

PARK CITY GROUP INC
Form 10-Q
November 09, 2010

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 September 30, 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 | <input type="radio"/> | Accelerated filer | <input type="radio"/> |
| Non-accelerated filer | <input type="radio"/> | Smaller reporting company | <input checked="" type="radio"/> |

(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: 11,124,595 shares as of November 8, 2010.

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

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PARK CITY GROUP, INC.
Consolidated Condensed Balance Sheets

| | September 30, 2010 (unaudited) | June 30, 2010 |
|--|--------------------------------------|------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 771,112 | \$ 1,157,431 |
| Receivables, net of allowance of \$58,313 and \$72,000 at September 30, 2010 and June 30, 2010, respectively | 1,379,086 | 1,031,020 |
| Unbilled receivables | 130,071 | 417,926 |
| Prepaid expenses and other current assets | 218,924 | 181,434 |
| Total current assets | 2,499,193 | 2,787,811 |
| Property and equipment, net | 492,824 | 544,576 |
| Other assets: | | |
| Deposits and other assets | 23,287 | 23,287 |
| Customer relationships | 3,501,704 | 3,607,283 |
| Goodwill | 4,805,933 | 4,805,933 |
| Capitalized software costs, net | 350,994 | 281,686 |
| Total other assets | 8,681,918 | 8,718,189 |
| Total assets | \$ 11,673,935 | \$ 12,050,576 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 613,285 | \$ 574,847 |
| Accrued liabilities | 955,196 | 1,286,218 |
| Deferred revenue | 1,321,490 | 1,364,390 |
| Capital lease obligations | 134,756 | 132,184 |
| Lines of credit | 600,000 | 600,000 |
| Note payable | 2,285,065 | 766,705 |
| Total current liabilities | 5,909,792 | 4,724,344 |
| Long-term liabilities: | | |
| Notes payable, less current portion | 1,234,202 | 2,920,602 |
| Capital lease obligations, less current portion | 114,076 | 148,749 |
| Total liabilities | 7,258,070 | 7,793,695 |
| Commitments and contingencies | | |
| Stockholders' equity | | |

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| | | |
|---|---------------|---------------|
| Series A Convertible Preferred Stock, \$0.01 par value, 30,000,000 shares authorized; 656,426 and 648,396 shares issued and outstanding at September 30, 2010 and June 30, 2010, respectively | 6,564 | 6,484 |
| Series B Convertible Preferred Stock, \$0.01 par value, 30,000,000 shares authorized; 411,927 shares issued and outstanding at September 30, 2010 | 4,119 | - |
| Common stock, \$0.01 par value, 50,000,000 shares authorized; 11,072,626 and 10,884,364 shares issued and outstanding at September 30, 2010 and June 30, 2010, respectively | 110,726 | 108,844 |
| Additional paid-in capital | 34,663,342 | 29,881,977 |
| Subscription payable for Series B Convertible Preferred Stock | - | 4,119,273 |
| Accumulated deficit | (30,368,886) | (29,859,697) |
| Total stockholders' equity | 4,415,865 | 4,256,881 |
| Total liabilities and stockholders' equity | \$ 11,673,935 | \$ 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)
For the Three Months Ended September 30, 2010 and 2009

| | 2010 | 2009 |
|---|--------------|-------------|
| Revenues: | | |
| Subscriptions | \$1,549,547 | \$1,421,230 |
| Maintenance | 568,219 | 674,457 |
| Professional services and other revenue | 290,220 | 392,704 |
| Software licenses | 158,000 | 201,010 |
| Total revenues | 2,565,986 | 2,689,401 |
| Operating expenses: | | |
| Cost of services and product support | 891,555 | 904,250 |
| Sales and marketing | 619,598 | 616,373 |
| General and administrative | 1,064,322 | 651,108 |
| Depreciation and amortization | 194,113 | 206,525 |
| Total operating expenses | 2,769,588 | 2,378,256 |
| Income (loss) from operations | (203,602) | 311,145 |
| Other income (expense): | | |
| Gain on refinance of note payable | - | 43,811 |
| Other gains | - | 24,185 |
| Interest expense | (98,491) | (210,747) |
| Total other income (expense) | (98,491) | (142,751) |
| Income (loss) before income taxes | (302,093) | 168,394 |
| (Provision) benefit for income taxes | - | - |
| Net income (loss) | (302,093) | 168,394 |
| Dividends on preferred stock | (207,096) | (81,491) |
| Net income (loss) applicable to common shareholders | \$(509,189) | \$86,903 |
| Weighted average shares, basic | 10,950,000 | 10,600,000 |
| Weighted average shares, diluted | 10,950,000 | 10,602,000 |
| Basic and diluted income (loss) per share | \$(0.05) | \$0.01 |

