

PARK CITY GROUP INC
Form 10-Q
May 10, 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 March 31, 2010.

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
(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 o
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

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

(Do not check if smaller reporting company)

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

Indicate 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: 10,820,881 shares as of May 10, 2010.

PARK CITY GROUP, INC.
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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

| Assets | March 31, 2010 (unaudited) | June 30, 2009 |
|--|-------------------------------|----------------------|
| Current Assets: | | |
| Cash and cash equivalents | \$ 694,792 | \$ 656,279 |
| Receivables, net of allowance of \$30,000 and \$21,000 at March 31, 2010 and June 30, 2009 | 1,504,441 | 1,203,218 |
| Unbilled receivables | 183,938 | 120,953 |
| Prepaid expenses and other current assets | 207,983 | 150,773 |
| Total current assets | 2,591,154 | 2,131,223 |
| Property and equipment, net | 598,304 | 534,716 |
| Other assets: | | |
| Deposits and other assets | 23,287 | 129,187 |
| Customer relationships | 3,712,862 | 4,029,599 |
| Goodwill | 4,805,933 | 4,805,933 |
| Capitalized software costs, net | 301,807 | 416,300 |
| Total other assets | 8,843,889 | 9,381,019 |
| Total assets | \$ 12,033,347 | \$ 12,046,958 |
| Liabilities and Stockholders' Deficit | | |
| Current liabilities: | | |
| Accounts payable | \$ 598,116 | \$ 759,630 |
| Accrued liabilities | 1,083,813 | 1,455,843 |
| Deferred revenue | 1,279,507 | 1,422,497 |
| Capital lease obligations | 129,672 | 109,842 |
| Lines of credit | 3,475,701 | 700,000 |
| Note payable | 990,038 | 2,200,025 |
| Total current liabilities | 7,556,847 | 6,647,837 |
| Long-term liabilities: | | |
| Notes payable, less current portion | 4,127,398 | 2,902,986 |
| Line of credit | - | 2,875,701 |
| Capital lease obligations, less current portion | 182,755 | 122,506 |
| Total liabilities | 11,867,000 | 12,549,030 |
| Commitments and contingencies | | |
| Stockholders' equity (deficit): | | |

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Preferred stock, \$0.01 par value, 30,000,000 shares authorized;
661,684 and 631,849
shares of Series A Convertible Preferred issued and outstanding at
March 31, 2010

| | | |
|---|---------------|---------------|
| and June 30, 2009, respectively | 6,617 | 6,318 |
| Common stock, \$0.01 par value, 50,000,000 shares authorized; 10,808,281 and 10,569,848 issued and outstanding at March 31, 2010 and June 30, 2009, respectively | 108,083 | 105,698 |
| Additional paid-in capital | 29,784,049 | 29,096,215 |
| Accumulated deficit | (29,732,402) | (29,710,303) |
| Total stockholders' equity (deficit) | 166,347 | (502,072) |
| Total liabilities and stockholders' equity (deficit) | \$ 12,033,347 | \$ 12,046,958 |

See accompanying notes to consolidated condensed financial statements.

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

| | Three Months ended March 31, | | Nine Months ended March 31, | |
|--|---------------------------------|-----------------------|--------------------------------|-----------------------|
| | 2010 | 2009 | 2010 | 2009 |
| Revenues: | | | | |
| Subscriptions | \$ 1,527,029 | \$ 1,372,127 | \$ 4,532,711 | \$ 1,509,397 |
| Maintenance | 588,007 | 676,176 | 1,916,693 | 1,264,494 |
| Professional services | 328,018 | 281,114 | 952,481 | 492,066 |
| License fees | 525,120 | 173,698 | 754,810 | 221,498 |
| Total revenues | 2,968,174 | 2,503,115 | 8,156,695 | 3,487,455 |
| Operating expenses: | | | | |
| Cost of services and product support | 1,299,651 | 1,293,332 | 3,315,442 | 2,329,098 |
| Sales and marketing | 343,294 | 445,677 | 1,197,678 | 978,681 |
| General and administrative | 826,178 | 646,994 | 2,317,513 | 1,570,836 |
| Impairment of capitalized software | - | 1,457,383 | - | 1,457,383 |
| Depreciation and amortization | 207,273 | 238,497 | 617,312 | 511,738 |
| Total operating expenses | 2,676,396 | 4,081,883 | 7,447,945 | 6,847,736 |
| Income (loss) from operations | 291,778 | (1,578,768) | 708,750 | (3,360,281) |
| Other income (expense): | | | | |
| Loss on equity method investment | - | - | - | (162,796) |
| Gain on refinance of note payable | - | - | 43,811 | - |
| Other gains | - | - | 24,185 | 100 |
| Interest expense | (168,569) | (257,068) | (553,161) | (337,001) |
| Income (loss) before income taxes | 123,209 | (1,835,836) | 223,585 | (3,859,978) |
| (Provision) benefit for income taxes | - | - | - | - |
| Net income (loss) | 123,209 | (1,835,836) | 223,585 | (3,859,978) |
| Dividends on preferred stock | (81,454) | (200,108) | (245,684) | (528,182) |
| Net income (loss) applicable to common stockholders | \$ 41,755 | \$ (2,035,944) | \$ (22,099) | \$ (4,388,160) |
| Weighted average shares, basic | 10,755,000 | 9,872,000 | 10,672,000 | 9,534,000 |
| Weighted average shares, diluted | 10,781,000 | 9,872,000 | 10,672,000 | 9,534,000 |
| Basic and diluted income (loss) per share | \$ 0.00 | \$ (0.21) | \$ (0.00) | \$ (0.46) |

