

PARK CITY GROUP INC  
Form 10-Q  
February 08, 2011

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

FORM 10-Q

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

For the quarterly period ended December 31, 2010.

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 000-03718

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

Nevada  
(State or other jurisdiction of incorporation or organization)

37-1454128  
(IRS Employer Identification No.)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

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

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common Stock, \$0.01 par value: 11,260,615 shares as of February 8, 2011.

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PARK CITY GROUP, INC.  
Consolidated Condensed Balance Sheets

| Assets                                                                                                      | December 31,<br>2010<br>(unaudited) | June 30, 2010       |
|-------------------------------------------------------------------------------------------------------------|-------------------------------------|---------------------|
| Current assets:                                                                                             |                                     |                     |
| Cash and cash equivalents                                                                                   | \$1,231,020                         | \$1,157,431         |
| Receivables, net of allowance of \$25,000 and \$72,000 at December 31, 2010 and June 30, 2010, respectively | 1,188,696                           | 1,031,020           |
| Unbilled receivables                                                                                        | 183,910                             | 417,926             |
| Prepaid expenses and other current assets                                                                   | 217,076                             | 181,434             |
| <b>Total current assets</b>                                                                                 | <b>2,820,702</b>                    | <b>2,787,811</b>    |
| Property and equipment, net                                                                                 | 444,342                             | 544,576             |
| Other assets:                                                                                               |                                     |                     |
| Deposits and other assets                                                                                   | 24,026                              | 23,287              |
| Customer relationships                                                                                      | 3,396,125                           | 3,607,283           |
| Goodwill                                                                                                    | 4,805,933                           | 4,805,933           |
| Capitalized software costs, net                                                                             | 438,496                             | 281,686             |
| <b>Total other assets</b>                                                                                   | <b>8,664,580</b>                    | <b>8,718,189</b>    |
| <b>Total assets</b>                                                                                         | <b>\$11,929,624</b>                 | <b>\$12,050,576</b> |
| Liabilities and Stockholders' Equity                                                                        |                                     |                     |
| Current liabilities:                                                                                        |                                     |                     |
| Accounts payable                                                                                            | \$308,840                           | \$574,847           |
| Accrued liabilities                                                                                         | 1,145,477                           | 1,286,218           |
| Deferred revenue                                                                                            | 1,461,029                           | 1,364,390           |
| Capital lease obligations                                                                                   | 132,728                             | 132,184             |
| Lines of credit                                                                                             | 600,000                             | 600,000             |
| Note payable                                                                                                | 2,290,889                           | 766,705             |
| <b>Total current liabilities</b>                                                                            | <b>5,938,963</b>                    | <b>4,724,344</b>    |
| Long-term liabilities:                                                                                      |                                     |                     |
| Notes payable, less current portion                                                                         | 1,098,975                           | 2,920,602           |
| Capital lease obligations, less current portion                                                             | 83,383                              | 148,749             |
| <b>Total liabilities</b>                                                                                    | <b>7,121,321</b>                    | <b>7,793,695</b>    |
| Commitments and contingencies                                                                               |                                     |                     |
| Stockholders' equity:                                                                                       |                                     |                     |

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|                                                                                                                                                                                              |               |               |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|
| Series A Convertible Preferred Stock, \$0.01 par value, 30,000,000 shares authorized; 664,019 and 648,396 shares issued and outstanding at December 31, 2010 and June 30, 2010, respectively | 6,640         | 6,484         |
| Series B Convertible Preferred Stock, \$0.01 par value, 30,000,000 shares authorized; 411,927 and 0 shares issued and outstanding at December 31, 2010 and June 30, 2010.                    | 4,119         | -             |
| Common stock, \$0.01 par value, 50,000,000 shares authorized; 11,195,896 and 10,884,364 shares issued and outstanding at December 31, 2010 and June 30, 2010, respectively                   | 111,959       | 108,844       |
| Additional paid-in capital                                                                                                                                                                   | 35,076,890    | 29,881,977    |
| Subscription payable for Series B Convertible Preferred Stock                                                                                                                                | -             | 4,119,273     |
| Accumulated deficit                                                                                                                                                                          | (30,391,305 ) | (29,859,697 ) |
| Total stockholders' equity                                                                                                                                                                   | 4,808,303     | 4,256,881     |
| Total liabilities and stockholders' equity                                                                                                                                                   | \$11,929,624  | \$12,050,576  |

See accompanying notes to consolidated condensed financial statements.

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PARK CITY GROUP, INC.  
Consolidated Condensed Statements of Operations (unaudited)

|                                                   | Three Months ended<br>December 31, |                     | Six Months ended<br>December 31, |                    |
|---------------------------------------------------|------------------------------------|---------------------|----------------------------------|--------------------|
|                                                   | 2010                               | 2009                | 2010                             | 2009               |
| <b>Revenues:</b>                                  |                                    |                     |                                  |                    |
| Subscription                                      | \$1,595,345                        | \$1,464,057         | \$3,144,892                      | \$2,871,192        |
| Maintenance                                       | 584,732                            | 654,229             | 1,152,951                        | 1,328,686          |
| Professional services and other revenue           | 262,213                            | 352,154             | 552,433                          | 758,953            |
| Software licenses                                 | 304,719                            | 28,680              | 462,719                          | 229,690            |
| <b>Total revenues</b>                             | <b>2,747,009</b>                   | <b>2,499,120</b>    | <b>5,312,995</b>                 | <b>5,188,521</b>   |
| <b>Operating expenses:</b>                        |                                    |                     |                                  |                    |
| Cost of services and product support              | 908,846                            | 973,787             | 1,800,401                        | 1,908,129          |
| Sales and marketing                               | 737,936                            | 517,559             | 1,357,534                        | 1,133,932          |
| General and administrative                        | 648,493                            | 698,433             | 1,712,815                        | 1,319,449          |
| Depreciation and amortization                     | 182,492                            | 203,514             | 376,606                          | 410,039            |
| <b>Total operating expenses</b>                   | <b>2,477,767</b>                   | <b>2,393,293</b>    | <b>5,247,356</b>                 | <b>4,771,549</b>   |
| <b>Income from operations</b>                     | <b>269,242</b>                     | <b>105,827</b>      | <b>65,639</b>                    | <b>416,972</b>     |
| <b>Other income (expense):</b>                    |                                    |                     |                                  |                    |
| Gain on refinance of note payable                 | -                                  | -                   | -                                | 43,811             |
| Other gains                                       | -                                  | -                   | -                                | 24,185             |
| Interest expense                                  | (84,687 )                          | (173,845 )          | (183,177 )                       | (384,592 )         |
| <b>Income (loss) before income taxes</b>          | <b>184,555</b>                     | <b>(68,018 )</b>    | <b>(117,538 )</b>                | <b>100,376</b>     |
| <b>(Provision) benefit for income taxes</b>       | <b>-</b>                           | <b>-</b>            | <b>-</b>                         | <b>-</b>           |
| <b>Net (loss) income</b>                          | <b>184,555</b>                     | <b>(68,018 )</b>    | <b>(117,538 )</b>                | <b>100,376</b>     |
| <b>Dividends on preferred stock</b>               | <b>(206,975 )</b>                  | <b>(82,739 )</b>    | <b>(414,070 )</b>                | <b>(164,230 )</b>  |
| <b>Net loss applicable to common shareholders</b> | <b>\$(22,420 )</b>                 | <b>\$(150,757 )</b> | <b>\$(531,608 )</b>              | <b>\$(63,854 )</b> |
| <b>Weighted average shares, basic</b>             | <b>11,138,000</b>                  | <b>10,660,000</b>   | <b>11,044,000</b>                | <b>10,630,000</b>  |
| <b>Weighted average shares, diluted</b>           | <b>11,138,000</b>                  | <b>10,660,000</b>   | <b>11,044,000</b>                | <b>10,630,000</b>  |
| <b>Basic and diluted loss per share</b>           | <b>\$(0.00 )</b>                   | <b>\$(0.01 )</b>    | <b>\$(0.05 )</b>                 | <b>\$(0.01 )</b>   |

