PARK CITY GROUP INC
Form 10-Q
May 14, 2012

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

FORM 10-Q

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

For the quarterly period ended March 31, 2012.

o 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<br>(State or other jurisdiction of incorporation or organization) | 37-1454128<br>(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 market 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. x 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). x Yes ¨ No

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ¨ | Accelerated filer | ¨ |
| Non-accelerated filer | ¨ | Smaller reporting company | x |

Indicate by checkmark if whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
¨Yes x 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: 11,909,586 shares as of May 14, 2012.

PARK CITY GROUP, INC.
TABLE OF CONTENTS

Table of Contents

PARK CITY GROUP, INC.
Consolidated Condensed Balance Sheets

| | March 31, 2012 (unaudited) | June 30, 2011 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash | $ 631,132 | $ 2,618,229 |
| Receivables, net of allowance of $152,000 and $15,581 at March 31, 2012 and June 30, 2011, respectively | 1,426,229 | 2,059,773 |
| Prepaid expenses and other current assets | 215,712 | 265,818 |
| Total current assets | 2,273,073 | 4,943,820 |
| Property and equipment, net | 552,414 | 651,992 |
| Other assets: | | |
| Deposits and other assets | 20,697 | 24,026 |
| Customer relationships | 2,868,230 | 3,184,967 |
| Goodwill | 4,805,933 | 4,805,933 |
| Capitalized software costs, net | 255,789 | 365,413 |
| Total other assets | 7,950,649 | 8,380,339 |
| Total assets | $ 10,776,136 | $ 13,976,151 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | $ 507,108 | $ 790,914 |
| Accrued liabilities | 1,363,048 | 1,162,775 |
| Deferred revenue | 1,198,069 | 1,663,232 |
| Capital lease obligations | 56,372 | 107,547 |
| Lines of credit | 1,200,000 | 1,200,000 |
| Notes payable | 789,984 | 2,414,853 |
| Total current liabilities | 5,114,581 | 7,339,321 |
| Long-term liabilities: | | |
| Notes payable, less current portion | 859,377 | 1,271,691 |
| Capital lease obligations, less current portion | - | 41,202 |
| Total liabilities | 5,973,958 | 8,652,214 |
| Commitments and contingencies | - | - |
| Stockholders' equity: | | |
| Series A Convertible Preferred Stock, $0.01 par value, 30,000,000 shares authorized; 680,559 and 667,955 shares issued and outstanding at March 31, 2012 and June 30, 2011, respectively | 6,806 | 6,680 |
| | 4,119 | 4,119 |

| | | |
|---|---|---|
| Series B Convertible Preferred Stock, $0.01 par value, 30,000,000 shares authorized; 411,927 shares issued and outstanding at March 31, 2012 and June 30, 2011, respectively | | |
| Common Stock, $0.01 par value, 50,000,000 shares authorized; 11,862,031 and 11,612,460 shares issued and outstanding at March 31, 2012 and June 30, 2011, respectively | 118,620 | 116,125 |
| Additional paid-in capital | 36,998,069 | 36,088,584 |
| Accumulated deficit | (32,325,436) | (30,891,571) |
| | | |
| Total stockholders' equity | 4,802,178 | 5,323,937 |
| | | |
| Total liabilities and stockholders' equity | $ 10,776,136 | $ 13,976,151 |

See accompanying notes to consolidated condensed financial statements.

Table of Contents

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

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Revenues: | | | | |
| Subscription | $ 1,682,751 | $ 1,700,022 | $ 5,105,882 | $ 4,844,914 |
| Maintenance | 483,141 | 521,402 | 1,492,787 | 1,674,353 |
| Professional services and other revenue | 215,195 | 180,026 | 578,210 | 732,459 |
| Software licenses | 128,560 | 85,260 | 479,170 | 547,979 |
| Total revenues | 2,509,647 | 2,486,710 | 7,656,049 | 7,799,705 |
| Operating expenses: | | | | |
| Cost of services and product support | 1,198,421 | 1,094,229 | 3,453,795 | 2,894,630 |
| Sales and marketing | 712,256 | 690,804 | 1,942,801 | 2,048,339 |
| General and administrative | 734,523 | 668,081 | 2,284,915 | 2,380,896 |
| Depreciation and amortization | 226,198 | 199,005 | 670,998 | 575,611 |
| Total operating expenses | 2,871,398 | 2,652,119 | 8,352,509 | 7,899,476 |
| Income (loss) from operations | (361,751) | (165,409) | (696,460) | (99,771) |
| Other income (expense): | | | | |
| Interest expense | (46,881) | (80,643) | (167,765) | (263,820) |
| Other gains | 55,995 | - | 55,995 | - |
| Income (loss) before income taxes | (352,637) | (246,052) | (808,230) | (363,591) |
| (Provision) benefit for income taxes | - | - | - | - |
| Net income (loss) | (352,637) | (246,052) | (808,230) | (363,591) |
| Dividends on preferred stock | (208,415) | (205,412) | (625,635) | (619,483) |
| Net income (loss) applicable to common shareholders | $ (561,052) | $ (451,464) | $ (1,433,865) | $ (983,074) |
| Weighted average shares, basic and diluted | 11,838,000 | 11,325,000 | 11,733,000 | 11,136,000 |
| Basic and diluted loss per share | $ (0.05) | $ (0.04) | $ (0.12) | $ (0.09) |

See accompanying notes to consolidated condensed financial statements.