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 Nine Months Ended March 31,

| | 2010 | 2009 |
|--|------------|----------------|
| Cash flows from operating activities: | | |
| Net income (loss) | \$ 223,585 | \$ (3,859,978) |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | |
| Depreciation and amortization | 617,312 | 511,738 |
| Bad debt expense | 173,612 | 13,052 |
| Stock issued for services and expenses | 369,027 | 76,834 |
| Loss on disposal of assets | - | (100) |
| Amortization of discount on debt | 1,589 | 2,383 |
| Other gains | (24,185) | - |
| Loss on equity method investment | - | 162,796 |
| Impairment of capitalized software | (43,811) | 1,457,383 |
| Decrease (increase) in: | | |
| Trade receivables | (474,835) | 739,074 |
| Unbilled receivables | (62,985) | 16,490 |
| Prepaid expenses and other assets | (1,163) | (121,008) |
| (Decrease) increase in: | | |
| Accounts payable | (161,514) | (56,631) |
| Accrued liabilities | (222,185) | 267,070 |
| Deferred revenue | (142,990) | (7,072) |
| Net cash provided by (used in) operating activities | 251,457 | (797,969) |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (64,741) | (96,513) |
| Net cash paid in acquisition | - | (1,635,090) |
| Release of restricted cash | - | 1,940,000 |
| Net cash (used in) provided by investing activities | (64,741) | 208,397 |
| Cash flows from financing activities: | | |
| Net increase in lines of credit | 400,000 | 3,546,873 |
| Proceeds from issuance of stock | - | 153,602 |
| Proceeds from issuance of notes payable | - | 186,264 |
| Payments on notes payable and capital leases | (548,203) | (3,055,600) |
| Net cash (used in) provided by financing activities | (148,203) | 831,139 |
| Net increase in cash | 38,513 | 241,567 |
| Cash and cash equivalents at beginning of period | 656,279 | 865,563 |

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| | | |
|---|------------|--------------|
| Cash and cash equivalents at end of period | \$ 694,792 | \$ 1,107,130 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for income taxes | \$ - | \$ - |
| Cash paid for interest | \$ 642,618 | \$ 213,457 |
| Supplemental disclosure of non-cash investing and financing activities: | | |
| Dividends accrued on preferred stock | \$ 245,684 | \$ 528,182 |
| Dividends paid with preferred stock | \$ 321,491 | \$ 407,650 |
| Property and equipment purchased by capital lease | \$ 184,929 | \$ 40,807 |

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 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.

Acquisition of Prescient Applied Intelligence, Inc.

On January 13, 2009, the Company consummated a merger of PAII Transitory Sub, Inc., a wholly-owned subsidiary of the Company, with and into Prescient (the “Prescient Merger”). As a result of the Prescient Merger, the Company owns 100% of Prescient. The Company’s consolidated financial statements contain the results of operations of Prescient, as well as the impact on the Company’s financial position resulting from consummation of the Prescient Merger subsequent to the date of acquisition.

The Prescient Merger was accounted for as a business combination. The Company was the acquirer. The assets acquired and the liabilities assumed of Prescient have been recorded at their respective fair values. The total consideration paid to acquire Prescient was \$11,391,318, \$1,170,089 of which was for direct transaction costs. The acquisition cost includes \$3,086,016 of cash acquired from Prescient. The acquisition cost, net of the \$3,086,016 acquired cash, was \$8,305,302.

Unaudited pro-forma results of operations for the three and nine months ended March 31, 2010 and 2009, as though Prescient had been acquired as of July 1, 2008, are as follows:

| | Three months ended March 31, | | Nine months ended March 31, | |
|---|---------------------------------|--------------|--------------------------------|--------------|
| | 2010 | 2009 | 2010 | 2009 |
| Revenue | \$ 2,968,174 | \$ 2,503,115 | \$ 8,156,695 | \$ 7,932,291 |
| Income (loss) from operations | 291,778 | (1,578,768) | 708,750 | (4,975,856) |
| Net income (loss) | 123,209 | (1,835,836) | 223,585 | (5,356,731) |
| Net income (loss) applicable to common shareholders | 41,755 | (2,035,944) | (22,099) | (6,916,329) |
| Basic and diluted loss per share | 0.00 | (0.21) | (0.00) | (0.73) |

The audited consolidated financial statements of the Company and Prescient for the year ended June 30, 2009 are included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on September 24, 2009.

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The unaudited pro-forma summary financial information is based upon available information and upon certain estimates and assumptions that are believed to be reasonable. These estimates and assumptions are preliminary and have been made solely for the purposes of developing this pro-forma financial information. This unaudited pro-forma summary financial information is presented for illustrative purposes only and does not purport to be indicative of the results of operations of the combined company that would actually have been achieved had the transaction been completed for the period presented, or that may be obtained in the future. This unaudited pro-forma financial information is based upon our respective historical consolidated financial statements and those of Prescient and the respective notes thereto.

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 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 nine months ended March 31, 2010 are not necessarily indicative of the operating results that may be expected for the fiscal year ending June 30, 2010.

Recent Accounting Pronouncements

In October 2009, the FASB issued 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 Company is evaluating the effects of the adoption of ASU 2009-13 or ASU 2009-14 and its potential affect on the Company's results of operations or financial condition.

In December 2009, the FASB issued Accounting Standards Update ("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 Company does not expect the adoption of ASU 2009-17 to have a material impact on its consolidated financial statements.

