

PARK CITY GROUP INC
Form 10QSB
February 14, 2008

FORM 10-QSB

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Quarterly Report Under Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the Quarterly Period Ended December 31, 2007

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)

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

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

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class | Outstanding as of February 14, 2008 |
|----------------------------------|--|
| Common Stock, \$.01 par value | 9,206,478 |

PARK CITY GROUP, INC.
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| 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 | December 31, 2007 (unaudited) | June 30, 2007 |
|---|-------------------------------------|---------------------|
| Current Assets: | | |
| Cash and cash equivalents | \$ 1,425,208 | \$ 3,273,424 |
| Restricted cash | 1,940,000 | 1,940,000 |
| Receivables, net of allowance of \$109,000 and \$26,958 at December 31, 2007 and June 30, 2007, respectively | 536,072 | 480,332 |
| Unbilled receivables | 91,530 | 556,170 |
| Prepaid expenses and other current assets | 110,029 | 100,722 |
| Total current assets | 4,102,839 | 6,350,648 |
| Property and equipment, net | 707,006 | 481,533 |
| Other assets: | | |
| Deposits and other assets | 25,229 | 27,738 |
| Capitalized software costs, net | 845,567 | 914,967 |
| Total other assets | 870,796 | 942,705 |
| Total assets | \$ 5,680,641 | \$ 7,774,886 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 586,692 | \$ 388,212 |
| Accrued liabilities | 433,881 | 272,600 |
| Deferred revenue | 57,102 | 505,299 |
| Current portion of capital lease obligations | 70,097 | 71,185 |
| Note payable | 1,940,000 | 1,940,000 |
| Total current liabilities | 3,087,772 | 3,177,296 |
| Long-term liabilities | | |
| Capital lease obligations, less current portion | 189,373 | 225,414 |
| Total liabilities | 3,277,145 | 3,402,710 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.01 par value, 30,000,000 shares authorized, 592,199 and 584,000 shares of Series A Convertible Preferred issued and outstanding at December 31, 2007 and June 30, 2007, respectively | 5,922 | 5,840 |

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| | | |
|---|--------------|--------------|
| Common stock, \$0.01 par value, 50,000,000 shares authorized; 9,192,288 and 8,997,703 issued and outstanding at December 31, 2007 and June 30, 2007, respectively | 91,923 | 89,977 |
| Additional paid-in capital | 26,261,965 | 26,166,128 |
| Subscriptions receivable | - | (106,374) |
| Accumulated deficit | (23,956,314) | (21,783,395) |
| Total stockholders' equity | 2,403,496 | 4,372,176 |
| Total liabilities and stockholders' equity | \$ 5,680,641 | \$ 7,774,886 |

See accompanying notes to consolidated condensed financial statements.

PARK CITY GROUP, INC.
Consolidated Condensed Statements of Operations (Unaudited)
For the Three and Six Months Ended December 31, 2007 and 2006

| | Three Months ended December 31, | | Six Months ended December 31, | |
|---|------------------------------------|---------------------|----------------------------------|-----------------------|
| | 2007 | 2006 | 2007 | 2006 |
| Revenues: | | | | |
| Subscriptions | \$ 34,027 | \$ 23,333 | \$ 119,944 | \$ 44,583 |
| Maintenance | 381,702 | 397,113 | 760,508 | 845,316 |
| Professional services and other | 78,768 | 114,941 | 205,240 | 231,383 |
| Software licenses | - | 25,300 | 263,069 | 25,300 |
| Total revenues | 494,497 | 560,687 | 1,348,761 | 1,146,582 |
| Operating expenses: | | | | |
| Cost of services and product support | 581,296 | 378,204 | 1,161,150 | 720,089 |
| Sales and marketing | 582,545 | 380,523 | 1,001,846 | 670,933 |
| General and administrative | 582,530 | 536,190 | 1,204,069 | 964,501 |
| Depreciation and amortization | 122,574 | 32,651 | 234,543 | 132,539 |
| Total operating expenses | 1,868,945 | 1,327,568 | 3,601,608 | 2,488,062 |
| Loss from operations | (1,374,448) | (766,881) | (2,252,847) | (1,341,480) |
| Other income (expense): | | | | |
| Gain in sale of patent | - | - | 200,000 | - |
| Interest income (expense) | 13,379 | (2,800) | 37,054 | (28,526) |
| Gain on derivative liability | - | 32,524 | - | 88,785 |
| Loss before income taxes | (1,361,069) | (737,157) | (2,015,793) | (1,281,221) |
| (Provision) benefit for income taxes | - | - | - | - |
| Net loss | (1,361,069) | (737,157) | (2,015,793) | (1,281,221) |
| Dividends on preferred stock | (74,634) | - | (157,126) | - |
| Net loss applicable to common shareholders | \$ (1,435,703) | \$ (737,157) | \$ (2,172,919) | \$ (1,281,221) |
| Weighted average shares, basic and diluted | 9,155,000 | 8,931,000 | 9,088,000 | 8,931,000 |
| Basic and diluted loss per share | \$ (0.16) | \$ (0.08) | \$ (0.24) | \$ (0.14) |

See accompanying notes to consolidated condensed financial statements.

