

PARK CITY GROUP INC
Form 10-K
September 13, 2011

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

FORM 10-K

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

For the fiscal year ended June 30, 2011
or

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

000-03718
(Commission file number)

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

Nevada 37-1454128
State or other jurisdiction of incorporation (IRS Employer Identification No.)

3160 Pinebrook Road, Park City, Utah 84098 (435) 645-2000
(Address of principal executive offices) (Registrant's telephone number, including
area code)

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No

Edgar Filing: PARK CITY GROUP INC - Form 10-K

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

☐ Yes ☐ No

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

☒ 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.

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

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

☐ Yes ☒ No

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the issuer as of June 30, 2011, which is the last business day of the registrant's most recently completed fiscal year, was approximately \$22,860,000 (at a closing price of \$4.75 per share).

As of September 13, 2011, 11,657,901 shares of the Company's \$.01 par value common stock were outstanding.

TABLE OF CONTENTS TO ANNUAL REPORT
ON FORM 10-K
YEAR ENDED JUNE 30, 2011

PART 1

Item 1.	Description of Business	1
Item 1A.	Risk Factors	9
Item 2.	Properties	19
Item 3.	Legal Proceedings	19

PART II

Item 5.	Market for Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	20
Item 6.	Selected Financial Data	21
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	22
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	32
Item 8.	Financial Statements and Supplementary Data	33
Item 9A.	Controls and Procedures	33
Item 9B.	Other Information	34

PART III

Item 10.	Directors, Executive Officers and Corporate Governance	35
Item 11.	Executive Compensation	35
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	35
Item 13.	Certain Relationships and Related Transactions, and Director Independence	35
Item 14.	Principal Accounting Fees and Services	35

PART IV

Item 15.	Exhibits, Financial Statement Schedules	36
	Signatures	
	Report of Independent Registered Public Accounting Firm	
	Consolidated Balance Sheets as of June 30, 2011 and 2010	
	Consolidated Statements of Operations for the Years Ended June 30, 2011 and 2010	
	Consolidated Statements of Stockholders' Equity (Deficit) for the Years Ended June 30, 2011 and 2010	
	Consolidated Statements of Cash Flows for the Years Ended June 30, 2011 and 2010	
	Notes to Consolidated Financial Statements	

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

Forward-Looking Statements

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

Disclaimer

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

PART I

ITEM I. BUSINESS

Overview

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

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

The Company designs, develops, markets and supports proprietary software products. These products are designed to be used 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 process improvement that centers around the Company’s proprietary software products and through establishment of a neutral and “trusted” third party relationship between retailers and suppliers. The principal markets for the Company's products are multi-store retail and convenience store chains, branded food manufacturers, suppliers and distributors, and manufacturing companies which have operations in North America, Europe, Asia and the Pacific Rim.

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

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

Company History

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

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

On July 25, 2002, Fields Technologies, Inc. changed its name from Fields Technologies, Inc. to Park City Group, Inc., through a merger with Park City Group, Inc., a Nevada corporation, which was organized for that purpose and was also the surviving entity in the merger. Therefore, both the parent-holding company (Nevada) and its operating subsidiary (Delaware) are named Park City Group, Inc. Park City Group, Inc. (Nevada) has no other business operations other than in connection with its subsidiaries, including Prescient.

On January 13, 2009, the Company acquired 100% of Prescient Applied Intelligence, Inc ("Prescient"). Prescient is a leading provider of on-demand solutions for the retail marketplace, including both retailers and suppliers. Its solutions capture information at the point of sale, provide greater visibility into real-time demand, and turn data into actionable information across the entire supply chain. As a result of the acquisition of Prescient, revenue has increased substantially, to \$10,752,132 for the year ended June 30, 2011, and the Company has increased considerably the number of active software implementations. The Company's consolidated financial statements contain the results of operations of Prescient.

Software-as-a-Service Delivery Model

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

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

of operational efficiencies.

-2-

Target Industries Overview

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

Supermarkets

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

Convenience Stores

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

Suppliers

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

the supplier to assist them in improving forecasts and production planning by leveraging the most reliable demand signal in daily sales by store and item.

-3-

Specialty Retailers

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

Benefits of our Solutions and Services

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

Key advantages of our solution include:

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

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

Solutions and Services

Solutions

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

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

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

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

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

Enterprise Supply Chain Planning Suite (ESCP). Our ESCP suite includes a solution to help users analyze POS data and other demand signals to gain insight into customer demand. Suppliers have visibility into historical data – seasonal events, promotions, and buying trends – to facilitate accurate forecasting. Our software assesses how inventory will be impacted, then calculates recommended stocking levels, considers service level goals, and develops a time-phased replenishment plan. The solution brings demand data into one place where users can easily manage the complex sets of data and parameters that impact their businesses, including seasonal builds, desired service levels, and manufacturing constraints. ESCP considers consumption rates and inventory levels and automatically calculates time-phase safety stocks and replenishment quantities while being extremely flexible and can be configured to meet the needs of any company's supply chain processes.

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

Fresh Market Manager. Addressing the inventory issues that plague today's retailers, Fresh Market Manager is a suite of software product applications designed to help manage perishable food departments including bakery, deli, seafood, produce, meat, home meal replacement, dairy, frozen food, and floral. Fresh Market Manager helps identify true cost of goods and provides accurate and actionable profitability data on a corporate, regional, store-by-store, and/or item-by-item basis. Fresh Market Manager also produces hour-by-hour forecasts, production plans, perpetual inventory, and places/receives orders. Fresh Market Manager automates the majority of the planning, forecasting, ordering, and administrative functions associated with fresh merchandise or products.

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

Services

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

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

Technology, Development and Operations

Product Development

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

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

Operations

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

Customers

We sell to business of all sizes. Our customers primarily include food related consumer goods retailers, suppliers and manufacturers. However, the Company is opportunistic and will offer its supply chain solutions to non-food consumer goods related companies as well. None of our retailing or supplier customers accounted for more than ten percent of our revenues in fiscal 2011 or 2010.

Sales, Marketing and Customer Support

Sales and Marketing

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

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

Customer Support

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

Competition

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

Patents and Proprietary Rights

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

The Company has been awarded nine U.S. patents, eight U.S. registered trademarks and has 37 U.S. copyrights relating to its software technology and solutions. In addition, the Company has two patents currently pending. The Company has 14 international patents and patent applications pending. The patents referred to above are continuously reviewed and renewed as their expiration dates come due. Through an exclusive license agreement, the Company licensed its patent portfolio to an unrelated third party. While the Company retains ownership and the right to use the licensed patents in connection with its business, the right to enforce the patents has effectively been transferred to the licensee. However, Company policy is to continue to seek patent protection for all developments, inventions and improvements that are patentable and have potential value to the Company and to protect its trade secrets and other confidential and proprietary information. The Company intends to vigorously defend its intellectual property rights to the extent its resources permit

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

Employees

As of September 13, 2011, the Company had 53 employees, including 13 software developers and programmers, 11 sales, marketing and account management employees, 17 software service and support employees, 4 network operations employees and 8 accounting and administrative employees. During 2011, the Company contracted with 6 programmers and 2 business analysts in India. The Company is planning to continue to expand its Indian workforce to augment its analytics services offerings, expand its professional services, and to provide additional programming resources. The employees are not represented by any labor union.

Reports to Security Holders

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

Government Regulation and Approval

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

-8-

Cost of Compliance with Environmental Laws

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

ITEM 1A. RISK FACTORS

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

Risks Related to the Company

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

The Company's total liabilities were approximately \$8.65 million at June 30, 2011. In addition, in July 2010, approximately \$4.1 million of indebtedness was converted into Series B Convertible Preferred Stock ("Series B Preferred"). The Series B Preferred Certificate of Designation was filed on July 21, 2010. The Series B Preferred are entitled to receive cash dividends out of funds legally available therefore at a rate of 12%, which rate increases to 15% beginning three years after the date of issuance, and 18% beginning five years after the date of issuance. No assurances can be given that the Company will be able to satisfy its obligations when the same become due and payable, or that the Company will be able to pay the cash dividends on the Series B Preferred.

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

The Company's marketing strategy emphasizes sales to clients acquired as a result of the Prescient Merger, sales of subscription based services instead of annual licenses, and contracting with suppliers ("spokes") to connect to existing retail clients recently acquired by the Company ("hubs") in connection with management's recent emphasis on building the base of hubs for which to "connect" suppliers, thereby accelerating future growth. If this marketing strategy fails, revenues and operations will be negatively affected.

For the fiscal year ended June 30, 2011, the Company had a net loss of \$205,463 compared to a net income of \$176,991, for the fiscal year ended June 30, 2010. There can be no assurance that the Company will return to profitability, or reliably or consistently operate profitably during future fiscal years. If the Company does not operate profitably in the future the Company's current cash resources will be used to fund the Company's operating losses. If this were to continue, in order to continue the Company's operations, the Company would need to raise additional capital. Continued losses would have an adverse effect on the long term value of the Company's common stock and any investment in the Company. The Company cannot give any assurance that the Company will ever generate significant revenue or have sustainable profits.

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

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

- The extent to which management can successfully execute its strategy of contracting with suppliers (spokes) to connect to existing retail clients recently acquired by the Company (hubs);
- The progress and scope of product evaluations;
- The ability of the Company to generate sufficient cash flow from operations to satisfy its debt obligations, or otherwise refinance or restructure such indebtedness;
- The extent of the Company's ongoing research and development programs; and
- The costs of developing marketing and distribution capabilities.