Table of Contents

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

| | 2012 | 2011 |
|---|---|---|
| Cash Flows From Operating Activities: | | |
| Net income (loss) | $ (808,230) | $ (363,591) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 670,997 | 575,611 |
| Bad debt expense | 173,194 | 13,596 |
| Stock compensation expense | 811,171 | 653,211 |
| Stock issued for litigation settlement | - | 375,000 |
| Other gains | (55,995) | - |
| Decrease (increase) in: | | |
| Receivables | 460,350 | 299,655 |
| Prepaids and other assets | 53,435 | (161,139) |
| (Decrease) increase in: | | |
| Accounts payable | (227,811) | 27,710 |
| Accrued liabilities | 31,559 | (483,699) |
| Deferred revenue | (465,163) | (25,201) |
| Net cash provided by operating activities | 643,507 | 911,153 |
| Cash Flows From Investing Activities: | | |
| Purchase of property and equipment | (145,058) | (43,904) |
| Capitalization of software costs | - | (197,051) |
| Net cash used in investing activities | (145,058) | (240,955) |
| Cash Flows From Financing Activities: | | |
| Proceeds from issuance of notes | 255,334 | - |
| Proceeds from exercise of options and warrants | 14,748 | 75,712 |
| Proceeds from issuance of common stock | - | 140,800 |
| Dividends paid | (370,734) | (247,156) |
| Payments on notes payable and capital leases | (2,384,894) | (526,493) |
| Net cash used in financing activities | (2,485,546) | (557,137) |
| Net (decrease) increase in cash | (1,987,097) | 113,061 |
| Cash at beginning of period | 2,618,229 | 1,157,431 |
| Cash at end of period | $ 631,132 | $ 1,270,492 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid for income taxes | $ - | $ - |
| Cash paid for interest | $ 238,264 | $ 272,987 |
| Supplemental Disclosure of Non-Cash Investing and Financing Activities: | | |

| | | | | |
|---|---|---|---|---|
| Common stock to pay accrued liabilities | $ | 645,398 | $ | 604,274 |
| Dividends accrued on preferred stock | $ | 625,635 | $ | 619,483 |
| Dividends paid with preferred stock | $ | 251,960 | $ | 245,490 |

See accompanying notes to consolidated condensed financial statements.

Table of Contents

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

NOTE 1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Park City Group, Inc. (the "Company") is 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 making lower inventory levels possible for both retailers and their suppliers.

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

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

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements of the Company have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") on a basis consistent with the Company's audited annual financial statements and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial information set forth therein. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to SEC rules and regulations, although the Company believes that the following disclosures, when read in conjunction with the audited annual financial statements and the notes thereto included in the Company's most recent Annual Report on Form 10−K, are adequate to make the information presented not misleading. Operating results for the three and nine months ended March 31, 2012 are not necessarily indicative of the operating results that may be expected for the fiscal year ending June 30, 2012.

Reclassification

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 presentation.

Table of Contents

Recent Accounting Pronouncements

In September 2011, the FASB issued ASU 2011-8, Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment, which amends previous guidance on the testing of goodwill for impairment; the guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The new guidance provides entities with the option of first assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If it is determined, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, the two-step impairment test would still be required. The adoption of this updated authoritative guidance is not expected to have a significant impact on the Company's Condensed Consolidated Financial Statements.

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities, an update to the authoritative guidance which requires disclosure information about offsetting and related arrangements for financial instruments and derivative instruments. The guidance provided by this update becomes effective for the Company in the first quarter of fiscal 2014. The adoption of this updated authoritative guidance is not expected to have a significant impact on the Company's Condensed Consolidated Financial Statements.

In December 2011, the FASB issued ASU 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05, an update to the authoritative guidance which defers the effective date of the presentation of reclassification adjustments out of accumulated other comprehensive income. The guidance provided by this update becomes effective for the Company in the first quarter of fiscal 2013. The adoption of this updated authoritative guidance is not expected to have a significant impact on the Company's Condensed 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 nine months ended March 31, 2012 and 2011 options and warrants to purchase 250,729 and 654,756 shares of common stock, respectively, were not included in the computation of diluted EPS due to the anti-dilutive effect. For three and nine months ended March 31, 2012 and 2011, 3,298,348 and 3,242,094 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.

Table of Contents

NOTE 3. LIQUIDITY AND MANAGEMENT'S PLAN

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

At March 31, 2012, the Company had negative working capital of $2,841,508 when compared with negative working capital of $2,395,501 at June 30, 2011. This $446,007 decrease in working capital is principally the result of the use of cash to retire certain indebtedness in the nine months ended March 31, 2012, a decrease in cash flow in the current period compared to the nine months ended March 31, 2011, and a decrease in accounts receivable.

In connection with the retirement of certain indebtedness in the nine months ended March 31, 2012, the Company reduced its total liabilities by approximately $2.68 million as compared to total liabilities at June 30, 2011. The reduction in total liabilities included the retirement of certain promissory notes in the principal amount of approximately $1.76 million, which notes were originally issued in January 2009 to certain investors to partially finance the acquisition of Prescient (the "Prescient Notes"). The Prescient Notes had a maturity date of July 12, 2011, and required payment of interest at 12% per annum payable quarterly. In connection with the retirement of certain of the Prescient Notes, the Company extended the maturity date of the remaining issued and outstanding Prescient Notes, totaling $249,700, from July 12, 2011 to January 12, 2012. All principal and accrued and unpaid interest on the remaining Prescient Notes was subsequently paid on January 12, 2012.

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

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

On February 8, 2012, 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 the initial annual period, the advanced capital will be converted to a four year amortizing Term Note. Interest on the advance prior to conversion is 3% plus the one-month LIBOR rate. Interest on the four year amortizing Term Note will be fixed over the term at 3% plus the five-year Money Market rate.