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 Three Months Ended September 30,

| | 2010 | 2009 |
|--|--------------|------------|
| Cash Flows From Operating Activities: | | |
| Net income (loss) | \$(302,093) | \$ 168,394 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 194,113 | 206,525 |
| Bad debt expense | - | 44,973 |
| Stock issued for services and expenses | 587,873 | 76,461 |
| Amortization of discounts on debt | - | 1,589 |
| Gain on refinance of debt | - | (43,811) |
| Loss on disposal of assets | - | 520 |
| Decrease (increase) in: | | |
| Trade receivables | (348,066) | 93,288 |
| Unbilled receivables | 287,855 | (89,401) |
| Prepays and other assets | (37,490) | (29,556) |
| (Decrease) increase in: | | |
| Accounts payable | 38,438 | (3,404) |
| Accrued liabilities | (334,240) | (313,757) |
| Deferred revenue | (42,900) | (102,850) |
| Net cash (used in) provided by operating activities | 43,490 | 8,971 |
| Cash Flows From Investing Activities: | | |
| Purchase of property and equipment | (16,662) | (10,797) |
| Capitalization of software costs | (89,428) | - |
| Net cash used in investing activities | (106,090) | (10,797) |
| Cash Flows From Financing Activities: | | |
| Dividends paid | (123,578) | - |
| Payments on notes payable and capital leases | (200,141) | (110,938) |
| Net cash used in financing activities | (323,719) | (110,938) |
| Net decrease in cash | (386,319) | (112,764) |
| Cash and cash equivalents at beginning of period | 1,157,431 | 656,279 |
| Cash and cash equivalents at end of period | \$771,112 | \$ 543,515 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid for income taxes | \$- | \$ - |
| Cash paid for interest | \$112,948 | \$ 294,769 |
| Supplemental Disclosure of Non-Cash Investing and Financing Activities: | | |

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| | | | |
|--------------------------------------|----------|----|---------|
| Dividends accrued on preferred stock | \$83,518 | \$ | 81,491 |
| Dividends paid with preferred stock | \$80,300 | \$ | 157,710 |

See accompanying notes to consolidated condensed financial statements.

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

NOTE 1. ORGANIZATION AND DESCRIPTION OF BUSINESS

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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 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.

Use of Estimates in the Preparation of Financial Statements

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

Net Income and Income Per Common Share

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

For the three months ended September 30, 2010 and 2009 options and warrants to purchase 858,502 and 872,662 shares of common stock, respectively, were not included in the computation of diluted EPS due to the anti-dilutive effect. For three months ended September 30, 2010 and 2009, 3,217,904 and 2,158,733 shares of common stock issuable upon conversion of the Company's Series A Convertible Preferred Stock and Series B Convertible Preferred

Stock, respectively, were not included in the diluted EPS calculation as the effect would have been anti-dilutive.

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NOTE 3. LIQUIDITY

Historically, the Company has financed its operations through operating revenues, loans from directors, officers, stockholders, loans from the Chief Executive Officer and majority shareholder, bank financing, and private placements of equity securities. The Company believes that anticipated revenue growth in combination with strict cost control will allow the Company to meet its minimum operating cash requirements for the next 12 months.

As shown in the consolidated financial statements, the Company had cash flow provided by operations in the amount \$43,490 and \$8,971 for the three months ended September 30, 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 \$455,712.33, 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 \$9,359.15 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 September 30, 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 September 30, 2010.

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At September 30, 2010, the Company had negative working capital of \$3,410,599 when compared with negative working capital of \$1,936,533 at June 30, 2010. This \$1,474,066 decrease in working capital is principally a result of the reclassification of certain notes payable becoming due and payable during the next twelve months.

On September 21, 2011, 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.