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

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

Management expects a significant portion of the Company's revenue stream to come from the sale of subscriptions, and to a lesser extent, license sales, maintenance and services charged to new customers. These amounts will fluctuate because predicting future sales is difficult and involve speculation. In addition, the Company may potentially experience significant fluctuations in future operating results caused by a variety of factors, many of which are outside of its control, including:

- our ability to retain and increase sales to existing customers, attract new customers and satisfy our customers' requirements;
- the renewal rates for our service;
- the amount and timing of operating costs and capital expenditures related to the operations and expansion of our business;
- changes in our pricing policies whether initiated by us or as a result of competition;
- the cost, timing and management effort for the introduction of new features to our service;
- the rate of expansion and productivity of our sales force;

- new product and service introductions by our competitors;
- variations in the revenue mix of editions or versions of our service;
- technical difficulties or interruptions in our service;
- general economic conditions that may adversely affect either our customers' ability or willingness to purchase additional subscriptions or upgrade their service, or delay a prospective customers' purchasing decision, or reduce the value of new subscription contracts, or affect renewal rates;
- timing of additional investments in our enterprise cloud computing application and platform services and in our consulting service;
- regulatory compliance costs;
- the timing of customer payments and payment defaults by customers;
- extraordinary expenses such as litigation or other dispute-related settlement payments;
- the impact of new accounting pronouncements; and
- and the timing of stock awards to employees and the related financial statement impact.

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

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

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

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

The Company's officers and directors, including the Chief Executive Officer, control approximately 45.4% of the Company's common stock. The Company's Chief Executive Officer, Randall K. Fields, individually, controls 40.5%

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

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

The Company's certificate of incorporation currently authorizes the issuance of up to 30,000,000 shares of "blank check" preferred stock with designations, rights, and preferences as may be determined from time to time by the Company's board of directors. In June 2007, the Company completed the sale of 584,000 shares of its Series A Convertible Preferred Stock ("Series A Preferred"). This together with subsequent issuance of paid in kind dividends total 667,955 shares issued and outstanding as of June 30, 2011. In July 2010, the Company issued 411,927 shares of its Series B Preferred in consideration for the conversion of certain promissory notes totaling approximately \$4.1 million. The Company's board of directors is empowered, without stockholder approval, to issue one or more additional series of preferred stock with dividend, liquidation, conversion, voting, or other rights that could dilute the interest of, or impair the voting power of, the Company's common stockholders. The issuance of an additional series of preferred stock could be used as a method of discouraging, delaying, or preventing a change in control.

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

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

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

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

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

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

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

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

Business Operations Risks

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

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

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

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

- The Company's customers may prefer one-time fees rather than monthly fees;
- Because public awareness pertaining to the Company's Application Solution Provider services will be delayed until the Company begins its marketing campaign to promote

those services, the Company's revenues may decrease over the short term; and

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our overall performance depends in part on worldwide economic conditions. The United States and other key international economies have experienced in the past a downturn in which economic activity was impacted by falling demand for a variety of goods and services, restricted credit, poor liquidity, reduced corporate profitability, volatility in credit, equity and foreign exchange markets, bankruptcies and overall uncertainty with respect to the economy. These conditions affect the rate of information technology spending and could adversely affect our customers' ability or willingness to purchase our enterprise cloud computing services, delay prospective customers' purchasing decisions, reduce the value or duration of their subscription contracts, or affect renewal rates, all of which could adversely affect our operating results.

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

The Company's future revenues are dependent upon the successful and timely development and licensing of new and enhanced versions of its products and potential product offerings suitable to the customer's needs. If the Company

fails to successfully upgrade existing products and develop new products, and those new products do not achieve market acceptance, the Company's revenues will be negatively impacted.

-15-

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

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

The Company faces risks associated with new product introductions.

The Company receives and analyzes market and product data. Based on this data, the Company may endeavor to develop and commercialize new product offerings. The following risks apply to potential new product offerings:

- It may be difficult for the Company to predict the amount of service and technological resources that will be needed by customers of the new offerings, and if the Company underestimates the necessary resources, the quality of its service will be negatively impacted thereby undermining the value of the product to the customer.
- The Company lacks the experience with these new products and the market acceptance to accurately predict if it will be a profitable product.
- Technological issues between the Company and the customer may be experienced in capturing data, and these technological issues may result in unforeseen conflicts or technological setbacks when implementing the software. This may result in material delays and even result in a termination of the engagement with the customer.
- The customer's experience with the new offerings, if negative, may prevent the Company from having an opportunity to sell additional products and services to that customer.
- If the customer does not use the product as the Company recommends and fails to implement any needed corrective action(s), it is unlikely that the customer will experience the business benefits from the software and may therefore be hesitant to continue the engagement as well as acquire any additional software products from the Company.
- Delays in proceeding with the implementation of the new products by a new customer will negatively affect the Company's cash flow and its ability to predict cash flow.

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

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

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

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

Non-conformities or bugs ("errors") may be found from time to time in the Company's existing, new or enhanced products after commencement of commercial shipments, resulting in loss of revenues or injury to the Company's reputation. In the past, the Company has discovered errors in its products and as a result, has experienced delays in the shipment of products. Errors in the Company's products may be caused by defects in third-party software incorporated into the Company's products. If so, the Company may not be able to fix these defects without the cooperation of these software providers. Since these defects may not be as significant to the software provider as they are to us, the Company may not receive the rapid cooperation that may be required. The Company may not have the contractual right to access the source code of third-party software, and even if the Company does have access to the code, the Company may not be able to fix the defect. In addition, our customers may use our service in unanticipated ways that may cause a disruption in service for other customers attempting to access their data. Since the Company's customers use the Company's products for critical business applications, any errors, defects or other performance problems could hurt the Company's reputation and may result in damage to the Company's customers' business. If that occurs, customers could elect not to renew, or delay or withhold payment to us, we could lose future sales or customers may make warranty or other claims against us, which could result in an increase in our provision for doubtful accounts, an increase in collection cycles for accounts receivable or the expense and risk of litigation. These potential scenarios, successful or otherwise, would likely be time consuming and costly.

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

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

Risks Relating to the Company's Common Stock

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

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

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

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

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

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

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

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

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

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

Although the Company's common stock is currently quoted on the NYSE American Stock Exchange, there is limited trading activity. The Company can give no assurance that an active market will develop, or if developed, that it will be sustained. If you acquire shares of the Company's common stock, you may not be able to liquidate the Company's

shares should you need or desire to do so.

-18-

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

The shares may be substantially diluted due to the following:

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

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

ITEM 2. PROPERTIES

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

ITEM 3. LEGAL PROCEEDINGS

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

PART II

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

Share Price History

Our common stock is traded on the NYSE American Stock Exchange under the trading symbol “PCYG.” The following table sets forth the high and low closing sales prices of our common stock for the periods indicated. The price information contained in the table was obtained from internet sources considered reliable. Note that such over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, markdown or commission and the quotations may not necessarily represent actual transactions in the common stock.

Fiscal Quarter Ended	Quarterly Common Stock Price Ranges			
	2011		2010	
	High	Low	High	Low
September 30	\$ 4.75	\$ 3.50	\$ 2.75	\$ 1.40
December 31	\$ 5.45	\$ 4.45	\$ 3.60	\$ 2.60
March 31	\$ 5.79	\$ 5.35	\$ 3.95	\$ 3.25
June 30	\$ 5.59	\$ 4.03	\$ 4.50	\$ 3.65

Dividend Policy

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

The Series A Preferred issued in June 2007 is entitled to receive, out of funds legally available therefore, dividends at a rate of 5%. Prior to June 1, 2010, preferred dividends payable on the Series A Preferred were paid in additional shares of Series A Preferred. After June 1, 2010, the holders of the Series A Preferred may elect to have future dividends paid in cash in the event that during any sixty (60) trading day period commencing on or after June 1, 2010 the average closing price of the Company’s common stock shall be less than or equal to the Series A Preferred conversion price.

The Series B Preferred issued in July 2010 is entitled to receive, out of funds legally available therefore, dividends at a rate of 12%. Three years following the date of issuance, dividends payable on the Series B Preferred are paid at the rate of 15% per annum and 18% per annum beginning five years from the date of issuance. Dividends are payable quarterly in cash.

Holders of Record

At September 13, 2011 there were 689 holders of record of our common stock, and 11,657,901 shares were issued and outstanding. The number of holders of record and shares issued and outstanding was calculated by reference to the books and records of the Company’s transfer agent.

Issuance of Securities

We issued shares of our common and preferred stock in unregistered transactions during fiscal year 2011. All of the shares of common and preferred stock issued were issued in non-registered transactions in reliance on Section 3(a)(9) and/or Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"), and were reported in our Quarterly Reports on Form 10-Q and in our Current Reports on Form 8-K filed with the Commission during the fiscal year ended June 30, 2011; provided, however, during the year ended June 30, 2011, the Company issued (i) 73,642 shares of common stock to directors in lieu of board fees otherwise payable to such directors; (ii) 150,300 shares of common stock to Randall Fields, the Company's Chief Executive Officer, and Fields Management, in consideration for certain amounts otherwise payable to Mr. Fields or Fields Management, as the case may be; and (iii) 32,673 shares of Series A Convertible Preferred to certain holders of such securities in lieu of dividends otherwise payable on the Series A Preferred. No shares of common or preferred stock were issued subsequent to June 30, 2011, that have not been previously reported.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with our audited consolidated financial statements and related notes thereto and with Management's Discussion and Analysis of Financial Condition and Results of Operation, which are included elsewhere in this Form 10-K. The selected consolidated statement of operations data for fiscal 2011 and 2010, and the selected consolidated balance sheet data as of June 30, 2011 and 2010 are derived from, and are qualified by reference to, the audited consolidated financial statements included in this Form 10-K.

	Fiscal Year Ended June 30,	
Consolidated Statement of Operations Data	2011	2010
Revenue		
Subscription	\$ 6,548,578	\$ 5,938,318
Maintenance	2,198,977	2,501,511
Professional Services	1,223,028	1,306,961
License	781,549	1,127,770
Total Revenues	\$ 10,752,132	\$ 10,874,560
Income from Operations	\$ 141,241	\$ 841,693
Net (loss) income	\$ (205,463)	\$ 176,991
	June 30	
Consolidated Balance Sheet Data	2011	2010
Cash and Cash Equivalents	\$ 2,618,229	\$ 1,157,431
Working Capital	(2,395,501)	(1,936,533)
Total Assets	13,976,151	12,050,576
Total Liabilities	8,652,214	7,793,695
Deferred Revenue	1,663,232	1,364,390
Total Debt (current and long-term)	4,886,544	4,287,307
Capital Leases (current and long-term)	148,749	280,933
Stockholders' Equity (deficit)	5,323,937	4,256,881

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

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

Overview

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

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

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.