While no assurances can be given, management currently intends to continue to reduce its indebtedness in subsequent periods utilizing existing cash resources and projected cash flow from operations. In addition, management may also continue to refinance or restructure certain of the Company's remaining indebtedness to extend the maturities of such indebtedness to address its short-term and long-term working capital requirements. Management believes that these initiatives will enable us to address our debt service requirements during the next twelve months, as well as fund our currently anticipated operations and capital spending requirements. The financial statements do not reflect any adjustments should cash flow from operations be insufficient to meet our spending and debt service requirements, and we are otherwise unable to refinance or restructure our indebtedness.

NOTE 4. STOCK-BASED COMPENSATION

The Company has agreements with a number of employees to issue stock grants vesting over 3-10 year terms. The vested portions of these grants are to be paid on each anniversary of the grant dates. Total shares under these agreements vesting and payable annually to employees are approximately 236,600. The stock grant agreements were dated effective between July 1, 2008 and March 14, 2012.

Table of Contents

NOTE 5. OUTSTANDING STOCK OPTIONS

The following tables summarize information about fixed stock options and warrants outstanding and exercisable at March 31, 2012:

| | | Options and Warrants Outstanding at March 31, 2012 | | | Options and Warrants Exercisable at March 31, 2012 | |
|---|---|---|---|---|---|---|
| | Range of exercise prices | Number outstanding at March 31, 2012 | Weighted average remaining contractual life (years) | Weighted average exercise price | Number exercisable at March 31, 2012 | Weighted average exercise price |
| | Options | | | | | |
| $ | 1.50 - 2.50 | 13,480 | 1.33 | $1.68 | 13,480 | $1.68 |
| | Warrants | | | | | |
| $ | 1.80 - 3.30 | 237,249 | .56 | $2.98 | 237,249 | $2.98 |
| | | 250,729 | .60 | $2.91 | 250,729 | $2.91 |

NOTE 6. RELATED PARTY TRANSACTIONS

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

The Related Party Notes were originally issued in September 2008, in the case of the Related Party Notes issued to Mr. Allen and Riverview Financial Corp., and December 2008 in the case of the Related Party Note issued to Ms. Fields, and were issued principally to finance a portion of the purchase price of shares of Series E Preferred Stock of Prescient purchased by the Company. The purchase transaction was the first step in a plan to acquire Prescient in a merger transaction consummated in January 2009. In addition, the Related Party Note issued to Riverview Financial Corp. partially reflected certain fees owed to Riverview by the Company in the amount of $35,124 for guaranteeing amounts owed by the Company under a line of credit with the Bank, and $5,263 representing certain late fees owed Riverview by the Company resulting from the failure by the Company to pay certain amounts to Riverview under the terms of a Services Agreement between the Company and Riverview, dated July 1, 2005. The amounts under the Related Party Notes that were terminated in consideration for the issuance of the Series B Preferred, and the number of shares of Series B Preferred issued in connection with the Series B Exchange, is set forth below:

| | | Principal | No. of Shares of Series B Preferred |
|---|---|---|---|
| Julie Fields | $ | 100,000 | 10,000 |
| Riverview Financial Corp. | | 3,496,260 | 349,626 |
| Robert Allen | | 523,014 | 52,301 |
| | $ | 4,119,274 | 411,927 |

Table of Contents

NOTE 7. PROPERTY AND EQUIPMENT

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

| | March 31, 2012 (unaudited) | June 30, 2011 |
|---|---|---|
| Computer equipment | $ 2,142,923 | $ 1,997,865 |
| Furniture and fixtures | 314,823 | 314,823 |
| Leasehold improvements | 141,043 | 141,043 |
| | 2,598,789 | 2,453,731 |
| Less accumulated depreciation and amortization | (2,046,375) | (1,801,739) |
| | $ 552,414 | $ 651,992 |

NOTE 8. CAPITALIZED SOFTWARE COSTS

Capitalized software costs consist of the following as of:

| | March 31, 2012 (unaudited) | June 30, 2011 |
|---|---|---|
| Capitalized software costs | $ 2,443,128 | $ 2,443,128 |
| Less accumulated amortization | (2,187,339) | (2,077,715) |
| | $ 255,789 | $ 365,413 |

NOTE 9. ACCRUED LIABILITIES

Accrued liabilities consist of the following as of:

| | March 31, 2012 (unaudited) | June 30, 2011 |
|---|---|---|
| Accrued stock-based compensation | $ 405,085 | $ 272,861 |
| Accrued compensation | 339,580 | 244,490 |
| Unclaimed consideration related to Prescient Merger | 263,277 | 263,714 |
| Accrued dividends | 215,640 | 212,699 |
| Other accrued liabilities | 128,022 | 87,068 |
| Accrued interest | 11,444 | 81,943 |
| | $ 1,363,048 | $ 1,162,775 |

NOTE 10. INCOME TAXES

The Company and 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 2008.

NOTE 11. SUBSEQUENT EVENTS

In accordance with the Subsequent Events Topic of the FASB ASC 855, we have evaluated subsequent events and have determined that there are no subsequent events that require disclosure.

Table of Contents

## 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, 2011 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, 2011 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 making lower inventory levels possible for both retailers and their suppliers.

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

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

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

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

Table of Contents

Results of Operations

Comparison of the Three Months Ended March 31, 2012 to the Three Months Ended March 31, 2011.