While no assurances can be given, the Company believes that anticipated revenue growth and management of operating expenses will allow the Company to meet its minimum operating cash requirements for the next twelve months. The financial statements do not reflect any adjustments should the operational objectives of the Prescient Merger not be achieved. Although the Company anticipates that available cash resources will be sufficient to meet its working capital requirements, no assurances can be given. Should the Company need to raise additional equity or debt financing, there are no assurances that the Company could do so on acceptable terms.

NOTE 4. STOCK-BASED COMPENSATION

The Company has agreements with a number of employees to issue stock grants vesting over 3-10 year terms. The vested portion 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 180,758. The stock grant agreements were dated effective between November 2, 2007 and June 17, 2010.

NOTE 5. OUTSTANDING STOCK OPTIONS

The following tables summarize information about fixed stock options and warrants outstanding and exercisable at September 30, 2010:

| Range of exercise prices | Options and Warrants Outstanding at September 30, 2010 | | | Options and Warrants Exercisable at September 30, 2010 | | |
|--------------------------|--|---|---------------------------------|--|---------------------------------|--|
| | Number Outstanding at September 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 | 2.84 | \$ 1.76 | 14,880 | \$ 1.76 | |
| \$ 1.80 – 4.00 | 843,622 | 1.07 | \$ 3.63 | 843,622 | \$ 3.63 | |
| | 858,502 | 1.11 | \$ 3.60 | 858,502 | \$ 3.60 | |

NOTE 6. RELATED PARTY TRANSACTIONS

Effective June 30, 2010 a number of related party promissory notes issued in connection with the Prescient Merger were converted to Series B Convertible Preferred Stock. Due to the timing of the certificate of designation for the Series B shares, filed on July 21, 2010, this transaction was recorded as a subscription payable at June 30,

2010. The table below summarizes the conversions and the subsequent stock issuance on July 30, 2010.

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| | Balance of 12% Notes Payable at conversion | Subscription Payable at 6/30/2010 | Shares issued in satisfaction of Subscription Payable |
|---------------------------|---|--------------------------------------|---|
| Riverview Financial Corp* | \$ 2,875,701 | \$ 2,875,701 | 287,570 |
| Riverview Financial Corp | 620,558 | 620,558 | 62,056 |
| Robert Allen | 523,014 | 523,014 | 52,301 |
| Julie Fields | 100,000 | 100,000 | 10,000 |
| | \$ 4,119,273 | \$ 4,119,273 | 411,927 |

*Line of Credit assumed from Bank at June 30, 2010

NOTE 7. PROPERTY AND EQUIPMENT

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

| | September 30, 2010 (unaudited) | June 30, 2010 |
|--|--------------------------------------|------------------|
| Computer equipment | \$1,657,311 | \$1,641,669 |
| Furniture and fixtures | 314,823 | 313,803 |
| Leasehold improvements | 139,693 | 139,693 |
| | 2,111,827 | 2,095,165 |
| Less accumulated depreciation and amortization | (1,619,003) | (1,550,589) |
| | \$492,824 | \$544,576 |

NOTE 8. CAPITALIZED SOFTWARE COSTS

Capitalized software costs consist of the following as of:

| | September 30, 2010 (unaudited) | June 30, 2010 |
|-------------------------------|--------------------------------------|------------------|
| Capitalized software costs | \$471,717 | \$2,246,077 |
| Less accumulated amortization | (120,723) | (1,964,391) |
| | \$350,994 | \$281,686 |

For current year presentation at September 30, 2010, costs capitalized and fully amortized have been removed.

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NOTE 9. ACCRUED LIABILITIES

Accrued liabilities consist of the following as of:

| | September 30, 2010 (unaudited) | June 30, 2010 |
|----------------------------|--------------------------------------|------------------|
| Accrued compensation | \$ 268,778 | \$ 370,035 |
| Unclaimed tender offer | 263,714 | 263,714 |
| Accrued stock grants | 198,004 | 268,166 |
| Other accrued liabilities | 102,276 | 211,071 |
| Accrued dividends | 86,970 | 83,752 |
| Accrued interest | 22,954 | 39,532 |
| Accrued board compensation | 12,500 | 15,000 |
| Accrued legal fees | - | 34,948 |
| | \$ 955,196 | \$ 1,286,218 |

NOTE 10. INCOME TAXES

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

Included in the balance at September 30, 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 months ended September 30, 2010 and 2009, the Company did not recognize any interest or penalties.