See accompanying notes to consolidated condensed financial statements.

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

|                                                                                          | 2010        | 2009        |
|------------------------------------------------------------------------------------------|-------------|-------------|
| Cash Flows From Operating Activities:                                                    |             |             |
| Net income (loss)                                                                        | \$(117,538  | ) \$100,376 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |             |             |
| Depreciation and amortization                                                            | 376,606     | 410,039     |
| Bad debt expense                                                                         | 2,888       | 141,973     |
| Stock issued for services and expenses                                                   | 405,000     | 211,627     |
| Stock issued for litigation settlement                                                   | 375,000     | -           |
| Amortization of discounts on debt                                                        | -           | 1,589       |
| Gain on refinance of debt                                                                | -           | (43,811     |
| Decrease (increase) in:                                                                  |             |             |
| Trade receivables                                                                        | (160,564    | ) (242,459  |
| Unbilled receivables                                                                     | 234,016     | 57,328      |
| Prepays and other assets                                                                 | (36,381     | ) 1,587     |
| (Decrease) increase in:                                                                  |             |             |
| Accounts payable                                                                         | (266,007    | ) (24,844   |
| Accrued liabilities                                                                      | (269,003    | ) (434,887  |
| Deferred revenue                                                                         | 96,639      | 138,678     |
| Net cash provided by operating activities                                                | 640,656     | 317,196     |
| Cash Flows From Investing Activities:                                                    |             |             |
| Purchase of property and equipment                                                       | (24,973     | ) (33,484   |
| Capitalization of software costs                                                         | (197,051    | ) -         |
| Net cash used in investing activities                                                    | (222,024    | ) (33,484   |
| Cash Flows From Financing Activities:                                                    |             |             |
| Dividends paid                                                                           | (123,578    | ) -         |
| Net increase in lines of credit                                                          | -           | 400,000     |
| Proceeds from issuance of common stock                                                   | 140,800     | -           |
| Payments on notes payable and capital leases                                             | (362,265    | ) (333,237  |
| Net cash (used in) provided by financing activities                                      | (345,043    | ) 66,763    |
| Net increase in cash                                                                     | 73,589      | 350,475     |
| Cash and cash equivalents at beginning of period                                         | 1,157,431   | 656,279     |
| Cash and cash equivalents at end of period                                               | \$1,231,020 | \$1,006,754 |
| Supplemental Disclosure of Cash Flow Information:                                        |             |             |
| Cash paid for income taxes                                                               | \$-         | \$-         |
| Cash paid for interest                                                                   | \$144,564   | \$463,000   |

Supplemental Disclosure of Non-Cash Investing and Financing Activities:

|                                               |            |            |
|-----------------------------------------------|------------|------------|
| Dividends paid and accrued on preferred stock | \$ 166,915 | \$ 164,230 |
| Dividends paid with preferred stock           | \$ 162,230 | \$ 239,201 |

See accompanying notes to consolidated condensed financial statements.



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PARK CITY GROUP, INC.  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
(unaudited)

NOTE ORGANIZATION AND DESCRIPTION OF BUSINESS

1.

Park City Group, Inc. (the "Company") is incorporated in the state of Nevada. The Company's 98.76% and 100% owned subsidiaries, Park City Group, Inc. and Prescient Applied Intelligence, Inc. ("Prescient"), respectively, are incorporated in the state of Delaware. All intercompany transactions and balances have been eliminated in consolidation. The Company acquired Prescient in January 2009 when Prescient was merged with a wholly-owned subsidiary of the Company (the "Prescient Merger").

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

NOTE SIGNIFICANT ACCOUNTING POLICIES

2.

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements of the Company have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") on a basis consistent with the Company's audited annual financial statements and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial information set forth therein. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to SEC rules and regulations, although the Company believes that the following disclosures, when read in conjunction with the audited annual financial statements and the notes thereto included in the Company's most recent Annual Report on Form 10-K, are adequate to make the information presented not misleading. Operating results for the three and six months ended December 31, 2010 are not necessarily indicative of the operating results that may be expected for the fiscal year ending June 30, 2011.

Reclassification

Certain amounts in the 2009 financial statements have been reclassified to conform to the 2010 presentation.

Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2009-13, Multiple-Deliverable Revenue Arrangements, which amends FASB Accounting Standards Codification ("ASC") Topic 605, Revenue Recognition, and ASU 2009-14, Certain Arrangements That Include Software Elements, which amends FASB ASC Topic 985, Software. ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments

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

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

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

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

### Use of Estimates in the Preparation of Financial Statements

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

### Net Income and Income Per Common Share

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

For the three and six months ended December 31, 2010 and 2009 options and warrants to purchase 855,502 and 932,502 shares of common stock, respectively, were not included in the computation of diluted EPS due to the anti-dilutive effect. For three and six months ended December 31, 2010 and 2009, 3,217,904 and 2,191,763 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.

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NOTE LIQUIDITY

3.

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

As shown in the consolidated condensed financial statements, the Company experienced cash provided by operating activities in the amount \$640,656 and \$317,196 for the six months ended December 31, 2010 and 2009, respectively.