Fiscal Year

Our fiscal year ends on June 30. References to fiscal 2011 refer to the fiscal year ended June 30, 2011.

Sources of Revenue

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

Subscription revenues are driven primarily by the number of connections between suppliers and retailers, the number of stores and SKU's. Subscription revenue contains arrangements with customers accessing our applications, which includes the use of the application, application and data hosting, subscription-based maintenance of the application and standard support included with the subscription.

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

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

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

Critical Accounting Policies

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

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

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

Income Taxes

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

Goodwill and Other Long-Lived Asset Valuations

Goodwill is assigned to specific reporting units and is reviewed for possible impairment at least annually or more frequently upon the occurrence of an event or when circumstances indicate that a reporting unit's carrying amount is greater than its fair value. Management reviews the long-lived tangible and intangible assets for impairment when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Management evaluates, at each balance sheet date, whether events and circumstances have occurred which indicate possible impairment. The carrying value of a long-lived asset is considered impaired when the anticipated cumulative undiscounted cash flows of the related asset or group of assets is less than the carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the estimated fair market value of the long-lived asset. Economic useful lives of long-lived assets are assessed and adjusted as circumstances dictate.

Revenue Recognition

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

We recognize subscription revenues ratably over the length of the agreement beginning on the commencement dates of each agreement or when revenue recognition conditions are satisfied. For a 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 recorded ratably over the term as services are consumed.

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

Hosting, premium support and maintenance service revenues are derived from services beyond the basic services provided in standard arrangements. We recognize hosting, premium service and maintenance revenues ratably over the contract terms beginning on the commencement dates of each contract 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. Vendor specific

objective evidence of fair value of the hosting and support elements is based on the price charged at renewal when sold separately, and the license element is recognized into revenue upon delivery. The hosting and support elements are recognized ratably over the contractual term.

Stock-Based Compensation

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

Capitalization of Software Development Costs

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

Off-Balance Sheet Arrangements

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

Results of Operations – Fiscal Years Ended June 30, 2011 and 2010

Revenues

	Fiscal Year Ended June 30,		Variance			
	2011	2010	Dollars		Percent	
Subscription	\$ 6,548,578	\$ 5,938,318	\$ 610,260		10	%
Maintenance	2,198,977	2,501,511	(302,534)	)	-12	%
Professional services	1,223,028	1,306,961	(83,933)	)	-6	%
License	781,549	1,127,770	(346,221)	)	-31	%
Total revenues	\$ 10,752,132	\$ 10,874,560	\$ (122,428)	)	-1	%

During the fiscal year ended June 30, 2011, the Company had total revenues of \$10,752,132 when compared to \$10,874,560 for the year ended June 30, 2010, a 1% decrease. This \$122,428 decrease in total revenues was principally due to a decrease in maintenance revenues of \$302,354, a decrease in software licenses revenue of \$346,221, and a decrease in professional services and other revenue of \$83,933. The decrease was partially offset by an increase of \$610,260 in subscription revenue.

While the Company experienced a decrease in revenues in the most recently completed fiscal year when compared to the fiscal year ended June 30, 2010, management believes that the Company's strategy of pursuing contracts with suppliers ("spokes") to connect to retail customers ("hubs") that have been added in the most recently completed fiscal year should result in substantially increased revenue during the fiscal year ended June 30, 2012, and in subsequent periods. In support, the Company added nine additional hubs during the fiscal year ended June 30, 2011, including the Company's first "mega hub" retailer, which the Company added in March 2011.

Subscription Revenue

Subscription revenues were \$6,548,578 and \$5,938,318 in 2011 and 2010 respectively, an increase of 10%. This \$610,260 increase in the year ended June 30, 2011 when compared with the year ended June 30, 2010 was principally due to (i) the increase of subscription customers added to the Company's customer base which contributed approximately \$543,000 in new subscription revenue; and (ii) a \$355,000 increase attributable to the growth of existing retailer and supplier subscriptions. The increase in subscription revenues was partially offset by a decrease of approximately \$342,000 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. However, while management believes that marketing its suite of software solutions as a renewable and recurring subscription is an effective strategy, it cannot be assured that subscribers will renew the service at the same level in future years, propagate services to new categories, or recognize the need for expanding the service offering of the Company's suite of actionable products and services.

Maintenance Revenue

Maintenance revenues were \$2,198,977 and \$2,501,511 in 2011 and 2010 respectively, a decrease of 12%. This \$302,534 decrease in the year ended June 30, 2011 when compared with the year ended June 30, 2010 was principally due to the non-renewal of maintenance contracts resulting in a reduction of maintenance revenues of approximately \$375,000. This decrease in maintenance revenue was partially offset by the addition of approximately \$73,000 of net increases to existing customers.

While management believes maintenance and support services is essential to its customers, due to (i) macroeconomic conditions; (ii) the historical reliability of the Company's suite of products; and (iii) the Company's emphasis on the sale of subscription based services, it is anticipated that maintenance revenue will continue to decrease over time. In addition, due to the reliability of the Company's products, customers may not perceive the ongoing value of paying for maintenance when the frequency of maintenance activities needed by a customer becomes infrequent.

Professional Services Revenue

Professional services revenues were \$1,223,028 and \$1,306,961 in 2011 and 2010 respectively, a decrease of 6%. This \$83,933 decrease in the year ended June 30, 2011 when compared with the year ended June 30, 2010 was principally due to several large customer implementations that occurred during the year ended June 30, 2010, which contributed \$494,000 in professional services revenue. The year over year decrease resulting from these large projects in prior year were partially offset by services provided in the current year where the four largest projects contributed approximately \$400,000 in the year ended June 30, 2011.

Management believes that professional services revenue may experience periodic fluctuations as a result of (i) timing of implementations, (ii) scope of services to be provided, (iii) size of the retailer or supplier, or (iv) the need for its analytics offerings and change-management services becomes a natural addition to its software-as-a-service (SaaS) product suite.

License Revenue

License fees were \$781,549 and \$1,127,770 for the fiscal years ended June 30, 2011 and 2010, respectively, a 31% decrease. This \$346,221 decrease in license revenue for the year ended June 30, 2011 when compared with the same period June 30, 2010 was principally the result of the licensing of its patent portfolio which contributed \$490,000

during the fiscal year ended June 30, 2010, which did not recur in fiscal year 2011.

Management believes 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 revenue.

Cost of Services and Product Support

	Fiscal Year Ended June 30,		Variance	
	2011	2010	Dollars	Percent
Cost of services and product support	\$ 4,028,222	\$ 3,887,051	\$ 141,171	4%
Percent of total revenues	37%	36%		

Cost of services and product support were \$4,028,222 or 37% of total revenues, and \$3,887,051 or 36% of total revenues for the years ended June 30, 2011 and 2010, respectively; a 4% increase. This increase of \$141,171 for the year ended June 30, 2011 when compared with the same period ended June 30, 2010 is principally due to (i) a \$199,700 increase related to employee stock grants and other stock-based compensation, (ii) a \$136,400 increase in data center facility cost resulting from negotiated vendor credits related to the closure of a data center in the prior year, and (iii) a \$65,300 increase in head count related expenses, payroll taxes related to increased stock compensation and an increase in benefit costs. These increases were partially offset by (i) a \$197,000 decrease related to capitalization of software development costs, (ii) a \$52,700 comparative decrease resulting from a decrease in hardware and software maintenance and support contracts, refinance of certain operating leases, and decreased travel and related expenses.

Sales and Marketing Expense

	Fiscal Year Ended June 30,		Variance	
	2011	2010	Dollars	Percent
Sales and marketing	\$ 2,742,061	\$ 2,557,515	\$ 184,546	7%
Percent of total revenues	26%	24%		

Sales and marketing expenses were \$2,742,061, or 26% of total revenues, and \$2,557,515 or 24% of total revenues, for the fiscal years ended June 30, 2011 and 2010, respectively, a 7% increase. This \$184,546 increase over the previous year was primarily the result of (i) an increase of approximately \$194,000 in salary (net head count increase of 3 employees), employee benefits and training, stock-based compensation, and commission expenses, (ii) an increase of approximately \$149,000 in contractor expenses, (iii) an increase of approximately \$91,000 in public relations, advertising, marketing and tradeshow expenses, and travel and related expenditures. These increases are partially offset by decreases of approximately (i) \$90,700 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

	Fiscal Year Ended June 30,		Variance	
	2011	2010	Dollars	Percent
General and administrative	\$ 3,053,818	\$ 2,776,401	\$ 277,417	10%
Percent of total revenues	28%	26%		

General and administrative expenses were \$3,053,818, or 28% of total revenues, and \$2,776,401 or 26% of total revenues for the years ended June 30, 2011 and 2010, respectively, a 10% increase. This \$277,417 increase when comparing expenditures for the year ended June 30, 2011 with the same period ended June 30, 2010 is principally due to (i) an increase of approximately \$142,000 in compensation related expenses such as stock-based compensation expense for certain employees and board members that are based on multi-year vesting schedules, (ii) an increase of approximately \$90,000 in salary, employee benefits, payroll taxes, and travel expense, and (iii) the settlement of a lawsuit through the combination of cash and equity. These increases were partially offset by (i) a \$158,000 decrease in bad debt expense due to increased collection efforts, (ii) a \$136,000 decrease in facility expenses primarily related to reduced rent expense due to the closure and non renewal of lease contracts for office facilities related to the Prescient Merger, and (iii) a \$114,000 decrease in legal and other professional fees primarily due to the above mentioned settlement.

Depreciation and Amortization Expense

	Fiscal Year Ended June 30,		Variance	
	2011	2010	Dollars	Percent
Depreciation and amortization	\$ 786,790	\$ 811,900	\$ (25,110)	-3%
Percent of total revenues	7%	7%		

Depreciation and amortization expenses were \$786,790 and \$811,900 for the year ended June 30, 2011 and 2010, respectively, a decrease of 3%. This decrease of \$25,110 for the year ended June 30, 2011 when compared to the year ended June 30, 2010 is partially due to a decrease in depreciation as a result of full depreciation of certain capital assets in fiscal year 2010 partially offset by depreciation related to hardware investments in the fourth quarter of fiscal year 2011.