NOTE 11. SUBSEQUENT EVENTS

In accordance with the Subsequent Events Topic of the FASB ASC 855, we have evaluated subsequent events through November 9, 2010, the date of issuance of the unaudited condensed consolidated financial statements, and have determined that there are no additional events that have or are reasonably likely to impact the financial statements.

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

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

Forward-Looking Statements

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

Overview

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

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

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

Results of Operations

Comparison of the Three Months Ended September 30, 2010 to the Three Months Ended September 30, 2009.

Revenues

| | Fiscal Quarter Ended September 30, | | Variance | |
|--------------|------------------------------------|--------------|------------|---------|
| | 2010 | 2009 | Dollars | Percent |
| Subscription | \$ 1,549,547 | \$ 1,421,230 | \$ 128,317 | 9.0 % |
| Maintenance | 568,219 | 674,457 | (106,238) | -15.8 % |

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| | | | | | |
|-----------------------|--------------|--------------|---------------|-------|---|
| Professional services | 290,220 | 392,704 | (102,484) | -26.1 | % |
| License | 158,000 | 201,010 | (43,010) | -21.4 | % |
| Total revenues | \$ 2,565,986 | \$ 2,689,401 | \$ (123,415) | -4.6 | % |

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Total revenues were \$2,565,986 and \$2,689,401 for the three months ended September 30, 2010 and 2009, respectively, a 4.6% decrease. This \$123,415 decrease in total revenues is due to (i) a \$106,238 decrease in maintenance revenue, (ii) a \$102,484 decrease in professional services revenue, and (iii) a decrease of \$43,010 in license revenue, partially offset by a \$128,317 increase in subscription revenue.

Subscription Revenue

Subscription revenues were \$1,549,547 and \$1,421,230, for the three months ended September 30, 2010 and 2009 respectively, an increase of 9% in the three months ended September 30, 2010 when compared with the three months ended September 30, 2009. The increase is principally due to (i) the net increase of subscription customers added to the Company's customer base which contributed approximately \$122,000 of new subscription revenue, (ii) a \$55,000 increase attributable to the growth of existing retailers, and (iii) an increase in supplier subscriptions of approximately \$37,000. The increase in subscription revenue was partially offset by a decrease of approximately \$86,000 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. The retailer provided list of suppliers for the Company to contact and connect to the software, or supplier backlog, is approximately 300. 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 and Support Revenue

Maintenance and support revenues were \$568,219 and \$674,457 for the three months ended September 30, 2010 and 2009, respectively, an decrease of 15.8% in the three months ended September 30, 2010 compared with the three months ended September 30, 2009. The net decrease of \$106,238 is principally due to (i) the non renewal of maintenance contracts resulting in a reduction of maintenance revenue of \$97,000 and (ii) the reduction in scope of maintenance. Large one-time license sales and associated maintenance is expected 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 \$290,220 and \$392,704 for the three months ended September 30, 2010 and 2009, respectively, an decrease of 26.1%. The \$102,484 decrease in professional services revenue for the three months ended September 30, 2010 when compared to the three months ended September 30, 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.

License Revenue

Software license revenues were \$158,000 and \$201,010 for the three months ended September 30, 2010 and 2009, respectively, a decrease of 21.4%. The Company continues its emphasis on the sale of subscription based services. 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 decline over time. The decrease in license revenue is due to the Company's emphasis on subscription based sales. The Company has not eliminated the sale of its suite of products on a license basis and from time to time it will sell additional licenses to new or existing customers; however, it is difficult to ascertain the timing or the amount of the license.

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Cost of Services and Product Support

| | Fiscal Quarter Ended | | September 30, | | Variance | |
|--------------------------------------|----------------------|-----------|---------------|---------|----------|---|
| | 2010 | 2009 | Dollars | Percent | | |
| Cost of services and product support | \$891,555 | \$904,250 | \$(12,695) | -1.4 | | % |
| Percent of total revenues | 35 | % 34 | % | | | |

Cost of services and product support was \$891,555 and \$904,250 for the three months ended September 30, 2010 and 2009, respectively, a 1.4% decrease in the three months ended September 30, 2010 compared with the three months ended September 30, 2009. This decrease of \$12,695 for the quarter ended September 30, 2010 when compared with the same period ended September 30, 2009 is principally due to (i) an \$89,000 decrease related to software development costs capitalized in the first quarter of 2011, and (ii) a decrease of \$38,000 from the reduced use of contractors and outside consulting support. These decreases were partially offset by (i) an \$80,000 comparative increase resulting from prior year negotiated vendor credits upon closure of a data center and (ii) approximately \$29,000 increase in stock compensation