Revenue

| | Fiscal Quarter Ended March 31, | | Variance | |
|---|---|---|---|---|
| | 2012 | 2011 | Dollars | Percent |
| Subscription | $ 1,682,751 | $ 1,700,022 | $ (17,271) | -1.02% |
| Maintenance | 483,141 | 521,402 | (38,261) | -7.34% |
| Professional services and other revenue | 215,195 | 180,026 | 35,169 | 19.54% |
| Software license | 128,560 | 85,260 | 43,300 | 50.79% |
| Total revenue | $ 2,509,647 | $ 2,486,710 | $ 22,937 | 0.92% |

Total revenue was $2,509,647 and $2,486,710 for the three months ended March 31, 2012 and 2011, respectively, a 0.92% increase. This $22,937 increase in total revenue is principally due to an increase in software license revenue of $43,300, and professional service and other revenue of $35,169, partially offset by a $17,271 decrease in subscription revenue and a $38,261 decrease in maintenance revenue during the quarter ended March 31, 2012 compared to the comparable quarter in 2011. The increase in license revenue is not anticipated to recur in subsequent quarters given management's emphasis on growing subscription revenue in future periods. Although subscription revenue decreased during the recently completed quarter relative to the comparable period in 2011, which decrease was expected due to the attrition of a subscription agreement that occurred at the end of the quarter ended December 31, 2011, management believes that, as a percentage of total revenue, subscription revenue will nevertheless continue to increase and license and maintenance revenue will continue to decrease, or remain volatile, as the Company continues its emphasis of marketing its services based on the SaaS model.

Subscription Revenue

Subscription revenue was $1,682,751 and $1,700,022 for the three months ended March 31, 2012 and 2011, respectively, a decrease of 1.02% in the three months ended March 31, 2012 when compared with the three months ended March 31, 2011. The net decrease of $17,271 is principally due to the attrition of a subscription agreement at the end of the quarter ended December 31, 2011, which decrease was offset by (i) the increase of $126,000 from existing customer growth; and (ii) a $90,000 increase attributable to new customers. While no assurances can be given, the Company anticipates that revenue from subscription-based services will increase on a year-over-year basis, notwithstanding attrition of subscription agreements in the ordinary course upon contract expirations, which occurred at the end of the quarter ended December 31, 2011, resulting in the decrease in subscription-based revenue in the recently completed quarter compared to the quarter ended March 31, 2011. Management currently anticipates that such attrition will be approximately 6% of subscription revenue annually, including in the year ending June 30, 2012.

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 to connect to our retail customers signed up in previous quarters, therefore leveraging our "hub and spoke" business model. 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 revenue was $483,141 and $521,402 for the three months ended March 31, 2012 and 2011, respectively, a decrease of 7.34% in the three months ended March 31, 2012 compared with the three months ended March 31, 2011. The net decrease of $38,261 is principally due to (i) cancellations resulting in a reduction of maintenance revenue of $57,000. This decrease in revenue was partially offset by $19,000 from new maintenance customers and net increases to existing customers. Large one-time license sales and associated maintenance is expected to continue to decline over time. 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.

Table of Contents

Professional Services and Other Revenue

Professional services and other revenue was $215,195 and $180,026 for the three months ended March 31, 2012 and 2011, respectively, an increase of 19.54%. The $35,169 increase in professional services revenue for the three months ended March 31, 2012 when compared to the three months ended March 31, 2011 is due to an increase in (i) existing Supply Chain customer consulting projects of $40,000 and (ii) connection revenue amortization of $10,000. These increases were partially offset by decreases in other non-recurring consulting projects. Management believes that professional services may experience periodic fluctuations as a (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 License Revenue

Software license revenue was $128,560 and $85,260 for the three months ended March 31, 2012 and 2011, respectively, an increase of 50.79%. The $43,300 increase in license revenue for the three months ended March 31, 2012 when compared to the three months ended March 31, 2011 is primarily due to larger average per customer license sales in the three months ended March 31, 2012 compared to the same period in the prior year. While the Company continues its emphasis on the sale of subscription-based services, large one-time license sales and associated maintenance is expected to decline over time. Management believes that it is difficult to predict and forecast future software license 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

| | Fiscal Quarter Ended March 31, | | Variance | |
|---|---|---|---|---|
| | 2012 | 2011 | Dollars | Percent |
| Cost of services and product support | $ 1,198,421 | $ 1,094,229 | $ 104,192 | 9.52% |
| Percent of total revenue | 47.75% | 44.00% | | |

Cost of services and product support was $1,198,421 and $1,094,229 for the three months ended March 31, 2012 and 2011, respectively, a 9.52% increase in the three months ended March 31, 2012 compared with the three months ended March 31, 2011. This increase of $104,192 for the quarter ended March 31, 2012 when compared with the same period ended March 31, 2011 is principally due to (i) a $43,000 increase in payroll and other head count related expenses, payroll taxes related to stock compensation, and an increase in benefit costs; (ii) $21,000 of costs capitalized during the prior year; (iii) an increase of $38,000 from the use of contractors and outside consulting support; and (iv) an increase of $6,000 in software maintenance contracts and other facility related costs. These increases were partially offset by a decrease of approximately $4,000 in travel related expenses.