Other Income and Expense

	Fiscal Year Ended June 30,		Variance	
	2011	2010	Dollars	Percent
Gain on refinance	\$ -	\$ 43,811	\$ (43,811)	-100%
Other gains	-	24,185	(24,185)	-100
Interest income (expense)	(346,704)	(732,698)	(385,994)	-53%
Total other income and expense	\$ (346,704)	\$ (664,702)	\$ (317,998)	-48%

Net interest expense was \$346,704 when compared with net interest expense of \$732,698 for the year ended June 30, 2011 and June 30, 2010, respectively. This \$385,994 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.

Preferred Dividends

	Fiscal Year Ended June 30,		Variance	
	2011	2010	Dollars	Percent
Preferred dividends	\$ 826,411	\$ 326,385	\$ 500,026	153%
Percent of total revenues	8%	3%		

Dividends declared on preferred stock was \$826,411 for the year ended June 30, 2011 when compared with \$326,385 accrued in the same period in 2010. The \$500,026 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.

-28-

Dividends accrued on the Series B Preferred were \$494,312 for the year ended June 30, 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 operations, should be sufficient to fund operating and investment requirements for at least the next twelve months. Our future capital requirements will depend on many factors, including our rate of revenue growth and expansion of our sales and marketing activities, the timing and extent of spending required for research and development efforts, and the continuing market acceptance of our products. To the extent that available funds are insufficient to fund our future activities, 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.

	Fiscal Year Ended June 30,		Variance	
	2011	2010	Dollars	Percent
Cash and Cash Equivalents	\$ 2,618,229	\$ 1,157,431	\$ 1,460,798	126%

We have historically funded our operations with cash from operations, equity financings and debt borrowings. Cash and cash equivalents was \$2,618,229 and \$1,157,431 at June 30, 2011, and June 30, 2010, respectively. This \$1,460,798 increase from June 30, 2010 to June 30, 2011 was principally due to cash provided by operating activities of \$1,446,786 and cash provided by financing activities of \$569,629 partially offset by cash used in investing activities of \$555,617.

Net Cash Flows from Operating Activities

	Fiscal Year Ended June 30,		Variance	
	2011	2010	Dollars	Percent
Cash flows provided by (used in) operating activities	\$ 1,446,786	\$ 947,306	\$ 499,480	53%

Net cash provided by operating activities is summarized as follows:

	2011	2010
Net (loss) income	\$ (205,463)	\$ 176,991
Noncash expense and income, net	2,081,762	1,347,878
Net changes in operating assets and liabilities	(429,513)	(577,563)
	\$ 1,446,786	\$ 947,306

Noncash expenses increased by \$665,888 and noncash income decreased by \$67,996 in 2011 compared to 2010. Noncash expenses increased as a result of the issuance of \$375,000 in Company common stock in a 2011 litigation settlement, and a \$476,103 increase in stock compensation from 2010 to 2011. These noncash expense increases were offset by a \$158,516 decrease in bad debt expense and a \$25,110 decrease in depreciation and amortization from 2010 to 2011. Noncash income totaled \$67,996 in 2010 and no noncash income was recognized in 2011.

The net changes in operating assets and liabilities tied up \$148,050 less cash in 2011 compared to 2010. While an increase in trade receivables tied up \$1,067,862 in cash in 2011, a decrease in unbilled receivables and an increase in deferred revenue together provided \$698,781 in cash in 2011. The remaining operating assets and liabilities together had a \$60,432 net use of cash in 2011.

Net Cash Flows from Investing Activities

	Fiscal Year Ended June 30,			Variance
	2011	2010	Dollars	Percent
Cash flows (used in) provided by investing activities	\$ (555,617)	\$ (79,901)	\$ 475,716	595%

Net cash flows used in investing activities for the year ended June 30, 2011 was \$555,617 compared to net cash flows used in investing activities of \$79,901 for the year ended June 30, 2010. This \$475,716 increase in cash used in investing activities June 30, 2011 when compared to the same period in 2010 was the result of a \$197,051 capitalization of software development costs and a \$278,665 increase in purchases of property and equipment.

Net Cash Flows from Financing Activities

	Fiscal Year Ended June 30,			Variance
	2011	2010	Dollars	Percent
Cash flows (used in) provided by financing activities	\$ 569,629	\$ (366,253)	\$ 935,882	256%

Net cash flows from financing activities totaled \$569,629 for the year ended June 30, 2011 when compared to cash flows used in financing activities of \$366,253 for the year ended June 30, 2010. The change in net cash provided by (used in) financing activities is attributable to (i) \$200,000 net increase in draws on the line of credit (ii) \$559,472 increase from the issuance of debt (iii) \$140,800 in proceeds from the issuance of common stock that occurred in the year-ended June 30, 2011, (iv) a \$332,510 increase in proceeds from the exercise of warrants, and (v) a decrease in principal payments on notes payable and capital leases of \$73,834. This increase was partially offset by dividends paid on the Series B Preferred Stock of \$370,734.

Working Capital and Management's Plan

At June 30, 2011, the Company had negative working capital of \$2,395,501 when compared with negative working capital of \$1,936,533 at June 30, 2010. This \$458,968 decrease in working capital is principally a result of the reclassification of certain notes payable from long-term liabilities to amounts becoming due and payable during the next twelve months, as more fully described below:

	Fiscal Year Ended June 30,			Variance
	2011	2010	Dollars	Percent
Current assets	\$ 4,943,820	\$ 2,787,811	\$ 2,156,009	77%

Current assets at June 30, 2011 totaled \$4,943,820, an increase of \$2,156,009 when compared to \$2,787,811 at June 30, 2010. This increase in current assets is due primarily to increases in (i) cash and cash equivalents, (ii) accounts receivables and (iii) prepaid expenses and other current assets. This increase is partially offset by a decrease in unbilled receivables.

	Fiscal Year Ended June 30,		Variance	
	2011	2010	Dollars	Percent
Current liabilities	\$ 7,339,321	\$ 4,724,344	\$ 2,614,977	55%

Current liabilities totaled \$7,339,321 and \$4,724,344 as of June 30, 2011 and 2010, respectively. The \$2,614,977 comparative increase in current liabilities is principally due to the reclassification of certain notes payable from long-term liabilities to current liabilities becoming due and payable during the next twelve months as well as increases in lines of credit to facilitate payment of notes payable maturing in July 2011.

In connection with the retirement of certain promissory notes, as described below, the Company reduced its current liabilities by approximately \$1.5 million subsequent to June 30, 2011 and, while no assurances can be given, management currently intends to continue to reduce its indebtedness in subsequent periods utilizing existing cash resources and projected cash flow from operations. In addition, management may also refinance or restructure certain of the Company's indebtedness to extend the maturities of such indebtedness to address its short- and long-term working capital requirements. Management believes that these initiatives will enable us to address our debt service requirements during the next twelve months, as well as fund our currently anticipated operations and capital spending requirements. The financial statements do not reflect any adjustments should cash flow from operations be insufficient to meet our spending and debt service requirements, and we are otherwise unable to refinance or restructure our indebtedness.

Debt Restructuring

Effective June 30, 2010, the Company entered into a Stock Purchase Agreement, with certain holders of promissory notes of the Company, including with the Company's principal lender, which notes aggregated approximately \$4.1 million. Under the terms of the Stock Purchase Agreement, the Company incurred a subscription payable for the issuance of 411,927 shares of its newly created Series B Preferred, in consideration for the surrender and termination of such promissory notes (the "Series B Exchange"), which Series B Exchange was consummated on June 30, 2010. The Series B Preferred Certificate of Designation was filed on July 21, 2010. The purchase price for the Series B Preferred was \$10.00 per share. The Purchase Agreement contains various standard terms and conditions. The Series B Preferred shall be entitled to receive, out of funds legally available therefore, dividends at a rate of 12% per annum for the first three years following the date of issuance, 15% per annum for the period beginning three years following the date of issuance and continuing until five years from the date of issuance, and 18% per annum beginning five years from the date of issuance. See Note 15 to the financial statements.

On August 1, 2010, the Company entered into a loan modification agreement with one of its principal lenders pursuant to which the lender has agreed to modify the maturity date of a certain promissory note as set forth in the loan modification agreement. Under the terms of the loan modification agreement, the maturity date of the promissory note has been extended from July 2012 to September 2013. The amount due under the terms of the promissory note at June 30, 2011, was \$1,030,010. 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 August 6, 2010, the Company entered into an Amendment to Loan Agreement and Note ("Amendment") with U.S. Bank National Association ("Bank"), pursuant to which the Bank has agreed to modify the maturity date and maximum loan amount available to be advanced to the Company as set forth in the Loan Agreement and Note. The Amendment permits borrowings of up to \$1.2 million, of which \$600,000 was outstanding as of the date of the Amendment. Under the terms of the Amendment, the maturity date of the Note has been extended from May 31, 2010 to September 30, 2011 and the interest rate remained unchanged at 3.5% + LIBOR.

On July 1, 2011, the Company retired certain promissory notes in the principal amount of approximately \$1.5 million, which notes were originally issued in January 2009 to certain investors to partially finance the acquisition of Prescient (the “Prescient Notes”). The Prescient Notes had a maturity date of July 12, 2011, and required payment of interest at 12% per annum payable quarterly. In connection with the retirement of certain of the Prescient Notes, the Company extended the maturity date of the remaining issued and outstanding Prescient Notes, totaling approximately \$250,000, from July 12, 2011 to January 12, 2012.

The retired Prescient Notes were paid from cash flow from operations and proceeds from the issuance to a Bank of a new term note, dated June 28, 2011, in the principal amount of \$350,000 (the “Term Note”), were used to pay the Prescient Notes. The Term Note bears interest at an annual rate of 3.95%. Principal and interest under the terms of the Term Note are payable in 35 installments of \$10,355 each beginning August 15, 2011 and on the same date on each consecutive month thereafter until maturity, or July 15, 2014.