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

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 (Loss) and Income (Loss) Per Common Share

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

For the three months ended March 31, 2010 options and warrants to purchase 793,622 shares of common stock, were not included in the computation of diluted EPS due to their anti-dilutive effect. For the three months ended March 31, 2009 options and warrants to purchase 1,012,223 shares of common stock, were not included in the computation of diluted EPS due to the anti-dilutive effect on a net loss applicable to common shareholders. For the three months ended March 31, 2010 and March 31, 2009, 2,205,613 and 2,152,670 shares of common stock issuable upon conversion of the Company's Series A Convertible Preferred Stock, respectively, were not included in the diluted EPS calculation as the effect would have been anti-dilutive.

For the nine months ended March 31, 2010 and 2009 options and warrants to purchase 858,502 and 1,012,223 shares of common stock, respectively, were not included in the computation of diluted EPS due to the anti-dilutive effect on net loss applicable to common shareholders. For the nine months ended March 31, 2010 and March 31, 2009, 2,205,613 and 2,152,670 shares of common stock issuable upon conversion of the Company's Series A Convertible Preferred Stock, respectively, were not included in the diluted EPS calculation as the effect would have been anti-dilutive.

Use of Equity Method on Investment

The Company accounts for its investments in companies subject to significant influence using the equity method of accounting, under which, the Company's pro-rata share of the net income (loss) of the affiliate is recognized as income

(loss) in the Company's income statement and the Company's share of the equity of the affiliate is reflected in the Company's capital stock account and added to the investment on the balance sheet.

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The Company accounts for its investments in subsidiaries using the consolidation method of accounting where the Company has greater than 50% ownership. The Company combines and recognizes subsidiary financial results in its consolidated condensed financial statements. In the consolidated income statement the individual revenue and expense accounts are combined with those of the Company's. In addition the balances in equity on the subsidiary's balance sheet are eliminated upon consolidation.

NOTE 3. LIQUIDITY

As shown in the consolidated condensed financial statements, the Company had a loss of \$22,099 applicable to common shareholders for the nine months ended March 31, 2010 and losses applicable to common shareholders of \$4,388,160 for the nine months ended March 31, 2009. The net decrease in loss applicable to common shareholders is primarily the result of: (i) the increase in total revenues of \$4,669,240, resulting from the consummation of the Prescient Merger, (ii) a \$43,811 gain on refinance of note payable, (iii) an increase in other gains of \$24,185, and (iv) a decrease in dividends of \$282,498. This decrease in loss applicable to common shareholders was partially offset by an increase of operating expenses of \$600,209 resulting from the consummation of the Prescient Merger; and an increase in net interest expense of \$216,160.

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 requires 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 September 30, 2009, the Company entered into certain loan modification agreements with its principal lender pursuant to which the maturity date of certain credit agreements providing for maximum borrowings of approximately \$3.7 million, of which \$3,475,701 million was outstanding at March 31, 2010. The maturity dates have been extended from September 30, 2009 to September 30, 2010, November 24, 2010, and February 15, 2011. The new notes accrue interest at an annual rate of between 3.25% and 4.25%.

At March 31, 2010, the Company had negative working capital of \$4,965,693, when compared with negative working capital of \$4,516,614 at June 30, 2009. This \$449,079 decrease in working capital is principally a result of short term maturity of certain lines of credit, which resulted in a corresponding increase in short-term liabilities. While no assurances can be given, management intends to restructure certain note obligations maturing during the next twelve months to address its working capital deficit. 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.

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 181,523. The stock grant agreements were dated effective between November 2, 2007 and March 1, 2010.

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NOTE 5. OUTSTANDING STOCK OPTIONS

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

| Range of exercise prices | Options and Warrants Outstanding at March 31, 2010 | | | Options and Warrants Exercisable at March 31, 2010 | | |
|--------------------------|--|---|---------------------------------|--|---------------------------------|--|
| | Number Outstanding at March 31, 2010 | Weighted average remaining contractual life (years) | Weighted average exercise price | Number Exercisable at March 31, 2010 | Weighted average exercise price | |
| \$ 1.50-1.76 | 14,880 | 3.34 | \$ 1.76 | 14,880 | \$ 1.76 | |
| \$ 1.80-4.00 | 843,622 | 1.57 | \$ 3.63 | 843,622 | \$ 3.63 | |
| | 858,502 | 1.61 | \$ 3.60 | 858,502 | \$ 3.60 | |

NOTE 6. RELATED PARTY TRANSACTIONS

On September 2, 2008, the Company executed and delivered three promissory notes in an aggregate amount of \$2,200,000. Each of such notes was unsecured, was due on or before December 1, 2008, and accrued interest at the rate of 10% per annum. The lenders and the amount of each note were as follows:

| Lender | Principal Amount |
|---|------------------|
| Riverview Financial Corp* | \$ 1,500,000 |
| Robert K. Allen (Director of Company) | 500,000 |
| Robert Hermanns (Director and Former Senior Vice President) | 200,000 |
| Total | \$ 2,200,000 |

* Riverview Financial Corp (“Riverview”) is an affiliate of Randall Fields, the CEO and Chairman of the Board of the Company.

The loan proceeds were used by the Company to fund a portion of the purchase price of shares of Series E Preferred Stock of Prescient purchased by the Company. The purchase transaction was the first step in connection with the Prescient Merger. The purchase transaction and the Prescient Merger transaction are described in a Form 8-K filed by the Company on September 3, 2008.

