Preferred are entitled to a 12.00% annual dividend payable quarterly in cash.

Financial Position, Liquidity and Capital Resources

We believe our existing cash and short-term investments, together with funds generated from operating activities, will be sufficient to fund operating and investment requirements for at least the next twelve months, in addition to our debt service requirements. Our future capital requirements will depend on many factors, including our rate of revenue growth and expansion of our sales and marketing activities, the timing and extent of spending required for research and development efforts, the continuing market acceptance of our products, and our ability to restructure certain of our notes payable. Although the Company anticipates that available cash resources will be sufficient to meet its working capital and debt service requirements, no assurances can be given. To the extent that available funds are insufficient to fund our future activities, or satisfy our short-term debt service requirements, or in the event we are unable to restructure certain notes payable, we may need to raise additional funds through public or private equity or debt financings. Additional equity or debt financing may not be available on terms favorable to us, in a timely fashion or at all.

We have historically funded our operations with cash from operating activities, equity financings and debt borrowings. As set forth below, cash and cash equivalents was \$1,270,492 and \$694,792 at March 31, 2011, and March 31, 2010, respectively. This increase from March 31, 2010 to March 31, 2011 was the result of increased collections from existing customers, and expansion of customer base.

| | As of March 31, | | | | Variance | |
|---------------------------|-----------------|------------|------------|--|----------|---------|
| | 2011 | | 2010 | | Dollars | Percent |
| Cash and Cash Equivalents | \$ 1,270,492 | \$ 694,792 | \$ 575,700 | | 82.86 | % |

Net Cash Flows from Operating Activities

| | Nine Months Ended March 31, | | | | Variance | |
|---------------------------------------|-----------------------------|------------|------------|--|----------|---------|
| | 2011 | | 2010 | | Dollars | Percent |
| Cash provided by operating activities | \$ 911,153 | \$ 251,457 | \$ 659,696 | | 262.35 | % |

Table of Contents

Net cash provided by operating activities for the nine months ended March 31, 2011 was \$911,153 compared to net cash provided by operating activities of \$251,457 for the nine months ended March 31, 2010. The \$659,696 increase in net cash flows provided by operating activities for the nine months ended March 31, 2011 when compared to the nine months ended March 31, 2010 was primarily the result of a \$375,000 in stock issued for litigation settlement, as well as an increase of \$284,000 in stock compensation expense. In addition there was a decrease of (i) \$451,000 in the change in trade receivables, (ii) \$386,500 in the change in unbilled receivables, (iii) a \$189,000 increase in the change in accounts payable, and (iv) a \$117,800 increase in the change in deferred revenue. These increases were offset by a (i) \$587,000 decrease in net income, (ii) a \$41,700 decrease in depreciation and amortization, (iii) a \$160,000 decrease in bad debt expense, (iv) a \$160,000 decrease in the change in prepaids and other assets, and (v) a \$261,500 decrease in the change in accrued liabilities.

Net Cash Flows from Investing Activities

| | Nine Months Ended March 31, | | Variance | |
|-----------------------------------|-----------------------------|--------------|---------------|----------|
| | 2011 | 2010 | Dollars | Percent |
| Cash used in investing activities | \$ (240,955) | \$ (64,741) | \$ (176,214) | 272.18 % |

Net cash used in investing activities for the nine months ended March 31, 2011 was \$240,955 compared to net cash used in investing activities of \$64,741 for the nine months ended March 31, 2010. This \$176,214 increase in cash used in investing activities for the nine months ended March 31, 2011 when compared to the same period in 2010 was the result of \$197,000 of capitalization of software development costs, partially offset by a \$21,000 decrease in purchases of property and equipment.

Net Cash Flows from Financing Activities

| | Nine Months Ended March 31, | | Variance | |
|-----------------------------------|-----------------------------|---------------|---------------|----------|
| | 2011 | 2010 | Dollars | Percent |
| Cash used in financing activities | \$ (557,137) | \$ (148,203) | \$ (408,934) | 275.93 % |

Net cash used in financing activities totaled \$557,137 for the nine months ended March 31, 2011 when compared to cash flows used in financing activities of \$148,203 for the nine months ended March 31, 2010. The change in net cash used in financing activities is attributable to (i) a \$400,000 increase in lines of credit that occurred during the nine months ended March 31, 2010 with no corresponding amount in the period ended March 31, 2011, and (ii) the payment of \$247,156 of dividends on the Series B Preferred during the nine months ended March 31, 2011. These were partially offset by (i) a decrease in principal payment on notes payable and capital leases of \$21,700, (ii) \$140,800 in proceeds from the issuance of common stock that occurred in the nine months ended March 31, 2011, and (iii) a \$75,700 increase in proceeds from the exercise of warrants.