Inflation

The impact of inflation may cause retailers to slow spending in the technology area, which could have an impact on the company’s sales.

Recent Accounting Pronouncements

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 Company does not expect the adoption of ASU 2010-6 to 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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange 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.

Interest Rate Sensitivity

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, of reasonably possible near-term changes in interest rates on our financial position, results of operations and cash flows should not be material. Interest rate risk is

managed through the maintenance of a portfolio of variable and fixed-rate debt composed of short and long-term instruments. The objective is to maintain a cost-effective mix that management deems appropriate. At June 30, 2011, the debt portfolio was composed of approximately 36% variable-rate debt and 64% fixed-rate debt.

The table that follows presents fair values of principal amounts and weighted average interest rates for our investment portfolio as of June 30, 2011.

	Aggregate Fair Value	Weighted Average Interest Rate
Cash and Cash Equivalents	\$ 2,618,229	NA

The table that follows presents the principal amounts of our variable and fixed rate debt.

Debt Summary	Principal Amount	Weighted Average Interest Rate	% Mix
Variable rate debt	\$ 1,747,121	8.6%	36%
Fixed rate debt	\$ 3,139,423	4.4%	64%

ITEM 8. FINANCIAL STATEMENTS

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

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our Management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operations of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of June 30, 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) Management's Annual Report on Internal Control over Financial Reporting.

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

This Annual Report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to an exemption for smaller reporting companies under Section 989G of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

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

Our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of our internal control over financial reporting as of June 30, 2011. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2011, our internal control over financial reporting was effective.

(c) 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, Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The Company will file with the Commission a definitive proxy statement pursuant to Regulation 14A no later than 120 days after June 30, 2011. The information required by this Item will appear in that definitive proxy statement and is incorporated by reference herein.

ITEM 11. EXECUTIVE COMPENSATION

The Company will file with the SEC a definitive proxy statement pursuant to Regulation 14A no later than 120 days after June 30, 2011. The information required by this Item will appear in that definitive proxy statement and is incorporated by reference herein.

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

The Company will file with the SEC a definitive proxy statement pursuant to Regulation 14A no later than 120 days after June 30, 2011. The information required by this Item will appear in that definitive proxy statement and is incorporated by reference herein.

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

The Company will file with the SEC a definitive proxy statement pursuant to Regulation 14A no later than 120 days after June 30, 2011. The information required by this Item will appear in that definitive proxy statement and is incorporated by reference herein.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The Company will file with the SEC a definitive proxy statement pursuant to Regulation 14A no later than 120 days after June 30, 2011. The information required by this Item will appear in that definitive proxy statement and is incorporated by reference herein.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

Exhibits, Financial Statements and Schedules

The Consolidated Financial Statements of the Company and its subsidiaries are filed as part of this Report:

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets as of June 30, 2011 and June 30, 2010
- Consolidated Statements of Operations for the years ended June 30, 2011 and 2010
- Consolidated Statements of Stockholders' (Deficit) Equity for the years ended June 30, 2011 and 2010
- Consolidated Statements of Cash Flows for the years ended June 30, 2011 and 2010
- Notes to Consolidated Financial Statements

Exhibit

Number Description

2.1	Agreement and Plan of Merger and Reorganization, Dated August 28, 2008 (1)
2.2	Form of Stock Purchase Agreement (1)
2.3	Form of Stock Voting Agreement (1)
2.4	Form of Promissory Note (2)
3.1	Articles Of Incorporation (3)
3.2	Certificate Of Amendment (4)
3.3	Certificate of Amendment (5)
3.4	Bylaws (3)
4.1	Certificate of Designation of the Series A Convertible Preferred Stock (6)
4.2	Certificate of Designation of the Series B Convertible Preferred Stock (7)
10.1	Placement Agent Agreement (8)
10.2	Warrant to Purchase Common Stock, Dated June 14, 2006 (9)
10.3	Securities Purchase Agreement (9)
10.4	Employment Agreement with Randall K. Fields (10)
10.5	Services Agreement with Fields Management, Inc. (10)
10.6	Warrant to Purchase Common Stock, Dated June 30, 2006 (5)
10.7	Stock Purchase Agreement (6)
10.8	Warrant to Purchase Common Stock, dated June 1-22, 2007 (6)
10.9	Warrant to Purchase Common Stock, dated June 22, 2007 (6)
10.10	Warrant to Purchase Common Stock issued to Taglich Brothers, Inc. (10)
10.11	Form of Securities Purchase Agreement, dated January 12, 2009 (10)
10.12	Securities Purchase Agreement, dated January 12, 2009, by and between the Company and Robert W. Allen (10)
10.13	Securities Purchase Agreement, dated January 12, 2009, by and between the Company and Taglich Brothers, Inc. (10)
10.14	Subordinated Promissory Note, dated April 1, 2009, issued to Riverview Financial Corporation (10)
10.15	Amendment to Loan Agreement and Note, by and between U.S. Bank National Association and the Company, dated September 15, 2009 (11)
10.16	Term Note, dated September 30, 2010 (11)
10.17	

	Amendment to Loan Agreement and Note, by and between U.S. Bank National Association and the Company, dated September 30, 2009 (10)
10.18	Term Loan Agreement, by and between U.S. Bank National Association and the Company, dated May 5, 2010 (11)
10.19	Amendment to Loan Agreement and Note, by and between U.S. Bank National Association and the Company, dated May 5, 2010 (11)
10.20	Promissory Note, dated August 25, 2009, issued to Baylake Bank (14)
14.1	Code of Ethics and Business Conduct (15)
21	List of Subsidiaries
23	Consent of HJ & Associates, LLC, dated September 13, 2011
31.1	Certification of Principal Executive Officer pursuant to Section 302 of Sarbanes Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to Section 302 of Sarbanes Oxley Act of 2002
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350

- (1) Incorporated by reference from our Form 8-K dated September 3, 2008.
- (2) Incorporated by reference from our Form 8-K dated September 15, 2008.
- (3) Incorporated by reference from our Form DEF 14C dated June 5, 2002.
- (4) Incorporated by reference from our Form 10-QSB for the year ended Sept 30, 2005.
- (5) Incorporated by reference from our Form 10-KSB dated September 29, 2006.
- (6) Incorporated by reference from our Form 8-K dated June 27, 2007.
- (7) Incorporated by reference from our Form 8-K dated July 21, 2010.
- (8) Incorporated by reference from our Form 8-K dated June 14, 2006.
- (9) Incorporated by reference from our Form SB-2/A dated October 20, 2006.
- (10) Incorporated by reference from our Form 8-K, dated June 5, 2009.
- (11) Incorporated by reference from our Form 8-K dated September 30, 2009.
- (12) Incorporated by reference from our Form 8-K dated October 1, 2009.
- (13) Incorporated by reference from our Form 8-K dated June 6, 2010.
- (14) Incorporated by reference from our Form 8-K dated August 25, 2009.
- (15) Incorporated by reference from our Form 10-KSB dated September 30, 2008.

SIGNATURES

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

PARK CITY GROUP, INC.
(Registrant)

Date: September 13, 2011

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

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

Signature	Title	Date
/s/ Randall K. Fields Randall K. Fields	Chairman of the Board and Director, Chief Executive Officer, (Principal Executive Officer)	September 13, 2011
/s/ David Colbert David Colbert	Vice President and Chief Financial Officer (Principal Financial Officer & Principal Accounting Officer)	September 13, 2011
/s/ Robert W. Allen Robert W. Allen	Director, and Compensation Committee Chairman	September 13, 2011
/s/ James R. Gillis James R. Gillis	Director	September 13, 2011
/s/ Peter T. Brennan Peter Brennan	Director, and Nominating / Governance Committee Chairman	September 13, 2011
/s/ Richard S. Krause Richard S. Krause	Director, and Audit Committee Chairman	September 13, 2011
/s/ Robert P. Hermanns Robert P. Hermanns	Director	September 13, 2011
/s/ C. Manly Molpus C. Manly Molpus	Director	September 13, 2011

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders of
Park City Group, Inc. and Subsidiaries
Park City, Utah

We have audited the accompanying consolidated balance sheets of Park City Group, Inc. and Subsidiaries as of June 30, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Park City Group and Subsidiaries as of June 30, 2011 and 2010, and the results of their operations and their cash flows for each of the years then ended in conformity with U.S. generally accepted accounting principles.

/s/ HJ & Associates, LLC

HJ & Associates, LLC
Salt Lake City, Utah
September 13, 2011

F-1

PARK CITY GROUP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

Assets	June 30, 2011	June 30, 2010
Current Assets:		
Cash and cash equivalents	\$ 2,618,229	\$ 1,157,431
Receivables, net of allowance of \$15,581 and \$72,000 at June 30, 2011 and 2010, respectively	2,041,786	1,031,020
Unbilled receivables	17,987	417,926
Prepaid expenses and other current assets	265,818	181,434
Total current assets	4,943,820	2,787,811
Property and equipment, net	651,992	544,576
Other assets:		
Deposits and other assets	24,026	23,287
Customer relationships	3,184,967	3,607,283
Goodwill	4,805,933	4,805,933
Capitalized software costs, net	365,413	281,686
Total other assets	8,380,339	8,718,189
Total assets	\$ 13,976,151	\$ 12,050,576
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	\$ 790,914	\$ 574,847
Accrued liabilities	1,162,775	1,286,218
Deferred revenue	1,663,232	1,364,390
Capital lease obligations	107,547	132,184
Line of credit	1,200,000	600,000
Note payable	2,414,853	766,705
Total current liabilities	7,339,321	4,724,344
Long-term liabilities:		
Notes payable, less current portion	1,271,691	2,920,602
Capital lease obligations, less current portion	41,202	148,749
Total liabilities	8,652,214	7,793,695
Commitments and contingencies		
Stockholders' equity:		
Series A Convertible Preferred stock, \$0.01 par value, 30,000,000 shares authorized; 667,955 and 648,396 shares issued and outstanding at June 30, 2011 and 2010, respectively	6,680	6,484
	4,119	-

Edgar Filing: PARK CITY GROUP INC - Form 10-K

Series B Convertible Preferred stock, \$0.01 par value, 30,000,000 shares authorized; 411,927 and zero shares issued and outstanding at June 30, 2011 and 2010, respectively

Common stock, \$0.01 par value, 50,000,000 shares authorized; 11,612,460 and 10,884,364 issued and outstanding at June 30, 2011 and June 30, 2010, respectively	116,125	108,844
Additional paid-in capital	36,088,584	29,881,977
Subscription payable for Series B Convertible Preferred Stock	-	4,119,273
Accumulated deficit	(30,891,571)	(29,859,697)
Total stockholders' equity	5,323,937	4,256,881
Total liabilities and stockholders' equity (deficit)	\$ 13,976,151	\$ 12,050,576

See accompanying notes to consolidated financial statements.