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

On May 5, 2010, the Company entered into a Term Loan Agreement ("Loan Agreement") with U.S. Bank N.A. ("Bank"), and issued a Term Note to the Bank in the principal amount of \$455,712, which Loan Agreement and Term Note replaces a Term Note in the principal amount of \$500,000 originally issued on September 30, 2009 ("Original Note"). The Term Note bears interest at an annual rate of 4.9%. Principal and accrued interest under the terms of the Term Note are payable in 52 installments of \$9,359 each beginning May 15, 2010 and on the same date on each consecutive month thereafter until maturity, or September 15, 2014. Under the terms of the Original Note, all unpaid principal and accrued interest remaining on the Original Note were required to be paid to the Bank on the maturity date, February 15, 2011. Amounts due under the terms of the Term Note are secured by certain assets of the Company pursuant to a Security Agreement, dated February 15, 2006.

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

At December 31, 2010, the Company had negative working capital of \$3,118,261 when compared with negative working capital of \$1,936,533 at June 30, 2010. This \$1,181,728 decrease in working capital is principally a result of the reclassification of certain notes payable from long-term liabilities to current liabilities, for amounts becoming due and payable during the next twelve months. These notes have a maturity date of July 12, 2011.

On September 21, 2010, the Company entered into a Multiple Advance Promissory Note with the Bank in the total aggregate amount of \$350,000. The Company may take advances on the Note. At the end of each annual period, for the next three periods, the advanced capital will be converted to a three year amortizing Term Note. Interest on the

advance prior to conversion is 4.5% plus the one month LIBOR rate. Interest on the three year amortizing Term Note is fixed over the term at 3.5% plus the three year Money Market rate.

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## NOTESTOCK-BASED COMPENSATION

4.

The Company has agreements with a number of employees to issue stock grants vesting over 3-10 year terms. The vested portions of these grants are to be paid on each anniversary of the grant dates. Total shares under these agreements vesting and payable annually to employees are 218,283. The stock grant agreements were dated effective between November 2, 2007 and November 15, 2010.

## NOTEOUTSTANDING STOCK OPTIONS

5.

The following tables summarize information about fixed stock options and warrants outstanding and exercisable at December 31, 2010:

| Range of exercise prices | Options and Warrants Outstanding at December 31, 2010 |                                                     |                                 | Options and Warrants Exercisable at December 31, 2010 |                                 |  |
|--------------------------|-------------------------------------------------------|-----------------------------------------------------|---------------------------------|-------------------------------------------------------|---------------------------------|--|
|                          | Number Outstanding at December 30, 2010               | Weighted average remaining contractual life (years) | Weighted average exercise price | Number Exercisable at September 30, 2010              | Weighted average exercise price |  |
| \$ 1.50 - 2.50           | 14,880                                                | 2.59                                                | \$1.76                          | 14,880                                                | \$1.76                          |  |
| \$ 1.80 - 4.00           | 840,622                                               | 0.83                                                | \$3.63                          | 840,622                                               | \$3.63                          |  |
|                          | 855,502                                               | 0.86                                                | \$3.60                          | 855,502                                               | \$3.60                          |  |

## NOTERELATED PARTY TRANSACTIONS

6.

Effective June 30, 2010, a number of related party promissory notes issued in connection with the Prescient Merger were converted to Series B Preferred. Due to the timing of the filing of the certificate of designation for the Series B Preferred, this conversion was recorded as a subscription payable at June 30, 2010, although the Series B Preferred were issued on July 30, 2010.

|                                       | Balance of 12% Notes Payable at Conversion | Subscription Payable at 6/30/2010 | Shares Issued in Satisfaction of Subscription Payable |
|---------------------------------------|--------------------------------------------|-----------------------------------|-------------------------------------------------------|
| Riverview Financial Corp <sup>1</sup> | \$ 3,496,259                               | \$ 3,496,259                      | 349,626                                               |
| Robert Allen <sup>2</sup>             | 523,014                                    | 523,014                           | 52,301                                                |
| Julie Fields <sup>3</sup>             | 100,000                                    | 100,000                           | 10,000                                                |
|                                       | \$ 4,119,273                               | \$ 4,119,273                      | 411,927                                               |

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

2 Mr. Allen is a director of the Company.

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





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## NOTEPROPERTY AND EQUIPMENT

7.

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

|                                                | December 31,<br>2010<br>(unaudited) | June 30, 2010 |
|------------------------------------------------|-------------------------------------|---------------|
| Computer equipment                             | \$1,664,272                         | \$1,641,669   |
| Furniture and fixtures                         | 314,823                             | 313,803       |
| Leasehold improvements                         | 141,043                             | 139,693       |
|                                                | 2,120,138                           | 2,095,165     |
| Less accumulated depreciation and amortization | (1,675,796 )                        | (1,550,589 )  |
|                                                | \$444,342                           | \$544,576     |

## NOTECAPITALIZED SOFTWARE COSTS

8.

Capitalized software costs consist of the following as of:

|                               | December<br>31, 2010<br>(unaudited) | June 30,<br>2010 |
|-------------------------------|-------------------------------------|------------------|
| Capitalized software costs    | \$579,339                           | \$2,246,077      |
| Less accumulated amortization | (140,843)                           | (1,964,391)      |
|                               | \$438,496                           | \$281,686        |

For current year presentation at December 31, 2010, costs capitalized and fully amortized have been removed.

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## NOTEACCRUED LIABILITIES

9.

Accrued liabilities consist of the following as of:

|                                                     | December 31,<br>2010<br>(unaudited) | June 30, 2010      |
|-----------------------------------------------------|-------------------------------------|--------------------|
| Accrued compensation                                | \$ 297,933                          | \$ 370,035         |
| Unclaimed consideration related to Prescient Merger | 263,714                             | 263,714            |
| Accrued stock grants                                | 223,237                             | 268,166            |
| Accrued dividends                                   | 212,015                             | 83,752             |
| Accrued interest                                    | 76,090                              | 39,532             |
| Other accrued liabilities                           | 57,488                              | 211,071            |
| Accrued board compensation                          | 15,000                              | 15,000             |
| Accrued legal fees                                  | -                                   | 34,948             |
|                                                     | <b>\$1,145,477</b>                  | <b>\$1,286,218</b> |

## NOTEINCOME TAXES

10.

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

Included in the balance at December 31, 2010 are nominal amounts of income tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred income tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective income tax rate but would accelerate the payment of cash to the income taxing authority to an earlier period.

The Company's policy is to recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the three and six months ended December 31, 2010 and 2009, the Company did not recognize any interest or penalties.