Sales and Marketing Expense

| | Fiscal Quarter Ended | | September 30, | | Variance | |
|---------------------------|----------------------|-----------|---------------|---------|----------|---|
| | 2010 | 2009 | Dollars | Percent | | |
| Sales and marketing | \$619,598 | \$616,373 | \$3,225 | 0.5 | | % |
| Percent of total revenues | 24 | % 23 | % | | | |

Sales and marketing expenses were \$619,598 and \$616,373 for the three months ended September 30, 2010 and 2009, respectively, a 0.5% increase. This \$3,225 increase over the previous quarter was primarily the result of (i) an increase of approximately \$47,000 in travel and related expenditures, (ii) a \$11,000 increase in tradeshow and conference expenses, and (iii) a \$34,000 increase in contractor expenses. These increases are offset by a decrease of approximately \$38,000 in recruiting expenses and \$62,000 in payroll and related expenses.

General and Administrative Expense

| | Fiscal Quarter Ended | | September 30, | | Variance | |
|----------------------------|----------------------|-----------|---------------|---------|----------|---|
| | 2010 | 2009 | Dollars | Percent | | |
| General and administrative | \$1,064,322 | \$651,108 | \$413,214 | 63.5 | | % |
| Percent of total revenues | 41 | % 24 | % | | | |

General and administrative expenses were \$1,064,322 and \$651,108 for the three months ended September 30, 2010 and 2009, respectively, a 63.5% increase in the three months ended September 30, 2010 compared with the three months ended September 30, 2009. This \$413,214 increase when comparing expenditures for the quarter ended September 30, 2010 with the same period ended September 30, 2009 is principally due to (i) the settlement of a lawsuit through a combination of cash and equity and (ii) a \$44,000 increase in stock based compensation expense of certain employees and board members that are based on multi-year vesting schedules, and (iii) a \$20,000 increase in estimated tax payments. These increases were partially offset by (i) a \$77,000 decrease in general overhead expenses primarily the reduction of office leases rents stemming from reduced office locations and (ii) a \$45,000 decrease in bad debt expense.

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Depreciation and Amortization Expense

| | Fiscal Quarter Ended | | September 30, | | Variance | |
|-------------------------------|----------------------|-----------|---------------|---------|----------|---|
| | 2010 | 2009 | Dollars | Percent | | |
| Depreciation and amortization | \$194,113 | \$206,525 | \$(12,412) | -6.0 | | % |
| Percent of total revenues | 8 | % 8 | | % | | |

Depreciation and amortization expenses were \$194,113 and \$206,525 for the three months ended September 30, 2010 and 2009, respectively, a decrease of 6% in the three months ended September 30, 2010 compared with the three months ended September 30, 2009. This decrease of \$12,412 for the quarter ended September 30, 2010 when compared to the quarter ended September 30, 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 FY 2010.

Other Income and Expense

| | Fiscal Quarter Ended | | September 30, | | Variance | |
|-----------------------------------|----------------------|--------------|---------------|---------|----------|---|
| | 2010 | 2009 | Dollars | Percent | | |
| Gain on refinance of note payable | \$- | \$43,811 | \$(43,811) | 100.0 | | % |
| Other gains | - | 24,185 | (24,185) | 100.0 | | % |
| Interest expense | (98,491) | (210,747) | 112,256 | -53.3 | | % |
| Total other income and expense | \$(98,491) | \$(142,751) | \$44,260 | -31.0 | | % |

Net interest expense was \$98,491 and \$210,747 for the three months ended September 30, 2010 and 2009, respectively. This \$112,256 decrease is principally due to a decrease in interest expense resulting from the conversion of certain notes payable to Series B Convertible Preferred Stock in FY 2010.

Preferred Dividends

| | Fiscal Quarter Ended | | September 30, | | Variance | |
|---------------------------|----------------------|----------|---------------|---------|----------|---|
| | 2010 | 2009 | Dollars | Percent | | |
| Preferred dividends | \$207,096 | \$81,491 | \$125,605 | 154.1 | | % |
| Percent of total revenues | 8 | % 3 | | % | | |

Dividends accrued on the Series A Convertible Preferred Stock was \$83,518 and \$81,491 for the three months ended September 30, 2010 and 2009, respectively. Holders of the Preferred Stock are entitled to a 5.00% annual dividend payable quarterly in either cash or preferred stock at the option of the Company with fractional shares paid in cash.