PARK CITY GROUP, INC. AND SUBSIDIARIES
Consolidated Statements of Operations

	For the Years Ended June 30,	
	2011	2010
Revenues:		
Subscriptions	\$ 6,548,578	\$ 5,938,318
Maintenance and support	2,198,977	2,501,511
Professional services	1,223,028	1,306,961
License fees	781,549	1,127,770
Total revenues	10,752,132	10,874,560
Operating expenses:		
Cost of revenues and product support	4,028,222	3,887,051
Sales and marketing	2,742,061	2,557,515
General and administrative	3,053,818	2,776,401
Depreciation and amortization	786,790	811,900
Total operating expenses	10,610,891	10,032,867
Income from operations	141,241	841,693
Other income (expense):		
Gain on refinance	-	43,811
Other gains	-	24,185
Interest expense, net	(346,704)	(732,698)
Total other (expense)	(346,704)	(664,702)
Income (loss) before income taxes	(205,463)	176,991
(Provision) benefit for income taxes	-	-
Net income (loss)	(205,463)	176,991
Dividends on preferred stock	(826,411)	(326,385)
Net loss applicable to common shareholders	\$ (1,031,874)	\$ (149,394)
Weighted average shares, basic and diluted	11,212,000	10,716,000
Basic and diluted loss per share	\$ (0.09)	\$ (0.01)

See accompanying notes to consolidated financial statements.

PARK CITY GROUP, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity (Deficit)
For the Years Ended June 30, 2011 and 2010

	Series A Convertible Preferred Stock		Series B Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Subscription Payable Series B Preferred	Accumula Deficit
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, July 1, 2009	631,849	\$6,318	-	\$-	10,569,848	\$105,698	\$29,096,215	\$-	\$(29,710,
Conversion of Preferred stock	(25,443)	(254)	-	-	84,809	848	(594)	-	-
Stock issued for:									
Compensation	-	-	-	-	209,707	2,098	354,675	-	-
Services	-	-	-	-	20,000	200	29,800	-	-
Conversion of Note Payable and Line of Credit	-	-	-	-	-	-	-	4,119,273	-
Dividends	41,990	420	-	-	-	-	401,881	-	-
Preferred Dividends-Declared	-	-	-	-	-	-	-	-	(326,385
Net income	-	-	-	-	-	-	-	-	176,991
Balance, June 30, 2010	648,396	6,484	-	-	10,884,364	108,844	29,881,977	4,119,273	(29,859,
Conversion of Preferred stock	(13,114)	(131)	-	-	43,714	437	(306)	-	-
Stock issued for:									
Compensation	-	-	-	-	424,137	4,241	919,649	-	-
Subscription Payable Series B Preferred	-	-	411,927	4,119	-	-	4,115,154	(4,119,273)	-
Dividends	32,673	327	-	-	-	-	326,403	-	298
Preferred Dividends-Declared	-	-	-	-	-	-	-	-	(826,709
Exercise of Warrants (Cashless)	-	-	-	-	64,909	649	(649)	-	-
Exercise of Warrants	-	-	-	-	84,388	844	331,666	-	-
Cash	-	-	-	-	32,000	320	140,480	-	-
Litigation Settlement	-	-	-	-	78,948	790	374,210	-	-
Net loss	-	-	-	-	-	-	-	-	(205,463
Balance, June 30, 2011	667,955	\$6,680	411,927	\$4,119	11,612,460	\$116,125	\$36,088,584	\$-	\$(30,891,

See accompanying notes to consolidated financial statements.

F-4

PARK CITY GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Years Ended June 30,
2011

2010

Cash flows from operating activities:

Net (loss) income	\$ (205,463)	\$ 176,991
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	786,790	811,900
Bad debt expense	57,096	215,612
Stock compensation expense	862,876	386,773
Stock issued for litigation settlement	375,000	-
Amortization of discount on debt	-	1,589
Other gains	-	(24,185)
Gain on Refinance	-	(43,811)
Decrease (increase) in:		
Trade receivables	(1,067,862)	(43,414)
Unbilled receivables	399,939	(296,973)
Prepays and other assets ⁷	(85,123)	25,386
Increase (decrease) in:		
Accounts payable	216,067	(184,783)
Accrued liabilities	(191,376)	(19,672)
Deferred revenue	298,842	(58,107)

Net cash provided by operating activities	1,446,786	947,306
---	-----------	---------

Cash Flows From Investing Activities:

Purchase of property and equipment	(358,566)	(79,901)
Capitalization of software costs	(197,051)	-

Net cash used in investing activities	(555,617)	(79,901)
---------------------------------------	------------	-----------

Cash Flows From Financing Activities:

Net increase in line of credit	600,000	400,000
Proceeds from issuance of stock	140,800	-
Proceeds from exercise of warrants	332,510	-
Proceeds from issuance of note payable	559,472	-
Dividends paid	(370,734)	-
Payments on notes payable and capital leases	(692,419)	(766,253)

Net cash provided by (used in) financing activities	569,629	(366,253)
---	---------	------------

Net increase in cash and cash equivalents	1,460,798	501,152
---	-----------	---------

Cash and cash equivalents at beginning of period	1,157,431	656,279
--	-----------	---------

Cash and cash equivalents at end of period	\$ 2,618,229	\$ 1,157,431
--	--------------	--------------

**Supplemental Disclosure of Cash Flow
Information**

Cash paid for income taxes	\$	-	\$	-
Cash paid for interest	\$	302,238	\$	823,861

Supplemental Disclosure of Non-Cash Investing and Financing Activities

Conversion of debt to subscription payable for Series B Preferred	\$	-	\$	1,243,572
Conversion of line of credit to subscription payable for Series B Preferred	\$	-	\$	2,875,701
Common Stock to pay accrued liabilities	\$	923,890	\$	386,773
Dividends accrued on preferred stock	\$	826,411	\$	326,385
Dividends paid with preferred stock	\$	326,730	\$	402,301
Property and equipment purchased by capital lease	\$	-	\$	184,929

See accompanying notes to consolidated financial statements.

PARK CITY GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2011 and June 30, 2010

NOTE 1. DESCRIPTION OF BUSINESS AND MERGER OF PRESCIENT APPLIED INTELLIGENCE, INC.

Summary 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 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

Principles of Consolidation

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

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that materially affect the amounts reported in the consolidated financial statements. Actual results could differ from these estimates. The methods, estimates and judgments the Company uses in applying its most critical accounting policies have a significant impact on the results it reports in its financial statements. The 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.

Cash and Cash Equivalents

The Company considers all short-term instruments with an original maturity of three months or less to be cash equivalents.

Concentration of Credit Risk and Significant Customers

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

F-6

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

The Company's accounts receivable are derived from sales of products and services primarily to customers operating multi-location retail and grocery stores.

During the years ended June 30, 2011 and 2010, the Company did not have sales to major customers that exceeded ten percent of revenues.

Allowance for Doubtful Accounts Receivable

The Company offers credit terms on the sale of the Company's products to a significant majority of the Company's customers and requires no collateral from these customers. The Company performs ongoing credit evaluations of customers' financial condition and maintains an allowance for doubtful accounts receivable based upon the Company's historical experience and a specific review of accounts receivable at the end of each period. As of June 30, 2011 and 2010, the allowance for doubtful accounts was \$15,581 and \$72,000, respectively.

Depreciation and Amortization

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

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

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

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

	Years
Customer relationships	10
Acquired developed software	5
Developed software	3
Goodwill	see below

Goodwill and intangible assets deemed to have indefinite lives are subject to annual impairment tests. Other intangible assets are amortized over their useful lives.

Warranties

The Company offers a limited warranty against software defects. Customers who are not completely satisfied with their software purchase may attempt to be reimbursed for their purchases outside the warranty period. For the years ending June 30, 2011 and 2010, the Company did not incur any expenses associated with warranty claims.

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 probable; and (4) the amount of fees to be paid by the customer is fixed or determinable.

We recognize subscription revenues ratably over the length of the agreement beginning on the commencement dates of each agreement or when revenue recognition conditions are satisfied. For a 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 recorded ratably over the term as services are consumed.

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

Hosting, premium support and maintenance service revenues are derived from services beyond the basic services provided in standard arrangements. We recognize hosting, premium service and maintenance revenues ratably over the contract terms beginning on the commencement dates of each contract 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 recorded 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. 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.

Software Development Costs

The Company accounts for 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.

In July 2010, the Company reached technological feasibility on one new major enhancement to an existing product offering. Cost capitalized in fiscal year 2011 for this enhancement totaled \$197,051, the Company did not capitalize development costs in the same period for 2010. During 2011 and 2010 capitalized development costs of \$113,324 and \$134,614, respectively, were amortized into expense. The Company amortizes its developed and purchased software on a straight line basis over three and five years, respectively.

Research and Development Costs

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

Income Taxes

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

Earnings Per Share

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

For the year ended June 30, 2011 and 2010 options and warrants to purchase 589,296 and 858,502 shares of common stock, respectively, were not included in the computation of diluted EPS due to the anti-dilutive effect. Options and warrants to purchase shares of common stock were outstanding at prices ranging from \$1.50 to \$4.25 per share at June 30, 2011.

For the year ended June 30, 2011 and 2010, 3,256,334 and 2,161,320 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.