Sales and Marketing Expense

| | Fiscal Quarter Ended March 31, | | Variance | |
|---|---|---|---|---|
| | 2012 | 2011 | Dollars | Percent |
| Sales and marketing | $ 712,256 | $ 690,804 | $ 21,452 | 3.11% |
| Percent of total revenue | 28.38% | 27.78% | | |

Sales and marketing expense was $712,256 and $690,804 for the three months ended March 31, 2012 and 2011, respectively, a 3.11% increase. This $21,452 increase over the comparable quarter was primarily the result of (i) an increase of approximately $80,000 in non-employee commissions, from the increased use of marketing allowances to large retail customers and (ii) an increase in advertising, marketing, and travel related expense of $36,000. These increases were partially offset by a decrease of (i) approximately $29,000 in payroll and other head count related expense; (ii) a $41,000 a decrease in bonuses and commission expense; and a (iii) decrease of $25,000 in the trade organization memberships and use of outside contractors.

Table of Contents

General and Administrative Expense

| | Fiscal Quarter Ended March 31, | | Variance | |
|---|---|---|---|---|
| | 2012 | 2011 | Dollars | Percent |
| General and administrative | $ 734,523 | $ 668,081 | $ 66,442 | 9.95% |
| Percent of total revenue | 29.27% | 26.87% | | |

General and administrative expense was $734,523 and $668,081 for the three months ended March 31, 2012 and 2011, respectively, a 9.95% increase in the three months ended March 31, 2012 compared with the three months ended March 31, 2011. This $66,442 increase when comparing expenditures for the quarter ended March 31, 2012 with the same period ended March 31, 2011 is principally due (i) an increase of approximately $93,000 in bad debt expense; (ii) a $27,000 increase related to an accounting system subscription and amortization of implementation fees capitalized in the prior year; and (iii) an increase of $13,000 in state franchise and minimum income taxes and (iv) an increase in professional fees of $5,000. These increases were partially offset by (i) a decrease of $44,000 in stock compensation, payroll, and other compensation related expense; (ii) an $18,000 decrease in travel and related expense; and (iii) a $14,000 decrease in facility related costs.

Depreciation and Amortization Expense

| | Fiscal Quarter Ended March 31, | | Variance | |
|---|---|---|---|---|
| | 2012 | 2011 | Dollars | Percent |
| Depreciation and amortization | $ 226,198 | $ 199,005 | $ 27,193 | 13.66% |
| Percent of total revenue | 9.01% | 8% | | |

Depreciation and amortization expense was $226,198 and $199,005 for the three months ended March 31, 2012 and 2011, respectively, an increase of 13.66% in the three months ended March 31, 2012 compared with the three months ended March 31, 2011. This increase of $27,193 for the quarter ended March 31, 2012 when compared to the quarter ended March 31, 2011 is due to an increase in depreciation expense related to new equipment.

Other Income and Expense

| | Fiscal Quarter Ended March 31, | | Variance | |
|---|---|---|---|---|
| | 2012 | 2011 | Dollars | Percent |
| Interest expense | $ (46,881) | $ (80,643) | $ 33,762 | -41.87% |
| Other gains | 55,995 | - | 55,995 | 100.00% |
| Total other income (expense) | $ 9,114 | (80,643) | $ 89,757 | 111.30% |
| Percent of total revenue | 0.36% | 3.24% | | |

Total other income and expense was net other income of $9,114 and other expense of $80,643 for the three months ended March 31, 2012 and 2011, respectively. This $89,757 increase is principally due to a gain on extinguishment of payables of $55,995 and a decrease in net interest expense of $33,762 related to the reduction of debt of approximately $1.0 million compared to the prior year.

Table of Contents

Preferred Dividends

| | Fiscal Quarter Ended March 31, | | Variance | |
|---|---|---|---|---|
| | 2012 | 2011 | Dollars | Percent |
| Preferred dividends | $ 208,415 | $ 205,412 | $ 3,003 | 1.46% |
| Percent of total revenue | 8.30% | 8.26% | | |

Dividends accrued on the Company's Series A Preferred and Series B Preferred was $208,415 and $205,412 for the three months ended March 31, 2012 and 2011, respectively. 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. Holders of Series B Preferred are entitled to a 12.00% annual dividend payable quarterly in cash.

Comparison of the Nine Months Ended March 31, 2012 to the Nine Months Ended March 31, 2011.

Revenue

| | Nine Months Ended March 31, | | Variance | |
|---|---|---|---|---|
| | 2012 | 2011 | Dollars | Percent |
| Subscription | $ 5,105,882 | $ 4,844,914 | $ 260,968 | 5.39% |
| Maintenance | 1,492,787 | 1,674,353 | (181,566) | -10.84% |
| Professional services and other revenue | 578,210 | 732,459 | (154,249) | -21.06% |
| Software licenses | 479,170 | 547,979 | (68,809) | -12.56% |
| Total revenues | $ 7,656,049 | $ 7,799,705 | $ (143,656) | -1.84% |

Total revenue was $7,656,049 and $7,799,705 for the nine months ended March 31, 2012 and 2011, respectively, a 1.84% decrease. This $143,656 decrease in total revenue is principally due to a $68,809 decrease in software license revenue, a $154,249 decrease in professional services and other revenue, and a $181,566 decrease in maintenance revenue, partially offset by an increase in subscription-based revenue of $260,968. Management believes that, as a percentage of total revenue, subscription revenue will continue to increase and license and maintenance revenue will continue to decrease, or remain volatile, as the Company continues its emphasis of marketing its services based on the SaaS model.