On January 12, 2009, the Company entered into a Purchase Agreement with Robert W. Allen, pursuant to which the Company issued an unsecured Subordinated Promissory Note to Mr. Allen in the principal amount of \$523,013.70 (the “Allen Note”). The Allen Note was issued by the Company to replace the promissory note issued to Mr. Allen on September 2, 2008 in the principal amount of \$500,000. The principal amount of the Allen Note reflects the principal amount of the original note issued to Mr. Allen, plus accrued interest of \$23,013.70. The Allen Note bears interest computed at a rate of twelve percent (12%) per annum, and is due and payable on the earlier to occur of July 12, 2011 or upon an event of default. In addition to the Allen Note, Mr. Allen was issued 116,667 shares of the Company’s common stock in consideration for the exchange of the original note.

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On April 1, 2009, the Company issued an unsecured Subordinated Promissory Note to Riverview in the principal amount of \$620,558.53 (“New Note”). The New Note was issued in consideration for the cancellation of the promissory note, dated September 2, 2008, issued by the Company to Riverview in the original principal amount of \$1,500,000 (the “Old Note”), which principal amount was reduced by \$1.0 million as a result of a payment made to Riverview by the Company on February 3, 2009. The New Note includes accrued but unpaid interest under the Old Note of \$80,171.84, certain fees owed to Riverview by the Company in the amount of \$35,123.68 for guaranteeing amounts owed by the Company under a line of credit with a bank, and \$5,263.01 representing certain late fees owed Riverview by the Company resulting from the failure by the Company to pay certain amounts to Riverview under the terms of a Services Agreement between the Company and Riverview, dated July 1, 2005. The New Note, which bears interest computed at a rate of twelve percent (12%) per annum, is due on the earlier of September 30, 2011 or upon an event of default.

NOTE 7. PROPERTY AND EQUIPMENT

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

| | March 31, 2010 (unaudited) | June 30, 2009 |
|--|----------------------------------|------------------|
| Computer equipment | \$ 1,626,510 | \$ 1,387,090 |
| Furniture and equipment | 349,078 | 363,762 |
| Leasehold improvements | 172,367 | 204,482 |
| | \$ 2,147,955 | \$ 1,955,334 |
| Less accumulated depreciation and amortization | (1,549,651) | (1,420,618) |
| | \$ 598,304 | \$ 534,716 |

NOTE 8. CAPITALIZED SOFTWARE COSTS

Capitalized software costs consist of the following as of:

| | March 31, 2010 (unaudited) | June 30, 2009 |
|-------------------------------|----------------------------------|------------------|
| Capitalized software costs | \$ 2,246,077 | \$ 2,246,077 |
| Less accumulated amortization | (1,944,270) | (1,829,777) |
| | \$ 301,807 | \$ 416,300 |

NOTE 9. ACCRUED LIABILITIES

Accrued liabilities consist of the following as of:

| | March 31, 2010 (unaudited) | June 30, 2009 |
|----------------------------|----------------------------------|------------------|
| Accrued compensation | \$ 464,748 | \$ 470,038 |
| Unclaimed tender offer | 268,099 | 338,133 |
| Accrued stock grants | 145,659 | 136,033 |
| Accrued dividends | 83,860 | 159,668 |
| Accrued interest | 41,168 | 137,731 |
| Accrued legal fees | 37,933 | 86,099 |
| Other accrued liabilities | 29,846 | 108,141 |
| Accrued board compensation | 12,500 | 20,000 |

\$ 1,083,813 \$ 1,455,843

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

The Company's policy is to recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the nine months ended March 31, 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, and have determined that the following events are reasonably likely to impact the financial statements:

1. On May 5, 2010, Park City Group, Inc. (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.
2. On May 5, 2010, the Company entered into an Amendment to Loan Agreement and Note ("Amendment"), pursuant to which the Bank has agreed to modify the maturity date and interest rate as set forth in that certain Loan Agreement and Note, dated November 24, 2008. The Loan Agreement permits borrowings of up to \$3.0 million, of which \$2,875,701.38 was outstanding as of the date of the Amendment. Under the terms of the Amendment, the maturity date of the Note has been extended from November 24, 2010 to November 24, 2011, and the interest rate has been changed from an annual interest rate of 4.25% plus the one-month LIBOR rate charged by the Bank to 3.25% through November 23, 2010, and 2.25% plus the rate at which the Bank would be able to borrow funds of comparable amounts in the money markets for a one-year period, adjusted for any reserve requirement and any subsequent costs arising from a change in government regulation. Amounts due under the terms of the Term Note are guaranteed by Randall K. Fields, the Chief Executive Officer of the Company.

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

The Company's Annual Report on Form 10-K for the year ended June 30, 2009 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, 2009 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

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

On January 13, 2009, the Company consummated a merger of PAII Transitory Sub, Inc., a wholly-owned subsidiary of the Company, with and into Prescient (the "Prescient Merger"). As a result of the Prescient Merger, the Company now owns 100% of Prescient.

Prescient is a leading provider of on-demand solutions for the retail marketplace, including both retailers and suppliers. Its solutions capture information at the point of sale, provide greater visibility into real-time demand and turn data into actionable information across the entire supply chain. As a result of consummation of the Prescient Merger, revenue has increased substantially, to \$8,156,695 for the nine months ended March 31, 2010, and the Company has considerably increased the number of active software implementations. In this regard, the Company had approximately 40 active software implementations in process as of March 31, 2010.

Results of Operations

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

On January 13, 2009, the Company consummated the Prescient Merger. Results for the three months ended March 31, 2010 therefore include both the results of the Company and Prescient. The results for the three months ended March 31, 2009 include Prescient's results subsequent to consummation of the Prescient Merger.