	Year ended June 30, 2011	Year ended June 30, 2010
Dilutive effect of options and warrants	-	-
Weighted average shares outstanding assuming dilution	11,212,000	10,716,000

Stock-Based Compensation

The Company recognizes the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards. The Company records compensation expense on a straight-line basis.

F-9

The following table summarizes information about fixed stock options and warrants outstanding at June 30, 2011:

Range of exercise prices	Options and Warrants Outstanding at June 30, 2011			Options and Warrants Exercisable at June 30, 2011		
	Number Outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price	
1 . 5 0 -						
\$2.50	64,880	2.43	\$ 1.79	64,880	\$ 1.79	
\$3.30	187,249	.98	\$ 3.30	187,249	\$ 3.30	
\$4.25	337,167	.42	\$ 4.25	337,167	\$ 4.25	
	589,296	.87	\$ 3.37	589,296	\$ 3.37	

Fair Value of Financial Instruments

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

NOTE 3. LIQUIDITY AND MANAGEMENT'S PLAN

Historically, the Company has financed its operations through operating revenues, loans from directors, officers, stockholders, loans from the Chief Executive Officer and majority shareholder, and private placements of equity securities.

At June 30, 2011, the Company had negative working capital of \$2,395,501 when compared with negative working capital of \$1,936,533 at June 30, 2010. This \$458,968 decrease in working capital is principally a result of the reclassification of certain notes payable from long-term liabilities, for amounts becoming due and payable during the next twelve months. In connection with the retirement of certain promissory notes subsequent to June 30, 2011, the Company reduced its current liabilities by approximately \$1.5 million and, while no assurances can be given, management currently intends to continue to reduce its indebtedness in subsequent periods utilizing existing cash resources and projected cash flow from operations. In addition, management may also refinance or restructure certain of the Company's indebtedness to extend the maturities of such indebtedness to address its short-term and long-term working capital requirements. Management believes that these initiatives will enable us to address our debt service requirements during the next twelve months, as well as fund our currently anticipated operations and capital spending requirements. The financial statements do not reflect any adjustments should cash flow from operations be insufficient to meet our spending and debt service requirements, and we are otherwise unable to refinance or restructure our indebtedness.

NOTE 4. RECEIVABLES

Trade accounts receivable consist of the following at June 30:

	2011	2010
Trade accounts receivable	\$ 2,047,367	\$ 1,103,020
Allowance for doubtful accounts	(15,581)	(72,000)

\$	2,041,786	\$	1,031,020
----	-----------	----	-----------

Unbilled receivables consist of amounts recognized as revenue during the year for which invoices were sent subsequent to year-end.

F-10

NOTE 5. PROPERTY AND EQUIPMENT

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

	2011	2010
Computer equipment	\$ 1,997,865	\$ 1,641,669
Furniture and fixtures	314,823	313,803
Leasehold improvements	141,043	139,693
	2,453,731	2,095,165
Less accumulated depreciation and amortization	(1,801,739)	(1,550,589)
	\$ 651,992	\$ 544,576

Depreciation expense for the years ended June 30, 2011 and 2010 was \$251,150 and \$254,969, respectively.

NOTE 6. CAPITALIZED SOFTWARE COSTS

Capitalized software costs consist of the following at June 30:

	2011	2010
Capitalized software costs	\$ 2,443,128	\$ 2,246,077
Less accumulated amortization	(2,077,715)	(1,964,391)
	\$ 365,413	\$ 281,686

Amortization expense for the years ended June 30, 2011 and 2010 was \$113,324 and \$134,614, respectively.

Estimated aggregate amortization expense is as follows:

Year ending June 30:

2012	146,165
2013	146,165
2014	73,083

NOTE 7. CUSTOMER RELATIONSHIPS

Customer relationships consist of the following at June 30:

	2011	2010
Customer relationships	\$ 4,223,161	\$ 4,223,161
Less accumulated amortization	(1,038,194)	(615,878)
	\$ 3,184,967	\$ 3,607,283

Amortization expense for the years ended June 30, 2011 and 2010 was \$422,316 and \$422,316, respectively.

Estimated aggregate amortization expense is as follows:

Year ending June 30:

2012	422,316
2013	422,316
2014	422,316
2015	422,316

2016	422,316
Thereafter	1,073,387

F-11

NOTE 8. ACCRUED LIABILITIES

Accrued liabilities consist of the following at June 30, 2011 and 2010:

	2011	2010
Accrued stock grants	\$ 272,861	\$ 283,166
Unclaimed tender offer	263,714	263,714
Accrued compensation	244,490	370,035
Accrued dividends	212,699	83,752
Accrued other liabilities	87,068	211,071
Accrued interest	81,943	39,532
Accrued legal fees	-	34,948
	\$ 1,162,775	\$ 1,286,218

NOTE 9. NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS

The Company had the following notes payable and capital lease obligations at June 30, 2011 and 2010:

Notes Payable:

	2011	2010
Notes payable to a group of investors, interest payable quarterly in installments of approximately \$46,500, with an annual interest rate of 12%. \$249,703 of these notes has been extended and is due on January 12, 2012. The remaining \$1,288,541 was paid on July 1, 2011. (1)	\$ 1,538,244	\$ 1,538,244
Note payable to the Company's investment banker, interest payable quarterly in installments of approximately \$6,600 with an annual interest rate of 12%. This note was paid on July 1, 2011. (1)	221,172	221,172
Note payable to a bank, due in monthly installments of \$40,104 with an annual interest rate of 4.25%. This note is unsecured and matures September 1, 2013. (2)	1,030,009	1,497,306
Note payable to a bank, due in monthly installments of \$10,355 bearing interest at 3.95% due July 15, 2014. (1)	350,000	-
Note payable to a bank, due in monthly installments of \$9,359 bearing interest at 4.9% due September 15, 2014	337,647	430,585
Multi-Advance Note payable to a bank, interest payable in monthly installments of approximately \$819 with an annual interest rate of 4.5% + LIBOR, currently 4.69%, advances convert to 3 year term notes annually, first term-out date will be May 2012, term notes bear interest at 3.5% + Bank's 3 year money market rate, secured by related capital equipment purchases.	209,472	-

Capital Lease Obligations:

Capital lease on computer equipment, due in monthly installments of \$2,125, imputed interest rate of 8.9%.	13,343	36,536
Capital lease on computer equipment, due in monthly installments of \$5,228, imputed interest rates of 4.0%.	100,986	158,427
Capital lease on software, due in monthly installments of \$1,349, imputed interest rate of 11.7%.	3,983	18,749
Capital lease on furniture and equipment, due in monthly installments of \$3,539, imputed interest rate of 11.2%.	30,437	67,221

	3,835,293	3,968,240
Less current portion of capital lease obligations and notes payable	(2,522,400)	(898,889)
	\$ 1,312,893	\$ 3,069,351

- (1) See Note 19
- (2) Refinanced effective August 1, 2010, with the maturity extended to September 1, 2013 and the monthly payment reduced to \$40,104.

F-12

Maturities of notes payable and capital leases at June 30, 2011 are as follows:

Year ending June 30:

2012	\$	2,522,400
2013		793,106
2014		418,121
2015		101,666
2016		-

Capital Leases

Amortization expense related to capitalized leases is included in depreciation expense and was \$122,201 and \$94,443 for the years ended June 30, 2011 and 2010, respectively. Accumulated depreciation was \$530,887 at June 30, 2011. This accumulated amortization relates to \$728,996 of equipment purchased under capital lease agreements of which \$490,446 is still under capital lease at June 30, 2011.

NOTE 10. LINES OF CREDIT

The Company's line of credit with a bank has an annual interest rate of 3.5% + LIBOR. The line of credit is scheduled to mature on September 30, 2011. The balance on the line of credit was \$1,200,000 and \$600,000 at June 30, 2011 and June 30, 2010, respectively. As of September 12, 2011, the maturity date has been extended to September 30, 2012. See Note 19.

NOTE 11. DEFERRED REVENUE

Deferred revenue consisted of the following at June 30:

	2011	2010
Consulting and Other	\$ 183,207	\$ 31,145
Subscription	400,912	109,767
Maintenance and Support	1,079,113	1,223,478
	\$ 1,663,232	\$ 1,364,390

NOTE 12. INCOME TAXES

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

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

	2011	2010
Deferred tax assets:		
NOL Carryover	\$ 44,614,944	\$ 44,483,222
Depreciation	37,351	30,359
Amortization	181,775	-
Allowance for Bad Debts	6,077	28,080

Edgar Filing: PARK CITY GROUP INC - Form 10-K

Accrued Expenses	124,157	71,179
Deferred Revenue	648,660	532,112
Deferred tax liabilities		
Depreciation	-	-
Amortization	-	(93,254)
Valuation allowance	(45,612,964)	(45,051,698)
Net deferred tax asset	\$ -	\$ -

F-13

The income tax provision differs from the amounts of income tax determined by applying the US federal income tax rate to pretax income from continuing operations for the years ended June 30, 2011 and 2010 due to the following:

	2011	2010
Book Income	\$ (80,131)	\$ 69,026
Stock for Services	360,317	150,841
Life Insurance	10,647	13,232
Meals & Entertainment	12,476	9,460
Valuation allowance	(303,309)	(242,559)
	\$ -	\$ -

At June 30, 2011, the Company had net operating loss carryforwards of approximately \$44,614,944 that may be offset against past and future taxable income from the year 2009 through 2031. No tax benefit has been reported in the June 30, 2011 consolidated financial statements since the potential tax benefit is offset by a valuation allowance of the same amount.

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

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

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

The Company includes interest and penalties arising from the underpayment of income taxes in the consolidated statements of operations in the provision for income taxes. As of June 30, 2011, the Company had no accrued interest or penalties related to uncertain tax positions.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state, and local income tax examinations by tax authorities for years before June 30, 2007.

NOTE 13. COMMITMENTS AND CONTINGENCIES

Operating Leases.

In August 2006, the Company entered into an office lease at 3160 Pinebrook Drive, Park City, Utah, 84098. The Company has leased approximately 10,000 square feet for a period of three years. The original lease expired in November 2009. In May 2009, the Company and its landlord extended the commercial lease for a period of 36 months commencing November 15, 2009. The monthly rent is \$12,134 per month plus pro-rated property taxes.