Dividends accrued on the Series B Convertible Preferred Stock was----- \$123,578 for the three months ended September 30, 2010. Holders of the Preferred Stock are entitled to a 12.00% annual dividend payable quarterly in cash.

Financial Position, Liquidity and Capital Resources

We believe our existing cash and short-term investments, together with funds generated from operations, should be sufficient to fund operating and investment requirements for at least the next twelve months. Our future capital requirements will depend on many factors, including our rate of revenue growth and expansion of our sales and marketing activities, the timing and extent of spending required for research and development efforts, and the continuing market acceptance of our products. Although the Company anticipates that available cash resources will be sufficient to meet its working capital requirements, no assurances can be given. To the extent that available funds are

insufficient to fund our future activities, we may need to raise additional funds through public or private equity or debt financings. Additional equity or debt financing may not be available on terms favorable to us, in a timely fashion or at all.

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We have historically funded our operations with cash from operations, equity financings and debt borrowings. As set forth below, cash and cash equivalents was \$771,112 and \$543,515 at September 30, 2010, and September 30, 2009, respectively. This increase from September 30, 2009 to September 30, 2010 was the result of increased collections from existing customers, expansion of customer base, a large license sale collected in Q4 2010, and borrowings from lines of credit.

| | As Of September 30, | | Variance | Percent |
|---------------------------|---------------------|------------|------------|---------|
| | 2010 | 2009 | (\$) | (%) |
| Cash and Cash Equivalents | \$ 771,112 | \$ 543,515 | \$ 227,597 | 41.9% |

Net Cash Flows from Operating Activities

| | Fiscal Quarter Ended | | Variance | Percent |
|---|----------------------|----------|-----------|---------|
| | September 30, | 2009 | (\$) | (%) |
| | 2010 | | | |
| Cash flows provided by operating activities | \$ 43,490 | \$ 8,971 | \$ 34,519 | 384.8% |

Net cash provided by operating activities for the three months ended September 30, 2010 was \$43,490 compared to net cash provided by operating activities of \$8,971 for the three months ended September 30, 2009. The \$34,519 increase in net cash flows provided by operating activities for the three months ended September 30, 2010 when compared to the three months ended September 30, 2009 was primarily the result of an increase in stock issued for services and expenses. There were also changes in (i) trade receivables, (ii) unbilled receivables, (iii) accounts payable, (iv) accrued liabilities, and (v) deferred revenue.

Net Cash Flows from Investing Activities

| | Fiscal Quarter Ended | | Variance | Percent |
|---|----------------------|-------------|-------------|---------|
| | September 30, | 2009 | (\$) | (%) |
| | 2010 | | | |
| Cash flows (used in) provided by investing activities | \$ (106,090) | \$ (10,797) | \$ (95,293) | 882.6% |

Net cash flows used in investing activities for the three months ended September 30, 2010 was \$106,090 compared to net cash flows used in investing activities of \$10,797 for the three months ended September 30, 2009. This \$95,293 decrease in cash flows from investing activities for September 30, 2010 when compared to the same period in 2009 was the result of the capitalization of software costs in the current period.

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Net Cash Flows from Financing Activities

| | Fiscal Quarter Ended | | Variance (\$) | Percent (%) |
|---|-----------------------|-----------------------|------------------|----------------|
| | September 30, 2010 | September 30, 2009 | | |
| Cash flows (used in) financing activities | \$ (323,719) | \$ (110,938) | \$ (212,781) | 191.8% |

Net cash used in financing activities totaled \$323,719 for the three months ended September 30, 2010 when compared to cash flows used in financing activities of \$110,938 for the three months ended September 30, 2009. The change in net cash (used in) financing activities is attributable to the payment of dividends on the Series B Convertible Preferred Stock and an increase in principal payment on notes payable and capital leases.