## N O T E SUBSEQUENT EVENTS

11.

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

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

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



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## Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward looking statements. The words or phrases "would be," "will allow," "intends to," "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," or similar expressions are intended to identify "forward-looking statements." Actual results could differ materially from those projected in the forward looking statements as a result of a number of risks and uncertainties, including those risks factors contained in our June 30, 2010 Annual Report on Form 10-K, incorporated herein by reference. Statements made herein are as of the date of the filing of this Form 10-Q with the Securities and Exchange Commission and should not be relied upon as of any subsequent date. Unless otherwise required by applicable law, we do not undertake, and specifically disclaim any obligation, to update any forward-looking statements to reflect occurrences, developments, unanticipated events or circumstances after the date of such statement.

## Overview

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

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

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

## Results of Operations

Comparison of the Three Months Ended December 31, 2010 to the Three Months Ended December 31, 2009.

## Revenues

|                                         | Fiscal Quarter Ended |             | Variance  |         |   |
|-----------------------------------------|----------------------|-------------|-----------|---------|---|
|                                         | 2010                 | 2009        | Dollars   | Percent |   |
| Subscription                            | \$1,595,345          | \$1,464,057 | \$131,288 | 8.97    | % |
| Maintenance                             | 584,732              | 654,229     | (69,497)  | -10.62  | % |
| Professional services and other revenue | 262,213              | 352,154     | (89,941)  | -25.54  | % |
| Software licenses                       | 304,719              | 28,680      | 276,039   | 962.48  | % |
| Total revenues                          | \$2,747,009          | \$2,499,120 | \$247,889 | 9.92    | % |

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Total revenues were \$2,747,009 and \$2,499,120 for the three months ended December 31, 2010 and 2009, respectively, a 9.92% increase. This \$247,889 increase in total revenues is principally due to an increase in subscription revenues of \$131,288 and software licenses revenue of \$276,039, offset by a \$69,497 decrease in maintenance revenue, and a \$89,941 decrease in professional services and other revenue.

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### Subscription Revenue

Subscription revenues were \$1,595,345 and \$1,464,057, for the three months ended December 31, 2010 and 2009 respectively, an increase of 8.97% in the three months ended December 31, 2010 when compared with the three months ended December 31, 2009. The increase is principally due to (i) the increase of subscription customers added to the Company's customer base which contributed approximately \$141,000 of new subscription revenue, (ii) a \$24,000 increase attributable to the growth of existing retailers, and (iii) an increase in supplier subscriptions of approximately \$46,000. The increase in subscription revenue was partially offset by a decrease of approximately \$102,000 resulting from the non-renewal of existing customers. The Company continues to focus its strategic initiatives on increasing the number of retailers, suppliers and manufacturers that use its software on a subscription basis, as well as contracting with suppliers ("spokes") to connect to our retail customers ("hubs") signed up in previous quarters, therefore leveraging our "hub and spoke" business model. The retailer provided list of named suppliers connection pipeline was 510 as of December 31, 2010. While management believes that marketing its suite of software solutions as a renewable and recurring subscription is an effective strategy, it cannot be assured that subscribers will renew the service at the same level in future years, propagate services to new categories, or recognize the need for expanding the service offering of the Company's suite of actionable products and services.

### Maintenance Revenue

Maintenance and support revenues were \$584,732 and \$654,229 for the three months ended December 31, 2010 and 2009, respectively, a decrease of 10.62% in the three months ended December 31, 2010 compared with the three months ended December 31, 2009. The net decrease of \$69,497 is principally due to (i) the non renewal of maintenance contracts resulting in a reduction of maintenance revenue of \$86,000. This decrease in revenue was partially offset by the addition of approximately \$6,000 in new maintenance revenue and approximately \$11,000 of net increases to existing customers. Large one-time license sales and associated maintenance is expected to continue to decline over time. The decrease in maintenance revenue is due to the Company's emphasis on subscription based sales. While management believes maintenance and support services are essential to its customers, due to macroeconomic conditions, business combinations, and the historical reliability of the Company's suite of products, from time to time, customers may not perceive the ongoing value of paying for maintenance when the frequency of maintenance activities needed by a customer becomes infrequent.

### Professional Services and Other Revenue

Professional services and other revenue were \$262,213 and \$352,154 for the three months ended December 31, 2010 and 2009, respectively, a decrease of 25.54%. The \$89,941 decrease in professional services revenue for the three months ended December 31, 2010 when compared to the three months ended December 31, 2009 is due to several large customer implementations that occurred during the prior year period. Management believes that professional services may experience periodic fluctuations as a result of (i) timing of implementations, (ii) scope of services to be provided, (iii), size of the retailer or supplier, or (iv) the Company's analytics offerings and change-management services becoming a natural addition to its software as a service (SaaS) product suite.

### Software Licenses Revenue

Software licenses revenues were \$304,719 and \$28,680 for the three months ended December 31, 2010 and 2009, respectively, an increase of 962.48%. While the Company continues its emphasis on the sale of subscription based services, the Company benefitted during the quarter ended December 31, 2010 from non-recurring license sales that contributed approximately \$276,000 in revenue during the quarter as compared to the prior year. Of this increase in license revenue, \$95,000 is from the sale to a new customer and the remaining \$181,000 increase is attributable to increases in license sales to existing customers. Management believes that it is difficult to predict and forecast future

software license sales. Large one-time license sales and associated maintenance is expected to continue to decline over time, notwithstanding the recognition of \$304,719 in non-recurring revenue during the most recent quarter. 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.

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## Cost of Services and Product Support

|                                      | Fiscal Quarter Ended<br>December 31, |           | Variance   |         |
|--------------------------------------|--------------------------------------|-----------|------------|---------|
|                                      | 2010                                 | 2009      | Dollars    | Percent |
| Cost of services and product support | \$908,846                            | \$973,787 | \$(64,941) | -6.67%  |
| Percent of total revenues            | 33                                   | % 39      | %          |         |

Cost of services and product support was \$908,846 and \$973,787 for the three months ended December 31, 2010 and 2009, respectively, a 6.67% decrease in the three months ended December 31, 2010 compared with the three months ended December 31, 2009. This decrease of \$64,941 for the quarter ended December 31, 2010 when compared with the same period ended December 31, 2009 is principally due to (i) a \$107,000 decrease related to software development costs capitalized in the three months ended December 2010 compared to the same period ended December 31, 2009, (ii) a decrease of \$18,000 from the reduced use of contractors and outside consulting support or the conversion of contractor to employee status, and (iii) a \$22,000 decrease in travel related expenses. These decreases were partially offset by (i) an \$38,000 comparative increase resulting from increase in hardware and software maintenance and support contracts and (ii) approximately \$45,000 increase in stock-based compensation.