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

Year ending June 30:

2012	145,608
2013	48,536

F-14

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

NOTE 14. EMPLOYEE BENEFIT PLAN

The Company offers an employee benefit plan under Benefit Plan Section 401(k) of the Internal Revenue Code. In May of 2007, the Company changed its 401(k) provider and trustee from Fiserv/Alliance Benefit Group to Fidelity Investments. Employees who have attained the age of 18 are eligible to participate. The Company, at its discretion, may match employee's contributions at a percentage determined annually by the board of directors. The Company does not currently match contributions. There were no expenses for the years ended June 30, 2011 and 2010.

NOTE 15. SERIES A CONVERTIBLE AND SERIES B CONVERTIBLE PREFERRED STOCK

On June 8 and 22, 2007, the Company completed the sale of 584,000 shares of its Series A Convertible Preferred Stock ("Series A Preferred") to certain institutional and other accredited investors at \$10.00 per share, or \$5,840,000. The Series A Preferred carried with them registration rights for the underlying shares of common stock upon conversion as well as the common shares underlying the associated warrants, and the registration statement was completed and became effective on August 13, 2007. In connection with its sale of Series A Preferred, the Company entered into a Stock Purchase Agreement and Common Stock Purchase Warrant Agreement with each of the investors. Each of the investors was also issued common stock purchase warrants to purchase 1,000 shares of the Company's common stock for every \$14,000 in the original issue price of the preferred stock issued at the closing. The warrants have a four (4) year term with the original expiration date set as May 31, 2011 and will be exercisable at \$4.00. In May 2011 the Company extended the expiration date of the warrants for a period of 6 months. In connection with the extension the exercise price was increased to \$4.25. Holders of the preferred stock are entitled to 3.33 to 1 conversion rate into common stock, and a 5.00% annual dividend payable quarterly in either cash or Series A Preferred at the option of the Company. Offering costs associated with the placement included a commission paid to Taglich Brothers, Inc. of \$455,200 in cash and a warrant to purchase 194,667 shares of common stock and legal and other related fees of approximately \$55,000.

Effective June 30, 2010 the Company authorized the issuance and right to sell Series B Convertible Preferred Stock ("Series B Preferred"). Effective June 30, 2010, the Company entered into a Stock Purchase Agreement with certain holders of promissory notes of the Company aggregating approximately \$4.1 million (the "Notes"), pursuant to which the Company issued 411,927 shares of its 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. The Series B Preferred Certificate of Designation was filed on July 21, 2010.

The Series B Preferred shall be entitled to receive, out of funds legally available therefore, dividends at a rate of 12% per annum for the first three years following the Effective Date, 15% per annum for the period beginning three years following the Effective Date and continuing until five years from the Effective Date, and 18% per annum beginning five years from the Effective Date. Dividends are payable quarterly in cash.

Upon liquidation of the Company, holders of Series B Preferred are entitled to be paid, prior to any distribution to any holders of common stock, or any other class or series of stock ranking junior to the Series B Preferred, an amount equal to the greater of \$10.00 per share plus the amount of unpaid dividends, or such amount as would have been payable had each share of Series B Preferred been converted into common stock immediately prior to such liquidation.

Each share of Series B Preferred may be convertible, at the option of the holder, at any time after July 1, 2011, into 2.5 shares of common stock, subject to adjustment, as set forth in the Certificate of Designation of Series B Convertible Preferred Stock. The holders of Series B Preferred vote together with the holders of common stock as a single class. Each holder of Series B Preferred are entitled to the number of votes equal to the number of whole shares of common stock into which the shares are then convertible.

The Company has the right, but not the obligation, to redeem the Series B Preferred at any time, for cash, by paying each holder thereof \$10.70 per share, plus accrued and unpaid dividends.

F-15

NOTE 16. STOCK COMPENSATION PLAN

Officers and Directors Stock Compensation. Effective November 2008, the Board of Directors approved the following compensation for directors who are not employed by the Company.

- Annual cash compensation of \$10,000 payable at the rate of \$2,500 per quarter. The Company has the right to pay this amount in the form of shares of common stock of the Company.
- Upon appointment, outside directors receive a grant of \$75,000 payable in shares of the Company's restricted common stock calculated based on the market value of the shares of common stock on the date of grant. The shares vest ratably over a five year period.
- Reimbursement of all travel expenses related to performance of Directors' duties on behalf of the Company.

Officers, Key Employees, Consultants and Directors Stock Compensation. In March 2011, the Board of Directors approved the 2011 Stock Incentive Plan (the "2011 Plan"). Under the terms of the 2011 Plan, officers, key employees, consultants and directors of the Company are eligible to participate. The maximum aggregate number of shares of common stock that may be granted under the 2011 Plan is 200,000 shares. The 2011 Plan replaces the stock incentive plan adopted in January 2000 that provided for the issuance of 20,000 shares of common stock (the "2000 Plan"). The 2000 Plan was subsequently amended to provide for the issuance of 40,000 shares of common stock in March 2000. A Committee of independent members of the Company's Board of Directors administers the 2011 Plan. The exercise price for each share of common stock purchasable under any incentive stock option granted under the 2011 Plan shall be not less than 100% of the fair market value of the common stock, as determined by the stock exchange on which the common stock trades on the date of grant. If the incentive stock option is granted to a shareholder who possesses more than 10% of the Company's voting power, then the exercise price shall be not less than 110% of the fair market value on the date of grant. Each option shall be exercisable in whole or in installments as determined by the Committee at the time of the grant of such options. All incentive stock options expire after 10 years. If the incentive stock option is held by a shareholder who possesses more than 10% of the Company's voting power, then the incentive stock option expires after five years. If the option holder is terminated, then the incentive stock options granted to such holder expire no later than three months after the date of termination. For option holders granted incentive stock options exercisable for the first time during any fiscal year and in excess of \$100,000 (determined by the fair market value of the shares of common stock as of the grant date), the excess shares of common stock shall not be deemed to be purchased pursuant to incentive stock options.

A schedule of the options and warrants activity for the years ended June 30, 2011 and 2010 is as follows:

	Number of Options	Number of Warrants	Price per share
Outstanding at June 30, 2009	90,040	972,193	\$ 1.50-4.00
Granted	-	-	-
Exercised	-	-	-
Cancelled	(75,160)	(128,571)	2.50-3.50
Expired	-	-	-
Outstanding at June 30, 2010	14,880	843,622	1.50-4.00
Granted	-	-	-
Exercised	-	(269,206)	3.65-4.00
Cancelled	-	-	-
Modification (1)	-	-	4.25

Expired	-	-	-
Outstanding at June 30, 2011	14,880	574,416	\$ 1.50-4.25

(1) 337,167 shares were extended and exercise price increased to \$4.25

F-16

NOTE 17. RELATED PARTY TRANSACTIONS

In July 2010, the Company issued a total of 10,000, 349,626, and 52,301 shares of its Series B Preferred to Julie Fields, Riverview Financial, and Robert Allen, respectively (collectively, the “Related Parties”), in consideration for the termination of certain notes issued to the Related Parties by the Company in the amounts set forth below (the “Series B Exchange”), which amounts represent principal (the “Related Party Notes”) due and payable under the Related Party Notes. Ms. Fields is the spouse of Randy Fields, the Chief Executive Officer of the Company. Riverview Financial Corp. is an entity controlled by Mr. Fields. Robert Allen is a director of the Company.

The Related Party Notes were originally issued in September 2008, in the case of the Related Party Notes issued to Mr. Allen and Riverview Financial Corp., and December 2008 in the case of the Related Party Note issued to Ms. Fields, and were issued principally to finance 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 consummated in January 2009. In addition, the Related Party Note issued to Riverview Financial Corp. partially reflected certain fees owed to Riverview by the Company in the amount of \$35,124 for guaranteeing amounts owed by the Company under a line of credit with the Bank, and \$5,263 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. The amounts under the Related Party Notes that were terminated in consideration for the issuance of the Series B Preferred, and the number of shares of Series B Preferred issued in connection with the Series B Exchange, is set forth below:

		Principal	Shares of Series B Preferred
Julie Fields	\$	100,000	10,000
Riverview Financial Corp.	\$	3,496,260	349,626
Robert Allen	\$	523,014	52,301
	\$	4,119,274	411,921

NOTE 18. RECENT ACCOUNTING PRONOUNCEMENTS

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 Company does not expect the adoption of ASU 2010-6 to 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.

NOTE 19. SUBSEQUENT EVENTS

The Company has performed an evaluation of subsequent events in accordance with SAC Topic 855. Other than the events discussed below, the Company is not aware of any subsequent events which would require recognition or

disclosure in the financial statements.

F-17

On July 1, 2011, the Company retired certain promissory notes in the principal amount of approximately \$1.5 million, which notes were originally issued in January 2009 to certain investors to partially finance the acquisition of Prescient (the "Prescient Notes"). The Prescient Notes had a maturity date of July 12, 2011, and required payment of interest at 12% per annum payable quarterly. In connection with the retirement of certain of the Prescient Notes, the Company extended the maturity date of the remaining issued and outstanding Prescient Notes, totaling \$249,703, from July 12, 2011 to January 12, 2012.

The retired Prescient Notes were paid from cash flow from operations and proceeds from the issuance of a new term note, dated June 28, 2011, in the principal amount of \$350,000 (the "Term Note") the Term Note bears interest at an annual rate of 3.95%. Principal and interest under the terms of the Term Note are payable in 35 installments of \$10,355 each beginning August 15, 2011 and on the same date on each consecutive month thereafter until maturity, or July 15, 2014.

On September 12, 2011, the Company entered into an Amendment to Loan Agreement and Note ("Second Amendment"), pursuant to which U.S. Bank National Association (the "Bank") has agreed to extend the maturity date of the Note. The Agreement permits borrowings of up to \$1.2 million, of which \$1.2 million was outstanding as of the date of the Second Amendment. Under the terms of the Second Amendment, the maturity date of the Note has been extended from September 30, 2011 to September 30, 2012 and the interest rate remained unchanged at 3.5% + LIBOR.