Subscription Revenue

Subscription revenue was $5,105,882 and $4,844,914 for the nine months ended March 31, 2012 and 2011, respectively, an increase of 5.39% in the nine months ended March 31, 2012 when compared with the nine months ended March 31, 2011. The net increase of $260,968 is principally due to (i) the increase of $551,000 attributable to the growth of existing retailer and supplier subscriptions and (ii) an increase of $151,000 from new customer subscriptions. The increase in subscription revenue was partially offset by a decrease of approximately $439,000 resulting from the non-renewal of existing customers, primarily one retailer customer that cancelled in December 2011, bankruptcy, acquisitions, or no longer doing business with a retailer. While no assurances can be given, the Company anticipates that revenue from subscription-based services will continue to increase on a year-over-year basis, notwithstanding attrition of subscription agreements in the ordinary course upon contract expirations, which occurred in the nine months ended March 31, 2012. Management currently anticipates that such attrition will be approximately 6% of subscription revenue annually, including in the year ending June 30, 2012.

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 to connect to our retail customers signed up in previous quarters, therefore leveraging our “hub and spoke” business model. 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.

Table of Contents

Maintenance Revenue

Maintenance and support revenue was $1,492,787 and $1,674,353 for the nine months ended March 31, 2012 and 2011, respectively, a decrease of 10.84% in the nine months ended March 31, 2012 compared with the nine months ended March 31, 2011. The net decrease of $181,566 is principally due customer cancellations resulting in a decrease of $255,000. This decrease in revenue was partially offset by new customer additions and expansion of existing customers of $73,500. Large one-time license sales and associated maintenance is expected to continue to decline over time. 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 was $578,210 and $732,459 for the nine months ended March 31, 2012 and 2011, respectively, a decrease of 21.06%. The $154,249 decrease in professional services revenue for the nine months ended March 31, 2012 when compared to the nine months ended March 31, 2011 is due to a decrease in the average contract size of customer projects that occurred during the nine months ended March 31, 2012 compared to the nine months ended March 31, 2011. 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 License Revenue

Software license revenue was $479,170 and $547,979 for the nine months ended March 31, 2012 and 2011, respectively, a decrease of 12.56%. Management believes that it is difficult to predict and forecast future software license 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

| | Nine Months Ended December 31, | | Variance | |
|---|---|---|---|---|
| | 2012 | 2011 | Dollars | Percent |
| Cost of services and product support | $ 3,453,795 | $ 2,894,630 | $ 559,165 | 19.32% |
| Percent of total revenue | 45.11% | 37.11% | | |

Cost of services and product support was $3,453,795 and $2,894,630 for the nine months ended March 31, 2012 and 2011, respectively, a 19.32% increase in the nine months ended March 31, 2012 compared with the nine months ended March 31, 2011. This increase of $559,165 for the nine months ended March 31, 2012 when compared with the same period ended March 31, 2011 is principally due to (i) $197,000 of costs capitalized during the prior year; (ii) a $241,000 increase in payroll and other head count related expenses, payroll taxes related to stock compensation, and an increase in benefit costs; (iii) a $39,000 increase related to employee stock grants and other stock-based compensation; (iv) an increase of $69,000 from the use of contractors and outside consulting support; (v) a $8,000 increase in hardware and software upgrades and (vi) a $5,000 increase in travel related expenditures.

-14-

Table of Contents

Sales and Marketing Expense

| | Nine Months Ended March 31, | | Variance | |
|---|---|---|---|---|
| | 2012 | 2011 | Dollars | Percent |
| Sales and marketing | $ 1,942,801 | $ 2,048,339 | $ (105,538) | -5.15% |
| Percent of total revenue | 25.38% | 26.26% | | |

Sales and marketing expense was $1,942,801 and $2,048,339 for the nine months ended March 31, 2012 and 2011, respectively, a 5.15% decrease. This $105,538 decrease over the comparable period ended March 31, 2011 was primarily the result of (i) a decrease of approximately $106,000 in payroll and other head count related expenses; (ii) a decrease of $98,000 in commission and bonus expense; and (iii) a decrease of $15,000 in travel and related expenditures. These decreases were partially offset by (i) an increase of approximately $91,000 in non-employee commissions, from the increased use of marketing allowances to large retail customers; and (ii) $22,000 in advertising, marketing and tradeshow related expense.

General and Administrative Expense

| | Nine Months Ended March 31, | | Variance | |
|---|---|---|---|---|
| | 2012 | 2011 | Dollars | Percent |
| General and administrative | $ 2,284,915 | $ 2,380,896 | $ (95,981) | -4.03% |
| Percent of total revenue | 29.84% | 30.53% | | |

General and administrative expense was $2,284,915 and $2,380,896 for the nine months ended March 31, 2012 and 2011, respectively, a 4.03% decrease in the nine months ended March 31, 2012 compared with the nine months ended March 31, 2011. This $95,981 decrease when comparing expenditures for the nine months ended March 31, 2012 with the same period ended March 31, 2011 is principally due to the settlement of a lawsuit and related legal fees in the prior year of $475,000. This decrease is partially offset by (i) a $160,000 increase in bad debt expense; (ii) an increase of $98,000 in bonus expense; (iii) an increase of $78,000 increase in shareholder costs and other professional fees; (iv) an increase of approximately $25,000 in payroll and other compensation related expense; and (v) an increase of $18,000 in hosted software costs, facilities related expenses, estimated state franchise tax payments, and travel related expense.

Depreciation and Amortization Expense

| | Nine Months Ended March 31, | | Variance | |
|---|---|---|---|---|
| | 2012 | 2011 | Dollars | Percent |
| Depreciation and amortization | $ 670,998 | $ 575,611 | $ 95,387 | 16.57% |
| Percent of total revenue | 8.76% | 7.38% | | |

Depreciation and amortization expense was $670,998 and $575,611 for the nine months ended March 31, 2012 and 2011, respectively, an increase of 16.57% in the nine months ended March 31, 2012 compared with the nine months ended March 31, 2011. This increase of $95,387 for the nine months ended March 31, 2012 when compared to the nine months ended March 31, 2011 is due to (i) a $33,000 increase in amortization related to the completion of capitalized software projects; and (ii) increased depreciation expense of $62,000.