Working Capital

At March 31, 2011, the Company had negative working capital of \$3,194,998 when compared with negative working capital of \$1,936,533 at June 30, 2010. This \$1,258,455 decrease in working capital is principally a result of the reclassification of certain notes payable from long-term liabilities to current liabilities, for amounts becoming due and payable during the next twelve months. These notes have a maturity date of July 12, 2011.

| | As of March 31, | As of June 30, | Variance | |
|--|-----------------|----------------|----------|---------|
| | 2011 | 2010 | Dollars | Percent |

Edgar Filing: PARK CITY GROUP INC - Form 424B3

| | | | | | | | | |
|----------------|----|-----------|----|-----------|----|-----------|-------|---|
| Current assets | \$ | 2,748,021 | \$ | 2,787,811 | \$ | (39,790) | -1.43 | % |
|----------------|----|-----------|----|-----------|----|-----------|-------|---|

-19-

Table of Contents

Current assets as of March 31, 2011 totaled \$2,748,021, a decrease of \$39,790 when compared to \$2,787,811 as of June 30, 2010. This 1.43 % decrease in current assets is due primarily to a \$323,500 decrease in unbilled receivables, partially offset increases of (i) \$113,000 in cash and cash equivalents, (ii) \$10,300 in receivables, and (iii) \$160,400 in prepaid expenses and other current assets.

| | As of March 31, | As of June 30, | Variance | | |
|---------------------|-----------------|----------------|--------------|---------|---|
| | 2011 | 2010 | Dollars | Percent | |
| Current liabilities | \$ 5,943,009 | \$ 4,724,344 | \$ 1,218,665 | 25.80 | % |

Current liabilities totaled \$5,943,009 as of March 31, 2011 as compared to \$4,724,344 as of June 30, 2010. The \$1,218,665 comparative increase in current liabilities is principally due to the reclassification of certain notes payable from long-term liabilities to current liabilities, for amounts becoming due and payable during the next twelve months. These notes have a maturity date of July 12, 2011.

As a result of the consummation of the Prescient Merger, the Company has increased revenue and instituted strict cost control measures, resulting in an increase in cash flow from operating activities. Management believes that projected revenue growth together with continued cost control initiatives will be sufficient to address the Company's short-term and long-term working capital requirements, including satisfying its debt service requirements. Although no assurances can be given, in the event the Company is unable to generate sufficient cash flow from operating activities to address its debt service requirements, management believes that it will be able to successfully refinance or restructure such debt on terms acceptable to the Company. The financial statements do not reflect any adjustments should the Company's working capital operations and other financing be insufficient to meet spending and debt service requirements.

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.

Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2009-13, Multiple-Deliverable Revenue Arrangements, which amends FASB Accounting Standards Codification ("ASC") Topic 605, Revenue Recognition, and ASU 2009-14, Certain Arrangements That Include Software Elements, which amends FASB ASC Topic 985, Software. ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. ASU 2009-14 removes tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. ASU 2009-13 and ASU 2009-14 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. The adoption of ASU 2009-13 and ASU 2009-14 did not have a material impact on the Company's results of operations or financial condition.

In December 2009, the FASB issued ASU 2009-17, Improvements to Financial Reporting Involved with Variable Interest Entities, which codifies SFAS No. 167, Amendments to FASB Interpretation No. 46(R) issued in June 2009. ASU 2009-17 requires a qualitative approach to identifying a controlling financial interest in a variable interest entity ("VIE"), and requires ongoing assessment of whether an entity is a VIE and whether an interest in a VIE makes the holder the primary beneficiary of the VIE. ASU 2009-17 is effective for annual reporting periods beginning after

November 15, 2009. The adoption of ASU 2009-17 did not have a material impact on its consolidated financial statements.

-20-

Table of Contents

In January 2010, the FASB issued ASU 2010-6, Improving Disclosures About Fair Value Measurements, which requires reporting entities to make new disclosures about recurring or nonrecurring fair-value measurements including significant transfers into and out of Level 1 and Level 2 fair-value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair-value measurements. ASU 2010-6 is effective for annual reporting periods beginning after December 15, 2009, except for Level 3 reconciliation disclosures which are effective for annual periods beginning after December 15, 2010. The adoption of ASU 2010-6 did not have a material impact on its consolidated financial statements.