## Sales and Marketing Expense

|                           | Fiscal Quarter Ended<br>December 31, |           | Variance  |         |
|---------------------------|--------------------------------------|-----------|-----------|---------|
|                           | 2010                                 | 2009      | Dollars   | Percent |
| Sales and marketing       | \$737,936                            | \$517,559 | \$220,377 | 42.58%  |
| Percent of total revenues | 27                                   | % 21      | %         |         |

Sales and marketing expenses were \$737,936 and \$517,559 for the three months ended December 31, 2010 and 2009, respectively, a 42.58% increase. This \$220,377 increase over the comparable quarter was primarily the result of (i) an increase of approximately \$66,000 in payroll and related expenses associated with two additional sales staff hired during the quarter ended December 31, 2010 in anticipation of future revenue growth attributable to supplier subscriptions; (ii) an increase in bonuses, stipends, and commission expenses of \$96,000; (iii) an increase of approximately \$9,000 in travel and related expenditures; (iv) an increase of approximately \$31,000 in advertising, marketing and tradeshow related expenses; and (iv) a \$16,000 increase in contractor and recruiting expenses.

## General and Administrative Expense

|                            | Fiscal Quarter Ended<br>December 31, |           | Variance   |         |
|----------------------------|--------------------------------------|-----------|------------|---------|
|                            | 2010                                 | 2009      | Dollars    | Percent |
| General and administrative | \$648,493                            | \$698,433 | \$(49,940) | -7.15%  |
| Percent of total revenues  | 24                                   | % 28      | %          |         |

General and administrative expenses were \$648,493 and \$698,433 for the three months ended December 31, 2010 and 2009, respectively, a 7.15% decrease in the three months ended December 31, 2010 compared with the three months ended December 31, 2009. This \$49,940 decrease when comparing expenditures for the quarter ended December 31, 2010 with the same period ended December 31, 2009 is principally due to (i) a \$40,000 decrease in rent expense and related facility costs due to the closure and non renewal of leases of office facilities related to the Prescient Merger, (ii) a decrease of \$12,000 in travel related expenses, (iii) a \$94,000 decrease in bad debt expense, and (iv) a \$20,000 decrease in legal expenses. These decreases are offset by (i) an approximate \$49,000 increase in stock-based compensation expense of certain employees and board members that are based on multi-year vesting schedules, (ii) a \$38,000 increase in salary, employee benefits and insurance, (iii) and \$7,000 increase in telephone



and network services due to vendor credits for early termination in the prior year, and (iv) an increase of \$22,000 in accounting and related professional fees.

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## Depreciation and Amortization Expense

|                               | Fiscal Quarter Ended<br>December 31, |           | Variance    |          |
|-------------------------------|--------------------------------------|-----------|-------------|----------|
|                               | 2010                                 | 2009      | Dollars     | Percent  |
| Depreciation and amortization | \$182,492                            | \$203,514 | \$(21,022 ) | -10.33 % |
| Percent of total revenues     | 7                                    | % 8       | %           |          |

Depreciation and amortization expenses were \$182,492 and \$203,514 for the three months ended December 31, 2010 and 2009, respectively, a decrease of 10.33% in the three months ended December 31, 2010 compared with the three months ended December 31, 2009. This decrease of \$21,022 for the quarter ended December 31, 2010 when compared to the quarter ended December 31, 2009 is due to a decrease in amortization expense as a result of the full amortization of the ScoreTracker platform, which is included in capitalized software costs, in fiscal year 2010.

## Other Income and Expense

|                           | Fiscal Quarter Ended<br>December 31, |              | Variance    |          |
|---------------------------|--------------------------------------|--------------|-------------|----------|
|                           | 2010                                 | 2009         | Dollars     | Percent  |
| Interest expense          | \$(84,687 )                          | \$(173,845 ) | \$(89,158 ) | -51.29 % |
| Percent of total revenues | 3                                    | % 7          | %           |          |

Net interest expense was \$84,687 and \$173,845 for the three months ended December 31, 2010 and 2009, respectively. This \$89,158 decrease is principally due to a decrease in interest expense resulting from the conversion of certain notes payable to subscription payable for Series B Preferred on June 30, 2010.

## Preferred Dividends

|                           | Fiscal Quarter Ended<br>December 31, |          | Variance  |          |
|---------------------------|--------------------------------------|----------|-----------|----------|
|                           | 2010                                 | 2009     | Dollars   | Percent  |
| Preferred dividends       | \$206,975                            | \$82,739 | \$124,236 | 150.15 % |
| Percent of total revenues | 8                                    | % 3      | %         |          |

Dividends accrued on the Company's Series A Preferred and Series B Preferred was \$206,975 and \$82,739 for the three months ended December 31, 2010 and 2009, respectively. The \$124,236 increase in accrued dividends is principally the result of the conversion of certain notes payable into Series B Preferred in July 2010, which resulted in the accrual of \$123,578 in dividends in the quarter ended December 31, 2010. Holders of Series A Preferred are entitled to a 5.00% annual dividend payable quarterly in either cash or additional Series A Preferred at the option of the Company with fractional shares paid in cash.

Dividends accrued on the Series B Preferred were \$123,578 for the three months ended December 31, 2010. Holders of Series B Preferred are entitled to a 12.00% annual dividend payable quarterly in cash.

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Comparison of the Six Months Ended December 31, 2010 to the Six Months Ended December 31, 2009.

## Revenues

|                                         | Six Months Ended December |             | Variance   |         |   |
|-----------------------------------------|---------------------------|-------------|------------|---------|---|
|                                         | 2010                      | 2009        | Dollars    | Percent |   |
| Subscription                            | \$3,144,892               | \$2,871,192 | \$273,700  | 9.53    | % |
| Maintenance                             | 1,152,951                 | 1,328,686   | (175,735 ) | -13.23  | % |
| Professional services and other revenue | 552,433                   | 758,953     | (206,520 ) | -27.21  | % |
| Software licenses                       | 462,719                   | 229,690     | 233,029    | 101.45  | % |
| Total revenues                          | \$5,312,995               | \$5,188,521 | \$124,474  | 2.40    | % |

Total revenues were \$5,312,995 and \$5,188,521 for the six months ended December 31, 2010 and 2009, respectively, a 2.40% increase. This \$124,474 increase in total revenues is principally due to an increase in subscription revenues of \$273,700 software licenses revenues of \$233,029, offset by a \$175,735 decrease in maintenance revenue, and an \$206,520 decrease in professional services and other revenue.