-15-

Table of Contents

Other Income and Expense

| | Nine Months Ended March 31, 2012 | Nine Months Ended March 31, 2011 | Variance Dollars | Variance Percent |
|---|---|---|---|---|
| Interest expense | $ (167,765) | $ (263,820) | $ 96,055 | -36.41% |
| Other gains | 55,995 | - | 55,995 | 100.00% |
| Total other income and (expense) | $ (111,770) | $ (263,820) | $ 152,050 | 57.63% |
| Percent of total revenue | 1.46% | 3.38% | | |

Total other income and expense was a net other expense of $111,770 and $263,820 for the nine months ended March 31, 2012 and 2011, respectively. This $152,050 decrease is due to a gain on extinguishment of payables of $56,000 and a decrease in net interest expense of $96,000 principally due to a decrease in interest expense resulting from retirement of Prescient Notes in the principal amount of approximately $1.76 million.

Preferred Dividends

| | Nine Months Ended March 31, 2012 | Nine Months Ended March 31, 2011 | Variance Dollars | Variance Percent |
|---|---|---|---|---|
| Preferred dividends | $ 625,635 | $ 619,483 | $ 6,152 | 0.99% |
| Percent of total revenue | 8.17% | 7.94% | | |

Dividends accrued on the Company's Series A Preferred and Series B Preferred was $625,635 and $619,483 for the nine months ended March 31, 2012 and 2011, respectively. 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. Holders of Series B Preferred are entitled to a 12.00% annual dividend payable quarterly in cash.

Financial Position, Liquidity and Capital Resources

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

We have historically funded our operations with cash from operating activities, equity financings and debt borrowings. As set forth below, cash were $631,132 and $1,270,492 at March 31, 2012, and March 31, 2011, respectively. This decrease from March 31, 2012 to March 31, 2011 was principally the result of the use of cash to pay short term notes payable.

| | As of March 31, | Variance |
|---|---|---|

| | 2012 | 2011 | Dollars | Percent |
|---|---|---|---|---|
| Cash | $ 631,132 | $ 1,270,492 | $ (639,360) | -50.32% |

Table of Contents

Net Cash Flows from Operating Activities

| | Nine Months Ended March 31, | | Variance | |
|---|---|---|---|---|
| | 2012 | 2011 | Dollars | Percent |
| Cash provided by operating activities | $ 643,507 | $ 911,153 | $ (267,646) | -29.37% |

Net cash provided by operating activities is summarized as follows:

| | Nine Months Ended March 31, | |
|---|---|---|
| | 2012 | 2011 |
| Net income (loss) | $ (808,230) | $ (363,591) |
| Noncash expense and income, net | 1,599,367 | 1,617,418 |
| Net changes in operating assets and liabilities | (147,630) | (342,674) |
| | $ 643,507 | $ 911,153 |

Noncash expense decreased by $18,051 in the nine months ended March 31, 2012 compared to March 31, 2011. Noncash expense decreased as a result of a decrease from the issuance of $375,000 of common stock in connection with a litigation settlement during the prior year and a gain of $55,955 in the current year. These decreases were partially offset by increases in depreciation and amortization, bad debt expense, and the use of stock based compensation.

The net changes in operating assets and liabilities resulted in the use of $195,044 less cash in the nine months ended March 31, 2012 compared to the same period in 2011.

Net Cash Flows from Investing Activities

| | Nine Months Ended March 31, | | Variance | |
|---|---|---|---|---|
| | 2012 | 2011 | Dollars | Percent |
| Cash used in investing activities | $ (145,058) | $ (240,955) | $ 95,897 | -39.80% |

Net cash used in investing activities for the nine months ended March 31, 2012 was $145,058 compared to net cash used in investing activities of $240,955 for the nine months ended March 31, 2011. This $95,897 decrease in cash used in investing activities for the nine months ended March 31, 2012 when compared to the same period in 2011 was the result of software costs capitalized in the prior year, partially offset by increased purchases of property and equipment.

Net Cash Flows from Financing Activities

| | Nine Months Ended March 31, | | Variance | |
|---|---|---|---|---|
| | 2012 | 2011 | Dollars | Percent |
| Cash used in financing activities | $ (2,485,546) | $ (557,137) | $ (1,928,409) | 346.13% |

Net cash used in financing activities totaled $2,485,546 for the nine months ended March 31, 2012 as compared to cash flows used in financing activities of $557,137 for the nine months ended March 31, 2011. The change in net cash used in financing activities is attributable to (i) a $1.86 million increase in payments on notes payable and capital leases; (ii) an increase in dividends paid of $123,000; and (iii) a decrease in proceeds from the issuance of common stock for cash and exercise of options and warrants.  The overall comparative increase in cash used was partially offset by cash provided of $255,000 from the issuance of notes.