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Total Revenues

Total revenues were \$2,968,174 and \$2,503,115 for the three months ended March 31, 2010 and 2009, respectively, a 19% increase. This \$465,059 increase in total revenues is principally due to (i) a \$154,902 increase in subscription revenue, (ii) a \$46,904 increase in professional services revenue, and (iii) an increase of \$351,422 in license revenue, partially offset by a \$88,169 decrease in maintenance revenue. Management believes that the Company has benefitted from the product synergies resulting from the Prescient Merger which took place during the quarter ended March 31, 2009, and the Company continues its focus on marketing the Company's combined products and services on a subscription basis. While no assurances can be given, management believes that total revenue will continue to be positively impacted as a result of the consummation of the Prescient Merger.

Subscription Revenue

Subscription revenues were \$1,527,029 and \$1,372,127 for the three months ended March 31, 2010 and 2009 respectively, an increase of 11% in the three months ended March 31, 2010 when compared with the three months ended March 31, 2009. The increase is principally due to (i) the net increase of eight retailers added to the Company's customer base which contributed approximately \$106,000 of new subscription revenue, (ii) a \$34,000 increase attributable to the growth of existing retailers, and (iii) an increase in supplier subscriptions of approximately \$62,000. The increase in subscription revenue was partially offset by a decrease of approximately \$32,000 resulting from the non-renewal of existing supplier 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. However, while management believes that marketing its suite of software solutions as a renewable and recurring subscription is an effective strategy, it cannot be assured that subscribers will renew the service at the same level in future years, propagate services to new categories, or recognize the need for expanding the service offering of the Company's suite of actionable products and services.

Maintenance Revenue

Maintenance revenues were \$588,007 and \$676,176 for the three months ended March 31, 2010 and 2009, respectively, a decrease of 13% in the three months ended March 31, 2010 when compared with the three months ended March 31, 2009. The net decrease of \$88,169 is principally due to (i) the non renewal of nine maintenance contracts and (ii) the reduction in scope of maintenance. This decrease in maintenance contracts was offset by (i) the addition of four new maintenance contracts, and (ii) annual maintenance increases to renewing customers. 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 Revenue

Professional services revenues were \$328,018 and \$281,114 for the three months ended March 31, 2010 and 2009, respectively, an increase of 17%. This \$46,904 increase in professional services revenue for the period ended March 31, 2010 when compared with the same period ended March 31, 2009 was principally due to an increase in scope of implementation and consulting engagements and the higher value of these engagements. 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.

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License Revenue

Software license revenues were \$525,120 and \$173,698 for the three months ended March 31, 2010 and 2009, respectively, an increase of 202%. This increase of \$351,422 was principally the result of the sale of a new license during the quarter ended March 31, 2010, resulting in \$490,000 of license revenue recognized during the quarter. Management believes that it is difficult to predict and forecast future software license sales. Therefore, the Company will continue to focus its resources on recurring subscription based revenues. 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

Cost of services and product support were \$1,299,651 and \$1,293,332 for the three months ended March 31, 2010 and 2009 respectively. This increase of \$6,319 for the quarter ended March 31, 2010 when compared with the same period ended March 31, 2009 is principally due to (i) a \$47,000 increase in contractor and outside consulting support, and (ii) a \$171,500 increase in non-employee commissions incurred as a result of a license sale in the quarter. These increases were partially offset by (i) approximately a \$101,000 decrease in payroll and other compensation expenses unrelated to the Prescient Merger, (ii) a \$8,700 decrease in travel and related expenses, (iii) a \$4,200 decrease in hardware/software maintenance and support from third party applications and (iv) approximately a \$102,000 decrease in the pro rata share of overhead expenses due to the consolidation and elimination of duplicative offices and related expenses associated with the Prescient Merger which took place during the period ended March 31, 2009. The Company continues to focus on decreasing expenses while completing the final stages of its integration of operations with Prescient.

Sales and Marketing Expense

Sales and marketing expenses were \$343,294 and \$445,677 for the three months ended March 31, 2010 and 2009, respectively, a 23% decrease. This \$102,383 decrease in the period ended March 31, 2010 when compared with the same period in 2009 was principally the result of (i) a decrease of approximately \$72,000 in salary and related costs due to overall net reduction in salaries, (ii) a \$48,000 decrease in tradeshow and conference expenses, and (iii) a decrease in the pro rata share of overhead expenses due to the consolidation and elimination of duplicative offices and related expenses. These decreases are partially offset by an increase of approximately \$30,000 in travel and related expenditures that did not occur in the comparable period in 2009.

General and Administrative Expense

General and administrative expenses were \$826,178 and \$646,994 for the three months ended March 31, 2010 and 2009, respectively, a 28% increase in the three months ended March 31, 2010 when compared to the three months ended March 31, 2009. This \$179,184 increase in the quarter ended March 31, 2010 when compared with the same period ended March 31, 2009 is principally due to (i) approximately a \$49,000 increase in stock based compensation expense of certain employees and board members that are based on multi-year vesting schedules, and an increase in the number of board members, (ii) a \$15,600 increase in employee training expenses, (iii) an \$11,000 increase in equipment leases and computer hardware/software maintenance, (iv) a \$98,000 increase in legal, and accounting fees, (v) a \$7,600 increase in travel expenses, (vi) a \$31,600 increase in bad debt expense. These increases were partially offset by approximately \$51,000 related to investor relation costs and other professional fees.

Depreciation and Amortization Expense

Depreciation and amortization expenses were \$207,273 and \$238,497 for the three months ended March 31, 2010 and 2009, respectively, a decrease of 13% in the three months ended March 31, 2010 when compared with the three months ended March 31, 2009. This decrease of \$31,224 is due to a decrease in amortization expense as a result of an impairment charge determined on certain acquired intangible assets in June 2009. Therefore, the amount of amortization on definite-lived intangibles assets during the quarter ended March 31, 2010 was lower than amortization in the comparable period in 2009.