## Subscription Revenue

Subscription revenues were \$3,144,892 and \$2,871,192, for the six months ended December 31, 2010 and 2009 respectively, an increase of 9.53% in the six months ended December 31, 2010 when compared with the six months ended December 31, 2009. The increase is principally due to (i) the net increase of subscription customers added to the Company's customer base which contributed approximately \$237,000 of new subscription revenue, (ii) a \$70,000 increase attributable to the growth of existing retailers, and (iii) an increase in supplier subscriptions of approximately \$135,000. The increase in subscription revenue was partially offset by a decrease of approximately \$171,000 resulting from the non-renewal of existing customers. The Company continues to focus its strategic initiatives on increasing the number of retailers, suppliers and manufacturers that use its software on a subscription basis, as well as contracting with suppliers ("spokes") to connect to our retail customers ("hubs") signed up in previous quarters, therefore leveraging our "hub and spoke" business model. The retailer provided list of named suppliers connection pipeline was 510 as of December 31, 2010. While management believes that marketing its suite of software solutions as a renewable and recurring subscription is an effective strategy, it cannot be assured that subscribers will renew the service at the same level in future years, propagate services to new categories, or recognize the need for expanding the service offering of the Company's suite of actionable products and services.

## Maintenance Revenue

Maintenance and support revenues were \$1,152,951 and \$1,328,686 for the six months ended December 31, 2010 and 2009, respectively, a decrease of 13.23% in the six months ended December 31, 2010 compared with the six months ended December 31, 2009. The net decrease of \$175,735 is principally due to (i) the non renewal of maintenance contracts resulting in a reduction of maintenance revenue of \$179,000 and (ii) a \$6,000 the reduction in scope of maintenance, partially offset by \$9,000 in new maintenance contracts. Large one-time license sales and associated maintenance is expected to continue to decline over time. The decrease in maintenance revenue is due to the Company's emphasis on subscription based sales. While management believes maintenance and support services are essential to its customers, due to macroeconomic conditions, business combinations, and the historical reliability of the Company's suite of products, from time to time, customers may not perceive the ongoing value of paying for maintenance when the frequency of maintenance activities needed by a customer becomes infrequent.



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## Professional Services and Other Revenue

Professional services and other revenue were \$552,433 and \$758,953 for the six months ended December 31, 2010 and 2009, respectively, a decrease of 27.21%. The \$206,520 decrease in professional services revenue for the six months ended December 31, 2010 when compared to the six months ended December 31, 2009 is due to several large customer implementations that occurred during the prior year period. Management believes that professional services may experience periodic fluctuations as a result of (i) timing of implementations, (ii) scope of services to be provided, (iii) size of the retailer or supplier, or (iv) the Company's analytics offerings and change-management services becoming a natural addition to its software as a service (SaaS) product suite.

## Software Licenses Revenue

Software licenses revenues were \$462,719 and \$229,690 for the six months ended December 31, 2010 and 2009, respectively, an increase of 101.45%. While the Company continues its emphasis on the sale of subscription based services, the Company benefitted during the six months ended December 31, 2010 from non-recurring license sales that contributed an approximate \$233,000 increase in revenue during the six months ended December 31, 2010. Management believes that it is difficult to predict and forecast future software license sales. Large one-time license sales and associated maintenance is expected to continue to decline over time, notwithstanding the recognition of \$462,719 in non-recurring revenue during the six months ended December 31, 2010. The decrease in license revenue is due to the Company's emphasis on subscription based sales. The Company has not eliminated the sale of its suite of products on a license basis and from time to time it will sell additional licenses to new or existing customers; however, it is difficult to ascertain the timing or the amount of the license.

## Cost of Services and Product Support

|                                      | Six Months Ended<br>December 31, |              | Variance     |         |
|--------------------------------------|----------------------------------|--------------|--------------|---------|
|                                      | 2010                             | 2009         | Dollars      | Percent |
| Cost of services and product support | \$ 1,800,401                     | \$ 1,908,129 | \$(107,728 ) | -5.65 % |
| Percent of total revenues            | 34                               | % 37         | %            |         |

Cost of services and product support was \$1,800,401 and \$1,908,129 for the six months ended December 31, 2010 and 2009, respectively, a 5.65% decrease in the six months ended December 31, 2010 compared with the six months ended December 31, 2009. This decrease of \$107,728 for the six months ended December 31, 2010 when compared with the same period ended December 31, 2009 is principally due to (i) a \$192,000 decrease related to software development costs capitalized, (ii) a decrease of \$17,000 in computer equipment rental and computer maintenance and support, and (iii) a decrease of \$60,000 from the reduced use of contractors and outside consulting support and the conversion of certain contractors to employee status. These decreases were partially offset by (i) an \$82,000 comparative increase resulting from prior year negotiated vendor credits upon closure of a data center and (ii) an approximate increase of \$83,000 in stock-based compensation.

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## Sales and Marketing Expense

|                           | Six Months Ended<br>December 31, |              | Variance   |         |
|---------------------------|----------------------------------|--------------|------------|---------|
|                           | 2010                             | 2009         | Dollars    | Percent |
| Sales and marketing       | \$ 1,357,534                     | \$ 1,133,932 | \$ 223,602 | 19.72 % |
| Percent of total revenues | 26                               | % 22         | %          |         |

Sales and marketing expenses were \$1,357,534 and \$1,133,932 for the six months ended December 31, 2010 and 2009, respectively, a 19.72% increase. This \$223,602 increase over the six months ended December 31, 2009 was primarily the result of (i) an increase of approximately \$95,000 in commission expenses, (ii) an increase of approximately \$55,000 in travel and related expenditures, (iii) a \$52,000 increase in advertising, marketing and tradeshow expenses, (iv) a \$72,000 increase in contractor expenses, and (v) a \$6,000 increase in employee benefit expenses. These increases are offset by a decrease of approximately \$58,000 in recruiting expenses.

## General and Administrative Expense

|                            | Six Months Ended<br>December 31, |              | Variance   |         |
|----------------------------|----------------------------------|--------------|------------|---------|
|                            | 2010                             | 2009         | Dollars    | Percent |
| General and administrative | \$ 1,712,815                     | \$ 1,319,449 | \$ 393,366 | 29.81 % |
| Percent of total revenues  | 32                               | % 25         | %          |         |

General and administrative expenses were \$1,712,815 and \$1,319,449 for the six months ended December 31, 2010 and 2009, respectively, a 29.81% increase in the six months ended December 31, 2010 compared with the six months ended December 31, 2009. This \$393,366 increase when comparing expenditures for the six months ended December 31, 2010 with the same period ended December 31, 2009 is principally due to (i) a \$95,000 increase in stock-based compensation expense of certain employees and board members that are based on multi-year vesting schedules, (ii) a \$65,000 increase in salary, employee benefits and insurance, and (iii) The settlement of a lawsuit through the combination of cash and equity, and (iv) a \$22,000 increase in estimated state income tax payments. These increases were partially offset by (i) a \$139,000 decrease in bad debt expense, (ii) a \$89,000 decrease in rent expense related to the closure and non renewal of lease contracts for office facilities related to the Prescient Merger.