Table of Contents

Working Capital

At March 31, 2012, the Company had negative working capital of $2,841,508 when compared with negative working capital of $2,395,501 at June 30, 2011. This $446,007 increase in negative working capital is principally the result of (i) a decrease in the current portion of notes payable and capital leases of $1.68 million; (ii) a net decrease in other operating liabilities of $549,000. These decreases were partially offset by a decrease in operating assets of $2.67 million. In connection with the retirement of certain indebtedness in the nine months ended March 31, 2012, the Company reduced its current and total liabilities by approximately $2.2 and $2.7 million, respectively, compared to current and total liabilities at June 30, 2011.

| | As of March 31, 2012 | As of June 30, 2011 | Variance Dollars | Variance Percent |
|---|---|---|---|---|
| Current assets | $ 2,273,073 | $ 4,943,820 | $ (2,670,747) | -54.02% |

Current assets as of March 31, 2012 totaled $2,273,073, a decrease of $2,670,747 when compared to $4,943,820 as of June 30, 2011. This 54.02% decrease in current assets is due primarily to the use of cash to pay short term debt and capital lease payments of approximately $2.4 million.

| | As of March 31, 2012 | As of June 30, 2011 | Variance Dollars | Variance Percent |
|---|---|---|---|---|
| Current liabilities | $ 5,114,581 | $ 7,339,321 | $ (2,224,740) | -30.31% |

Current liabilities totaled $5,114,581 as of March 31, 2012 as compared to $7,339,321 as of June 30, 2011. The $2,224,740 comparative decrease in current liabilities is principally due to decreases in the current portion of notes and capital leases of $1.68 million, deferred revenue of $465,000, and accounts payable of $284,000. These decreases were partially offset by an increase in accrued liabilities of $200,000.

While no assurances can be given, management currently intends to continue to reduce its indebtedness in subsequent periods utilizing existing cash resources and projected cash flow from operations. In addition, management may also continue to refinance or restructure certain of the Company's indebtedness to extend the maturities of such indebtedness to address its short-term and long-term working capital requirements. Management believes that these initiatives will enable us to address our debt service requirements during the next twelve months, as well as fund our currently anticipated operations and capital spending requirements.

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 September 2011, the FASB issued ASU 2011-8, Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment, which amends previous guidance on the testing of goodwill for impairment; the guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The new guidance provides entities with the option of first assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If it is determined, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, the two-step impairment test would still be required. The adoption of this updated authoritative guidance is not expected to have a significant impact on the Company's Condensed Consolidated Financial Statements.

Table of Contents

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities, an update to the authoritative guidance which requires disclosure information about offsetting and related arrangements for financial instruments and derivative instruments. The guidance provided by this update becomes effective for the Company in the first quarter of fiscal 2014. The adoption of this updated authoritative guidance is not expected to have a significant impact on the Company's Condensed Consolidated Financial Statements.

December 2011, the FASB issued ASU 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05; an update to the authoritative guidance which defers the effective date of the presentation of reclassification adjustments out of accumulated other comprehensive income. The guidance provided by this update becomes effective for the Company in the first quarter of fiscal 2013. The adoption of this updated authoritative guidance is not expected to have a significant impact on the Company's Condensed Consolidated Financial Statements.

Critical Accounting Policies

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

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

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

Deferred Income Taxes and Valuation Allowance

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

Revenue Recognition

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

-19-

Table of Contents

We recognize subscription and hosting revenues ratably over the length of the agreement beginning on the commencement dates of each agreement or when revenue recognition conditions are satisfied based on their relative fair values. For a fee, subscriptions provide the customer with access to the software and data over the Internet, or on demand, and provide technical support services, premium analytical 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 professional services 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 or hosting service is paid in advance, deferred revenue is recognized and revenue is recorded ratably over the term as services are consumed.

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

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

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

The Company's revenue, to a lesser extent, is earned under license arrangements. Licenses generally include multiple elements that are delivered up front or over time. Vendor specific objective evidence of fair value of the hosting and support elements is based on the price charged at renewal when sold separately, and the license element is recognized into revenue upon delivery. The hosting and support elements are recognized ratably over the contractual term.

Stock-Based Compensation

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

Capitalization of Software Development Costs

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

Table of Contents

Goodwill and Long-lived Assets

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

Our exposure to interest rate changes related to borrowing has been limited by the use of fixed rate borrowings on the majority of our outstanding debt, and we believe the effect, if any, or reasonably possible near-term changes in interest rates on our financial position, results of operations and cash flows should not be material. At March 31, 2012, the debt portfolio was composed of approximately 65.8% variable-rate debt and 34.2% fixed-rate debt.

| | March 31, 2012 (unaudited) | Percent of Total Debt |
|---|---|---|
| Fixed rate debt | $ 974,089 | 34.19% |
| Variable rate debt | 1,875,272 | 65.81% |
| Total debt | $ 2,849,361 | 100.00% |

The table that follows presents fair values of principal amounts and weighted average interest rates for our investment portfolio as of March 31, 2012:

| Cash and Cash Equivalents: | Aggregate Fair Value | Weighted Average Interest Rate |
|---|---|---|
| Cash | $ 631,132 | N/A |

Table of Contents

## ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our Management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operations of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of March 31, 2012. 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.

Table of Contents

## PART II

## OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

There were no material changes from the risk factors previously disclosed in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended June 30, 2011.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

| | |
|---|---|
| Exhibit 31.1 | Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 31.2 | Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 32.1 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS* | XBRL Instance Document |
| 101.SCH* | XBRL Taxonomy Extension Schema |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase |

*Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities ct of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.

Table of Contents

## SIGNATURES

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

| | |
|---|---|
| Date: May 14, 2012 | PARK CITY GROUP, INC |
| | By: /s/ Randall K. Fields<br>Randall K. Fields<br>Chief Executive Officer, Chairman and Director<br>(Principal Executive Officer) |
| Date: May 14, 2012 | By /s/ David Colbert<br>David Colbert<br>Chief Financial Officer<br>(Principal Financial and Accounting Officer) |