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Other Income and Expense

Net interest expenses were \$168,569 and \$257,068 for the three months ended March 31, 2010 and 2009, respectively, a decrease of 34% in the three months ended March 31, 2010 when compared with the three months ended March 31, 2009. This \$88,499 decrease is principally due to a decrease in interest expense resulting from capital leases and substantially lower interest rates achieved as a result of the debt restructuring described below under Working Capital and Debt Restructuring.

Preferred Dividends

Dividends declared on preferred stock was \$81,454 for the three months ended March 31, 2010 when compared with \$200,108 accrued in the same period in 2009. 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.

Comparison of the Nine Months Ended March 31, 2010 to the Nine Months Ended March 31, 2009.

On January 13, 2009, the Company consummated the Prescient Merger. Results for the nine months ended March 31, 2010 therefore include both the results of the Company and Prescient. The results for the nine months ended March 31, 2009 include results for the Company prior to consummation of the Prescient Merger.

Total Revenues

Total revenues were \$8,156,695 and \$3,487,455 for the nine months ended March 31, 2010 and 2009, respectively, a 134% increase. This \$4,669,240 increase in total revenues is principally due to the consummation of the Prescient Merger, which contributed \$4,495,919 in total revenue during the period ended March 31, 2010. In addition, the following changes occurred unrelated to the Prescient Merger. An increase in license sales contributed \$490,000 to total revenue for the period ended March 31, 2010 which did not occur in the same period in 2009. This increase in total revenue were partially offset by (i) a decrease of \$53,700 in subscription revenue., (ii) a decrease of \$57,170 in maintenance revenue, and (iii) a decrease of \$257,300 in professional services revenue resulting from the completion of projects in the nine months ended 2009 that did not recur in the same period in 2010. Management believes that the Company has benefitted from the product synergies resulting from the Prescient Merger, and the Company continues its focus on marketing the Company's combined products and services on a subscription basis. While no assurances can be given, management believes that total revenue will continue to be positively impacted as a result of the consummation of the Prescient Merger.

Subscription Revenue

Subscription revenues were \$4,532,711 and \$1,509,397, for the nine months ended March 31, 2010 and 2009 respectively, an increase of 200% in the nine months ended March 31, 2010 when compared with the nine months ended March 31, 2009. The increase is principally due to the consummation of the Prescient Merger, which contributed \$3,030,625 in subscription revenue during the period. The Company continues to focus its strategic initiatives on increasing the number of retailers, suppliers and manufacturers that use its software on a subscription basis. However, while management believes that marketing its suite of software solutions as a renewable and recurring subscription is an effective strategy, it cannot be assured that subscribers will renew the service at the same level in future years, propagate services to new categories, or recognize the need for expanding the service offering of the Company's suite of actionable products and services.

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Maintenance Revenue

Maintenance revenues were \$1,916,693 and \$1,264,494 for the nine months ended March 31, 2010 and 2009, respectively, an increase of 52% in the nine months ended March 31, 2010 compared with the nine months ended March 31, 2009. The increase is principally due to the consummation of the Prescient Merger, which contributed \$709,369 in maintenance revenue during the nine month period ended March 31, 2010. The increase in maintenance revenue associated with the Prescient Merger was partially offset by cancellations of existing customers or reduction in the scope of maintenance. While management believes maintenance and support services is essential to its customers, due to macroeconomic conditions 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 Revenue

Professional services revenues were \$952,481 and \$492,066 for the nine months ended March 31, 2010 and 2009, respectively, an increase of 94% in the nine months ended March 31, 2010 when compared with the nine months ended March 31, 2009. This \$460,415 increase in professional services revenue for the nine month period ended March 31, 2010 when compared with the same period ended March 31, 2009 was principally due to the consummation of the Prescient Merger, which contributed \$706,507 in professional services revenue during the nine month period ended March 31, 2010, which was offset by a \$257,300 decrease in professional services that was the result of the completion of projects in the nine months ended March 31, 2009 which did not recur in the same period 2010. 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 need for its analytics offerings and change-management services becomes a natural addition to its software as a service (SaaS) product suite.

License Revenue

Software license revenues were \$754,810 and \$221,498 for the nine months ended March 31, 2010 and 2009, respectively, an increase of 241% in the nine months ended March 31, 2010 when compared with the nine months ended March 31, 2009. The increase of \$533,312 was principally the result of the sale of a new license during the quarter ended March 31, 2010, resulting in \$490,000 of license revenue recognized during the quarter, and, to a lesser extent, due to the organic growth and purchase of new licenses for existing customers. in license revenue during the nine months ended March 31, 2010. Management believes it is difficult to predict and forecast future software license sales. Therefore, the Company will continue to focus its resources on recurring subscription based revenues. The Company has not eliminated the sale of its suite of products on a license basis.

Cost of Services and Product Support

Cost of services and product support were \$3,315,442 and \$2,329,098 for the nine months ended March 31, 2010 and 2009 respectively, a 42% increase in the nine months ended March 31, 2010 compared with the nine months ended March 31, 2009. This increase of \$986,344 for the nine month period ended March 31, 2010 when compared with the same period ended March 31, 2009 is principally due to (i) a \$736,000 increase in salary, commission and payroll related expense, in conjunction with the consummation of the Prescient Merger, (ii) a \$150,800 increase in contractor and outside consulting support, (iii) \$37,700 in software and maintenance support, and (iv) \$43,561 in travel related expenses, and (v) a \$171,500 increase in non-employee commissions incurred as a result of a license sale that did not occur in the comparable period in 2009. These increases were partially offset by a decrease in other salary and expenses unrelated to the Prescient Merger. The Company continues to focus on rationalizing expenses while completing the final stages of its integration of operations with Prescient.