## Depreciation and Amortization Expense

|                               | Six Months Ended<br>December 31, |            | Variance   |         |
|-------------------------------|----------------------------------|------------|------------|---------|
|                               | 2010                             | 2009       | Dollars    | Percent |
| Depreciation and amortization | \$ 376,606                       | \$ 410,039 | \$(33,433) | -8.15 % |
| Percent of total revenues     | 7                                | % 8        | %          |         |

Depreciation and amortization expenses were \$376,606 and \$410,039 for the six months ended December 31, 2010 and 2009, respectively, a decrease of 8.15% in the six months ended December 31, 2010 compared with the six months ended December 31, 2009. This decrease of \$33,433 for the six months ended December 31, 2010 when compared to the six months ended December 31, 2009 is due to a decrease in amortization expense as a result of the full amortization of the ScoreTracker platform, which is included in capitalized software costs, in fiscal year 2010.

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## Other Income and Expense

|                                   | Six Months Ended |              | Variance     |           |
|-----------------------------------|------------------|--------------|--------------|-----------|
|                                   | December 31,     |              | Dollars      | Percent   |
|                                   | 2010             | 2009         |              |           |
| Gain on refinance of note payable | \$-              | \$43,811     | \$(43,811 )  | -100.00 % |
| Other gains                       | -                | 24,185       | (24,185 )    | -100.00 % |
| Interest expense                  | (183,177 )       | (384,592 )   | (201,415 )   | -52.37 %  |
| Total other income and expense    | \$(183,177 )     | \$(316,596 ) | \$(133,419 ) | -42.14 %  |
| Percent of total revenues         | 2010             | 2009         |              |           |
| Gain on refinance of note payable | 0.00             | % 0.84       | %            |           |
| Other gains                       | 0.00             | % 0.00       | %            |           |
| Interest expense                  | 3.45             | % 7.41       | %            |           |

Net interest expense was \$183,177 and \$384,592 for the six months ended December 31, 2010 and 2009, respectively. This \$201,394 decrease is principally due to a decrease in interest expense resulting from the conversion of certain notes payable to subscription payable for Series B Preferred on June 30, 2010. There were no gains on refinance of note payable or other gains during the six months ended December 31, 2010.

## Preferred Dividends

|                           | Six Months Ended |           | Variance  |          |
|---------------------------|------------------|-----------|-----------|----------|
|                           | December 31,     |           | Dollars   | Percent  |
|                           | 2010             | 2009      |           |          |
| Preferred dividends       | \$414,070        | \$164,230 | \$249,840 | 152.13 % |
| Percent of total revenues | 8                | % 3       | %         |          |

Dividends paid and accrued on the Company's Series A Preferred and Series B Preferred were \$414,070 and \$164,230 for the six months ended December 31, 2010 and 2009, respectively. This \$249,840 increase in accrued dividends is principally the result of the conversion of certain notes payable into Series B Preferred in July 2010, which resulted in \$247,000 in dividends in the period ended December 31, 2010. Holders of the Series A Preferred are entitled to a 5.00% annual dividend payable quarterly in either cash or additional Series A Preferred at the option of the Company with fractional shares paid in cash.

Dividends accrued on the Series B Preferred were \$247,156 for the six months ended December 31, 2010. 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, will be sufficient to fund operating and investment requirements for at least the next twelve months, in addition to our debt service requirements. Our future capital requirements will depend on many factors, including our rate of revenue growth and expansion of our sales and marketing activities, the timing and extent of spending required for research and development efforts, and the continuing market acceptance of our products. Although the Company anticipates that available cash resources will be sufficient to meet its working capital and debt service requirements, no assurances can be given. To the extent that available funds are insufficient to fund our future activities, or satisfy our short-term debt service requirements, we may need to raise additional funds through public or private equity or debt financings, or refinance or restructure such debt. Additional equity or debt financing may not be available on terms favorable to us, in a timely fashion or at all.





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We have historically funded our operations with cash from operating activities, equity financings and debt borrowings. As set forth below, cash and cash equivalents was \$1,231,020 and \$1,006,754 at December 31, 2010, and December 31, 2009, respectively. This increase from December 31, 2009 to December 31, 2010 was the result of increased collections from existing customers, and expansion of customer base.

|                           | As of December 31, |              | Variance   |         |   |
|---------------------------|--------------------|--------------|------------|---------|---|
|                           | 2010               | 2009         | Dollars    | Percent |   |
| Cash and Cash Equivalents | \$ 1,231,020       | \$ 1,006,754 | \$ 224,266 | 22.28   | % |

## Net Cash Flows from Operating Activities

|                                       | Six Months Ended December 31, |            | Variance   |         |   |
|---------------------------------------|-------------------------------|------------|------------|---------|---|
|                                       | 2010                          | 2009       | Dollars    | Percent |   |
| Cash provided by operating activities | \$ 640,656                    | \$ 317,196 | \$ 323,460 | 101.97  | % |

Net cash provided by operating activities for the six months ended December 31, 2010 was \$640,656 compared to net cash provided by operating activities of \$317,196 for the six months ended December 31, 2009. The \$323,460 increase in net cash flows provided by operating activities for the six months ended December 31, 2010 when compared to the six months ended December 31, 2009 was primarily the result of a \$375,000 in stock issued for litigation settlement, as well as an increase of \$193,000 stock issued for services and expenses. In addition there was an decrease of (i) \$82,000 in trade receivables, (ii) \$177,000 in unbilled receivables, and (iii) a \$166,000 decrease in accrued liabilities. These increases were offset by a (i) \$218,000 decrease in net income, (ii) a \$33,000 decrease in depreciation and amortization, (iii) a \$139,000 decrease in bad debt expense, (iv) a 38,000 increase in prepaids and other assets, (v) a \$241,000 increase in accounts payable, and (vi) a \$42,000 decrease in deferred revenue.