In April 2010, the FASB issued ASU 2010-17, Revenue Recognition – Milestone Method (Topic 605): Milestone Method of Revenue Recognition, a consensus of the FASB Emerging Issues Task Force, which provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. ASU 2010-17 is effective for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. The adoption of this standard did not have an impact on its consolidated financial statements.

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.

Deferred Income Taxes and Valuation Allowance

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

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.

Table of Contents

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 longer of the life of the application agreement or the expected lives of customer relationships. We continue to evaluate the length of the amortization period of the set up fees as we gain more experience with customer contract renewals.

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.

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. For both term and perpetual licenses, 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.

-22-

Table of Contents

Goodwill and Long-lived Assets

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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our business is currently conducted principally in the United States. As a result, our financial results are not affected by factors such as changes in foreign currency exchange rates or economic conditions in foreign markets. We do not engage in hedging transactions to reduce our exposure to changes in currency exchange rates, although if the geographical scope of our business broadens, we may do so in the future.

Our exposure to risk for changes in interest rates relates primarily to our investments in short-term financial instruments. Investments in both fixed rate and floating rate interest earning instruments carry some interest rate risk. The fair value of fixed rate securities may fall due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Partly as a result of this, our future interest income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if we are forced to sell securities that have fallen in estimated fair value due to changes in interest rates. However, as substantially all of our cash equivalents consist of bank deposits and short-term money market instruments, we do not expect any material change with respect to our net income as a result of an interest rate change.

Our exposure to interest rate changes related to borrowing has been limited by the use of fixed rate borrowings on the majority of our outstanding debt, and we believe the effect, if any, or reasonably possible near-term changes in interest rates on our financial position, results of operations and cash flows should not be material. At March 31, 2011, the debt portfolio was composed of approximately 16% variable-rate debt and 84% fixed-rate debt.

| | March 31, 2011 (unaudited) | Percent of total debt | |
|--------------------|-------------------------------|--------------------------|---|
| Fixed rate debt | \$ 3,258,992 | 84.45 | % |
| Variable rate debt | 600,000 | 15.55 | % |
| Total debt | \$ 3,858,992 | 100.00 | % |

The table that follows presents fair values of principal amounts and weighted average interest rates for our investment portfolio as of March 31, 2011:

| | Aggregate Fair Value | Weighted Average Interest Rate |
|---------------------------------|-------------------------|-----------------------------------|
| Cash and Cash Equivalents: | | |
| Cash | \$ 1,270,492 | .03% |
| Money market funds | - | |
| Certificates of deposit | - | |
| Total cash and cash equivalents | \$ 1,270,492 | |

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our Management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operations of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of March 31, 2011. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports submitted under the Securities and Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, including to ensure that information required to be disclosed by the Company is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in internal controls over financial reporting.

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

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are from time to time involved in various legal proceedings incidental to the conduct of our business. We do not have any currently ongoing legal proceedings at this time.

ITEM 1A. RISK FACTORS

There were no material changes from the risk factors previously disclosed in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended June 30, 2010.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit 31.1 Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2 Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

-24-

Table of Contents

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 10, 2011

PARK CITY GROUP, INC

By: /s/ Randall K. Fields
Randall K. Fields
Chief Executive Officer, Chairman and Director
(Principal Executive Officer)

Date: May 10, 2011

By /s/ David Colbert
David Colbert
Chief Financial Officer
(Principal Financial and Accounting Officer)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of report (Date of earliest event reported): May 19, 2011

Commission File Number: 000-03718

Park City Group, Inc.
(Exact name of small business issuer as specified in its charter)

Nevada
(State or other jurisdiction of incorporation or
organization)

37-1454128

(IRS Employer Identification No.)

3160 Pinebrook Rd, Park City, Utah
84098
(Address of principal executive
offices)

435-645-2000
(Registrant's Telephone number)

Not Applicable
(Former Name or Former Address, if
changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-

Item 8.01 Other Events.

The Board of Directors of Park City Group has approved amendments to certain warrants issued by Park City Group, Inc. (the "Company") in connection with the Company's June 2007 private placement of its Series A Preferred Stock (the "Warrants"). Specifically, the Company has extended the expiration date of the Warrants six months to 5:00 PM, Eastern Standard Time on November 30, 2011; provided, however, the exercise price of any unexercised Warrants as of 5:00 PM, Eastern Standard Time on May 31, 2011, the original expiration date of the Warrants, will increase to \$4.25 per share from \$4.00 per share.

SIGNATURES

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

Park City Group, Inc.

Date: May 19, 2011

By: /s/ David Colbert
Name: David Colbert
Title: Chief Financial
Officer