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Sales and Marketing Expense

Sales and marketing expenses were \$1,197,678 and \$978,681 for the nine months ended March 31, 2010 and 2009, respectively, a 22% increase. This \$218,997 increase for the period ended March 31, 2010 when compared with the same period ended March 31, 2009 was primarily the result of approximately (i) a \$56,000 increase in inside sales force salaries which was due to hiring of additional sales staff, and other payroll related expenses, (ii) a \$87,000 increase in sales commission and employee vesting stock grants, (iii) a \$70,000 increase in travel related expenses, and (iv) a \$70,000 increase in recruiting expenses related to hiring the additional sales personnel, that did not occur in the comparable period in 2009. These increases were partially offset by a decrease of \$67,700 in tradeshow and conference related expenses.

General and Administrative Expense

General and administrative expenses were \$2,317,513 and \$1,570,836 for the nine months ended March 31, 2010 and 2009, respectively, a 48% increase in the nine months ended March 31, 2010 when compared with the nine months ended March 31, 2009. This \$746,677 increase for the period ended March 31, 2010 when compared with the same period ended March 31, 2009 is principally due to (i) an approximately \$222,000 increase in payroll and related expenses of which approximately \$130,000 is attributable to the Prescient Merger, (ii) a \$126,000 increase in non-capitalized computer equipment, computer hardware leases, and software maintenance and support as a result of the acquisition of additional third party applications, (iii) an increase of \$200,000 in legal, accounting and other professional fees, (iv) a \$155,000 increase in board fees, an increase in the number of board members, and stock based compensation expenses related to vesting of certain grants to employees, officers, and directors, (v) a \$48,000 increase in bad debt expense, and (vi) a \$39,000 increase in taxes, bank charges, and other miscellaneous overhead related expenses due to the operation of additional offices. These increases were partially offset by a decrease in investor relations and shareholder costs of approximately \$63,000.

Depreciation and Amortization Expense

Depreciation and amortization expenses were \$617,312 and \$511,738 for the nine months ended March 31, 2010 and 2009, respectively, an increase of 21% in the nine months ended March 31, 2010 when compared with the nine months ended March 31, 2009. This \$105,574 increase for the period ended March 31, 2010 when compared with the same period ended March 31, 2009 is partially due to the consummation of the Prescient Merger, which resulted in an additional \$416,000 in depreciation and amortization expense that was not incurred in the comparable period in 2009. This increase, due to the Prescient Merger, was partially offset by a decrease in amortization expense as a result of certain capitalized software that reached full amortization during the period ended March 31, 2009.

Other Income and Expense

Net interest expenses were \$553,161 for the nine months ended March 31, 2010 when compared with \$337,001 for the nine months ended March 31, 2009. This \$216,160 increase is principally due to the consummation of the Prescient Merger. In this regard, the Company incurred approximately (i) \$44,800 of interest expense for a note payable acquired in the course of the Prescient Merger, (ii) \$343,000 in interest expense on notes payable issued in connection with financing arrangements associated with consummation of the Prescient Merger. These increases were partially offset by the interest associated with a reduction of debt which occurred in the nine months ended March 31, 2009, and interest expense resulting from substantially lower interest rates achieved as a result of the debt restructuring described below under Working Capital and Debt Restructuring.

Preferred Dividends

Dividends declared on preferred stock was \$245,684 for the nine months ended March 31, 2010 when compared with \$528,182 accrued in the same period in 2009. 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.

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Liquidity and Capital Resources

Net Cash Flows from Operating Activities

Net cash provided by operating activities for the nine months ended March 31, 2010 was \$251,457 when compared with \$797,969 used in operations for the nine months ended March 31, 2009. The increase in cash flows provided by operations was primarily the result of (i) an increase in net income, (ii) an increase in stock issued for services due to the Prescient Merger, (iii) improvements in collection efforts, and (iv) increases in depreciation and amortization. These increases were offset by increase in (i) trade receivables, (ii) unbilled receivables, and further offset by decreases in (iii) accounts payable, (iv) accrued liabilities, and (v) deferred revenue.

Net Cash Flows from Investing Activities

Net cash used in investing activities for the nine months ended March 31, 2010 was \$64,741 when compared with net cash provided by investing activities of \$208,397 during the nine months ended March 31, 2009. This \$273,138 increase in cash used in investing activities during the nine months ended March 31, 2010 when compared with the same period in 2009 was the result of net cash paid in connection with the Prescient Merger which was offset by the release of restricted cash that occurred in 2009 that did not reoccur in 2010.

Net Cash Flows from Financing Activities

Net cash used in financing activities was \$148,203 for the nine months ended March 31, 2010 when compared with net cash provided by financing activities of \$831,139 during the same period 2009. The change in net cash (used in) provided by financing activities is attributable to the completion of the Prescient merger that closed on January 13, 2009. This resulted in fewer uses of lines of credit, and proceeds raised through the placement of certain notes payable to the Company's officers and directors in connection with financing the Merger.

Cash and Cash Equivalents

Cash and cash equivalents were \$694,792 at March 31, 2010, an increase of \$38,513 over the \$656,279 of cash and cash equivalents at June 30, 2009. This increase from June 30, 2009 when compared with March 31, 2010 was the result of collections from existing customers and new subscription contracts.