## Net Cash Flows from Investing Activities

|                                   | Six Months Ended December 31, |            | Variance    |         |   |
|-----------------------------------|-------------------------------|------------|-------------|---------|---|
|                                   | 2010                          | 2009       | Dollars     | Percent |   |
| Cash used in investing activities | \$(222,024)                   | \$(33,484) | \$(188,540) | 563.07  | % |

Net cash flows used in investing activities for the six months ended December 31, 2010 was \$222,024 compared to net cash flows used in investing activities of \$33,484 for the six months ended December 31, 2009. This \$188,540 increase in cash used in investing activities for the six months ended December 31, 2010 when compared to the same period in 2009 was the result of \$197,000 of software development costs capitalized, partially offset by a \$9,000 decrease in purchases of property and equipment.

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## Net Cash Flows from Financing Activities

|                                                 | Six Months Ended December |             | Variance    |           |   |
|-------------------------------------------------|---------------------------|-------------|-------------|-----------|---|
|                                                 | 2010                      | 31,<br>2009 | Dollars     | Percent   |   |
| Cash (used in) provided by financing activities | \$ (345,043               | ) \$ 66,763 | \$ (411,806 | ) -616.82 | % |

Net cash used in financing activities totaled \$345,043 for the six months ended December 31, 2010 when compared to cash flows provided by financing activities of \$66,763 for the six months ended December 31, 2009. The change in net cash (used in) provided by financing activities is attributable to a \$400,000 increase in lines of credit that occurred during the six months ended December 31, 2009 with no corresponding amount in the period ended December 31, 2010, the payment of \$123,578 of dividends on the Series B Preferred and an increase in principal payment on notes payable and capital leases of \$29,000, partially offset by \$141,000 in proceeds from the issuance of common stock that occurred in the six months ended December 31, 2010.

## Working Capital

At December 31, 2010, the Company had negative working capital of \$3,118,261 when compared with negative working capital of \$1,936,533 at June 30, 2010. This \$1,181,728 decrease in working capital is principally a result of the reclassification of certain notes payable from long-term liabilities to current liabilities, for amounts becoming due and payable during the next twelve months. These notes have a maturity date of July 12, 2011.

|                | As of                |                        | Variance  |         |   |
|----------------|----------------------|------------------------|-----------|---------|---|
|                | December 31,<br>2010 | As of June 30,<br>2010 | Dollars   | Percent |   |
| Current assets | \$ 2,820,702         | \$ 2,787,811           | \$ 32,891 | 1.18    | % |

Current assets as of December 31, 2010 totaled \$2,820,702, an increase of \$32,891 when compared to \$2,787,811 as of June 30, 2010. This 1.18% increase in current assets is due primarily to increases of (i) \$74,000 in cash and cash equivalents, (ii) \$158,000 in receivables, and (iii) \$36,000 in prepaid expenses and other current assets, partially offset by a \$234,000 decrease in unbilled receivables.

|                     | As of                |                        | Variance     |         |   |
|---------------------|----------------------|------------------------|--------------|---------|---|
|                     | December 31,<br>2010 | As of June 30,<br>2010 | Dollars      | Percent |   |
| Current liabilities | \$ 5,938,963         | \$ 4,724,344           | \$ 1,214,619 | 25.71   | % |

Current liabilities totaled \$5,938,963 as of December 31, 2010 as compared to \$4,724,344 as of June 30, 2010. The \$1,214,619 comparative increase in current liabilities is principally due to the reclassification of certain notes payable from long-term liabilities to current liabilities, for amounts becoming due and payable during the next twelve months. These notes have a maturity date of July 12, 2011.

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

should the Company's working capital operations and other financing be insufficient to meet spending and debt service requirements.

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### Off-Balance Sheet Arrangements

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

### Recent Accounting Pronouncements

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

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

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

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

### Critical Accounting Policies

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



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

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

### Deferred Income Taxes and Valuation Allowance

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

### Revenue Recognition

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

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

Set up fees paid by customers in connection with subscription services are deferred and recognized ratably over the longer of the life of the application agreement or the expected lives of customer relationships. We continue to evaluate the length of the amortization period of the set up fees as we gain more experience with customer contract renewals.

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

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

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

## Stock-Based Compensation

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

## Capitalization of Software Development Costs

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

## Goodwill and Long-lived Assets

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

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Our exposure to risk for changes in interest rates relates primarily to our investments in short-term financial instruments. Investments in both fixed rate and floating rate interest earning instruments carry some interest rate risk. The fair value of fixed rate securities may fall due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Partly as a result of this, our future interest income may fall



short of expectations due to changes in interest rates or we may suffer losses in principal if we are forced to sell securities that have fallen in estimated fair value due to changes in interest rates. However, as substantially all of our cash equivalents consist of bank deposits and short-term money market instruments, we do not expect any material change with respect to our net income as a result of an interest rate change.

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Our exposure to interest rate changes related to borrowing has been limited by the use of fixed rate borrowings on the majority of our outstanding debt, and we believe the effect, if any, or reasonably possible near-term changes in interest rates on our financial position, results of operations and cash flows should not be material. At December 31, 2010, the debt portfolio was composed of approximately 15% variable-rate debt and 85% fixed-rate debt.

|                    | December 31,<br>2010<br>(unaudited) | Percent of<br>total debt |   |
|--------------------|-------------------------------------|--------------------------|---|
| Fixed rate debt    | \$3,389,684                         | 84.96                    | % |
| Variable rate debt | 600,000                             | 15.04                    | % |
| Total debt         | \$3,989,684                         | 100.00                   | % |

The table that follows presents fair values of principal amounts and weighted average interest rates for our investment portfolio as of December 31, 2010:

|                                 | Aggregate<br>Fair Value | Weighted<br>Average<br>Interest Rate |
|---------------------------------|-------------------------|--------------------------------------|
| Cash and Cash Equivalents:      |                         |                                      |
| Cash                            | \$ 1,231,020            | .06 %                                |
| Money market funds              | -                       |                                      |
| Certificates of deposit         | -                       |                                      |
| Total cash and cash equivalents | \$ 1,231,020            |                                      |

#### ITEM 4. CONTROLS AND PROCEDURES

##### (a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our Management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operations of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of December 31, 2010. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports submitted under the Securities and Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, including to ensure that information required to be disclosed by the Company is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

##### (b) Changes in internal controls over financial reporting.

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



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PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM RISK FACTORS

1A.

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

ITEM UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

2.

None

ITEM DEFAULTS UPON SENIOR SECURITIES

3.

None

ITEM OTHER INFORMATION

5.

None

ITEM EXHIBITS

6.

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

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

Exhibit 32.1 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

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

Date: February 8, 2011

PARK CITY GROUP, INC

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

Date: February 8, 2011

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