Working Capital

At September 30, 2010, the Company had negative working capital of \$3,410,599 when compared with negative working capital of \$1,936,533 at June 30, 2010. This \$1,474,066 decrease in working capital is principally a result of the reclassification of certain notes payable becoming due and payable during the next twelve months. These notes have a maturity date of July 12, 2011.

| | As of | As of | Variance (\$) | Percent (%) |
|----------------|--------------------------|---------------------|------------------|----------------|
| | September 30, 2010 | June 30, 2010 | | |
| Current assets | \$ 2,499,193 | \$ 2,787,811 | \$ (288,618) | -10.4% |

Current assets as of September 30, 2010 totaled \$2,499,193, a decrease of \$(288,618) when compared to \$2,787,811 as of June 30, 2010. This 10.4% decrease in current assets is due primarily to decreases in (i) cash and cash equivalents and (ii) unbilled receivables partially offset by increases in accounts receivable and prepaid expenses and other current assets.

| | As of | As of | Variance (\$) | Percent (%) |
|---------------------|--------------------------|---------------------|------------------|----------------|
| | September 30, 2010 | June 30, 2009 | | |
| Current liabilities | \$ 5,909,792 | \$ 4,724,344 | \$ 1,185,448 | 25.1% |

Current liabilities totaled \$5,909,792 as of September 30, 2010 as compared to \$4,724,344 as of June 30, 2010. The \$1,185,448 comparative increase in current liabilities is principally due to the reclassification of certain notes payable becoming due and payable during the next twelve months. These notes have a maturity date of July 12, 2011.

Together with existing cash resources and projected cash flow from operations, we believe that we will be able to address our debt service requirements during the next twelve months, as well as fund our currently anticipated operations and capital spending requirements. The financial statements do not reflect any adjustments should the Company's working capital operations and other financing be insufficient to meet spending and debt service requirements. Although the Company anticipates that available cash resources will be sufficient to meet its working capital requirements, no assurances can be given. Should the Company need to raise additional equity or debt financing, there are no assurances that the Company could do so on acceptable terms.

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.

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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.

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.

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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 September 30, 2010, the debt portfolio was composed of approximately 15% variable-rate debt and 85% fixed-rate debt.

The table that follows presents fair values of principal amounts and weighted average interest rates for our investment portfolio as of September 30, 2010:

| | Aggregate Fair Value | Weighted Average Interest Rate |
|---------------------------------|-------------------------|---|
| Cash and Cash Equivalents: | | |
| Cash | \$ 771,112 | .07% |
| Money market funds | - | |
| Certificates of deposit | - | |
| Total cash and cash equivalents | \$ 771,112 | |

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 September 30, 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

On June 29, 2007, the Company was served with a complaint from two previous employees titled James D. Horton and Aaron Prevo v. Park City Group, Inc. and Randy Fields, Individually Case No. 070700333, which was filed in the Second Judicial District Court, Davis County, Utah and was subsequently moved to the Third Judicial District Court, Summit County, Utah (the "Complaint"). The Complaint alleged that certain provisions of the plaintiffs' employment agreements were not honored including breach of employer obligations, fraud, unjust enrichment, and breach of contract. The plaintiffs sought combined damages for alleged unpaid compensation and punitive damages of \$520,650 and \$2,603,250, respectively.

On September, 30 2010, the Company entered into a Settlement Agreement and Release by and between the Company and Randy Fields, on the one hand, and James D. Horton and Aaron Prevo, on the other hand (the "Release"). Under the terms of the Release, all claims, alleged claims, causes of action, alleged causes of action, or potential claims or causes of action by and between the parties are resolved, released and terminated. Settlement of the lawsuit was resolved through the payment of a combination of cash and equity.

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 1A. RISK FACTORS

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

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

On September 30, 2010, the Company issued a total of 110,948 shares of its common stock in private transactions to seven accredited investors. The shares were issued at a valuation equal to \$4.40 per share. The shares were issued in connection with, and to finance, among other purposes, the settlement of litigation involving the Company.

The shares of common stock issued in connection with the foregoing transactions have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold in the United States absent such registration or an applicable exemption from the registration requirements of the Securities Act. The transactions are exempt from the registration requirements of the Securities Act, pursuant to Regulation D and/or Section (4(2)).

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

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

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

Exhibit 32.1 Certification of Principal Executive and Principal Financial Officer pursuant to 18 U.S.C. Section 1350.

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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: November 9, 2010

PARK CITY GROUP, INC

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

Date: November 9, 2010

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