Current Assets

Current assets at March 31, 2010 totaled \$2,591,154, a 22% increase from current assets of \$2,131,223 at June 30, 2009. The \$459,931 increase in current assets is due primarily to (i) increases in cash provided by operations, (ii) an increase in accounts receivable (iii) increases in unbilled receivables and (iv) an increase in prepaid expenses.

Current Liabilities

Current liabilities as of March 31, 2010 and June 30, 2009, were \$7,556,847 and \$6,647,837, respectively. The increase in current liabilities for the period ended March 31, 2010 when compared with June 30, 2009 is principally due to certain loans and lines of credit which mature within the next twelve months. This increase was offset by (i) a reduction of accounts payable, (ii) a decrease in accrued liabilities, (iii) a decrease in deferred revenue, and (iv) a decrease from the Company's rate and term refinance of certain notes payable.

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Working Capital and Debt Restructuring

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 note is now due on August 1, 2012. The note requires 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 September 30, 2009, the Company entered into certain loan modification agreements with its principal lender pursuant to which the maturity date of certain credit agreements providing for maximum borrowings of approximately \$3.7 million, of which approximately \$3.58 million was issued and outstanding at September 30, 2009, have been extended from September 30, 2009 to September 30, 2010. The new notes accrue interest at an annual rate of between 3.25% and 4.25%.

At March 31, 2010, the Company had negative working capital of \$4,965,693, when compared with negative working capital of \$4,516,614 at June 30, 2009. This \$449,079 decrease in working capital is principally a result of short term maturity of certain lines of credit, which resulted in a corresponding increase in short-term liabilities. While no assurances can be given, management intends to restructure certain note obligations maturing during the next twelve months to address its working capital deficit. 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.

Off-Balance Sheet Arrangements

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

Recent Accounting Pronouncements

In October 2009, the FASB issued 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 Company is evaluating the effects of the adoption of ASU 2009-13 or ASU 2009-14 and its potential affect on the Company's results of operations or financial condition.

In December 2009, the FASB issued Accounting Standards Update ("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 Company does not expect the adoption of ASU 2009-17 to have a material impact on its consolidated financial statements.

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

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

The Company derives revenues from four primary sources: software licenses, maintenance and support services, professional services and software subscriptions. New software licenses include the sale of software runtime license fees associated with deployment of the Company's software products. Software license maintenance updates and product support are typically annual contracts with customers that are paid in advance or specified as terms in the contract. This provides the customer access to new software releases, maintenance releases, patches and technical support personnel. Professional service sales are derived from the sale of services to design, develop and implement custom software applications.

License fees revenue from the sale of software licenses is recognized upon delivery of the software unless specific delivery terms provide otherwise. If not recognized upon delivery, revenue is recognized upon meeting specified conditions, such as, meeting customer acceptance criteria. In no event is revenue recognized if significant Company obligations remain outstanding. Customer payments are typically received in part upon signing of license agreements,

with the remaining payments received in installments pursuant to the agreements. Until revenue recognition requirements are met, the cash payments received are treated as deferred revenue.

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Maintenance and support services that are sold with the initial license fee are recorded as deferred revenue and recognized ratably over the initial service period. Revenues from maintenance and other support services provided after the initial period are generally paid in advance and are recorded as deferred revenue and recognized on a straight-line basis over the term of the agreements.

Professional services revenues are recognized in the period that the service is provided or in the period such services are accepted by the customer if acceptance is required by agreement. From time to time the Company enters into fixed fee professional service contracts. The revenue associated with such contracts is recognized using the percentage of completion method for revenue recognition.

Subscription revenues are recognized on a contractual basis, for one or more years. These fees are generally collected in advance of the services being performed and the revenue is recognized ratably over the respective months, as services are provided.

Before the Company recognizes revenue, the following criteria must be met:

1. Evidence of a financial arrangement or agreement must exist between the Company and its customer. Purchase orders, signed contracts, or electronic confirmation are three examples of items accepted by the Company to meet this criterion.
2. Delivery of the products or services must have occurred. The Company treats either physical or electronic delivery as having met this requirement.
3. The price of the products or services is fixed and measurable.
4. Collectability of the sale is reasonably assured and receipt is probable. Collectability of a sale is determined on a customer-by-customer basis. Typically the Company sells to large corporations which have demonstrated an ability to pay. If it is determined that a customer may not have the ability to pay, revenue is deferred until the payment is collected.

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.

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Impairment of Goodwill and Impairment and Useful Lives of 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.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

Our exposure to interest rate changes related to borrowing has been limited by the use of fixed rate borrowings, 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.

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

| Cash and Cash Equivalents: | Aggregate Fair Value | Weighted Average Interest Rate |
|---------------------------------|-------------------------|-----------------------------------|
| Cash | \$ 694,792 | .06% |
| Money market funds | - | |
| Certificates of deposit | - | |
| Total cash and cash equivalents | \$ 694,792 | |

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, 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, 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 has since been moved to the Third Judicial District Court, Summit County, Utah. The plaintiffs' complaint alleges that certain provisions of their employment agreements were not honored including breach of employer obligations, fraud, unjust enrichment, and breach of contract. The plaintiffs are seeking combined damages for alleged unpaid compensation and punitive damages of \$520,650 and \$2,603,250, respectively. The discovery phase of the case has recently been completed and the Company will continue to vigorously defend this matter. The Company believes that there is no validity to this matter and that the possibility of any adverse outcome to the Company is remote.

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 II, Item 6. "Risk Factors" in our Annual Report on Form 10-K for the year ended June 30, 2009.

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

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

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

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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: May 10, 2010

PARK CITY GROUP, INC

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

Date: May 10, 2010

By /s/ John R. Merrill
John R. Merrill
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)