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

| | 2007 | 2006 |
|--|--------------------|--------------------|
| Cash flows from operating activities: | | |
| Net loss | \$ (2,015,793) | \$ (1,281,221) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 234,543 | 105,690 |
| Gain from derivative liability | - | (88,785) |
| Gain on sale of patent | (200,000) | - |
| Amortization of discounts on debt | - | 30,716 |
| Bad debt expense | 82,042 | 12,392 |
| Stock issued for services and expenses | 40,000 | - |
| (Increase) decrease in: | | |
| Trade Receivables | (137,782) | (111,510) |
| Unbilled receivables | 464,640 | 58,704 |
| Prepays and other assets | (6,798) | (87,083) |
| (Decrease) increase in: | | |
| Accounts payable | 198,480 | 208,871 |
| Accrued liabilities | 86,145 | 173,136 |
| Deferred revenue | (448,197) | (540,955) |
| Net cash used in operating activities | (1,702,720) | (1,520,045) |
| Cash Flows From Investing Activities: | | |
| Proceeds from sale of patent | 200,000 | - |
| Purchase of property and equipment | (314,615) | (281,606) |
| Capitalization of software costs | (76,001) | (239,033) |
| Net cash used in investing activities | (190,616) | (520,639) |
| Cash Flows From Financing Activities: | | |
| Offering costs associated with issuance of stock | (24,125) | (44,624) |
| Receipt of subscription receivable | 106,374 | - |
| Payments on notes payable and capital leases | (37,129) | (8,758) |
| Net cash provided by (used in) financing activities | 45,120 | (53,382) |
| Net decrease in cash | (1,848,216) | (2,094,066) |
| Cash and cash equivalents at beginning of period | 3,273,424 | 3,517,060 |
| Cash and cash equivalents at end of period | \$ 1,425,208 | \$ 1,422,994 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid for income taxes | \$ - | \$ - |

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| | | | | |
|---|----|--------|----|--------|
| Cash paid for interest | \$ | 40,602 | \$ | 92,334 |
| Supplemental Disclosure of Non-Cash Investing and Financing Activities: | | | | |
| Dividends accrued on preferred stock | \$ | 75,136 | \$ | - |
| Dividends paid with preferred stock | \$ | 81,990 | \$ | - |

See accompanying notes to consolidated condensed financial statements.

PARK CITY GROUP, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
December 31, 2007

NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS

Park City Group, Inc. (the “Company”) is incorporated in the state of Nevada, and the Company’s 98.76% owned subsidiary Park City Group, Inc. is 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.

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-KSB, are adequate to make the information presented not misleading. Operating results for the three and six months ended December 31, 2007 are not necessarily indicative of the operating results that may be expected for the fiscal year ending June 30, 2008.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109 (“FIN 48”), which clarifies the accounting for uncertainty in tax positions. FIN No. 48 requires that the Company recognize the impact of a tax position in the financial statements, if that position is more likely than not to be sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006, with the cumulative effect, if any, of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company adopted the provisions of FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes, on July 1, 2007. The Company did not record any amounts as a result of the implementation of FIN 48.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements”, which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles. SFAS No. 157 is effective for fiscal years beginning after

November 15, 2007. The Company is currently evaluating the impact SFAS No. 157 will have on the Company's financial position, results of operations and liquidity and its related disclosures.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("FAS 159"). SFAS No. 159 allows companies to make an election, on an individual instrument basis, to report financial assets and liabilities at fair value. The election must be made at the inception of a transaction and may not be reversed. The election may also be made for existing financial assets and liabilities at the time of adoption. Unrealized gains and losses on assets or liabilities for which the fair value option has been elected are to be reported in earnings. SFAS No. 159 requires additional disclosures for instruments for which the election has been made, including a description of management's reasons for making the election. SFAS No. 159 is effective as of fiscal years beginning after November 15, 2007 and is to be adopted prospectively and concurrent with the adoption of SFAS No. 157. The Company is currently evaluating the impact SFAS No. 159 will have on the Company's financial position, results of operations and liquidity and its related disclosures.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations," and SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51." SFAS No. 141R will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS No. 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 141R and SFAS 160 are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Early adoption is not permitted. The Company does not expect the adoption of these new standards to have an impact on its financial statements.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from these estimates. The Company's critical accounting policies and estimates include, among others, valuation allowances against deferred income tax assets, revenue recognition, stock-based compensation, capitalization of software development costs and impairment and useful lives of long-lived assets.

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

For the three and six months ended December 31, 2007 and 2006 options and warrants to purchase 1,031,297 and 978,813 shares of common stock, respectively, were not included in the computation of diluted EPS due to the dilutive effect of a net loss. For three and six months ended December 31, 2007, 1,946,629 shares of common stock issuable upon conversion of the Company's Series A Convertible Preferred stock were not included in the diluted EPS calculation due to their dilutive effect.

Reverse Stock Split

On August 11, 2006, the Company effected a 1-for-50 reverse stock split. All references to the equity of the Company in this document reflect the effects of this action.

NOTE 3 – LIQUIDITY

As shown in the consolidated condensed financial statements, the Company had losses applicable to common shareholders of \$2,172,919 and \$1,281,221 for the six months ending December 31, 2007 and 2006, respectively. The comparative difference is due to an increase in personnel and related headcount costs, a reduction in software costs to be capitalized in accordance with FAS 86, and an increase in legal and regulatory fees associated with patent defense and compliance. Current assets were in excess of current liabilities at December 31, 2007, providing the Company working capital of \$1,015,067. The Company had negative cash flow from operations during the six months ended December 31, 2007 in the amount of \$1,702,720.

The Company believes that current working capital and cash flows from sales will allow the Company to fund its currently anticipated capital spending and debt service requirements during the year ending June 30, 2008. 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

Park City Group has employment agreements with executives. One provision of these agreements is for a stock bonus. 25% of these bonuses are to be paid on each of their first four anniversary dates.

- Agreement with Vice President, dated effective December 28, 2005 is payable in 3,571 share increments for a total of 14,284 shares, 3,571 shares have been issued under this agreement.
-

Agreement with Director of Marketing, dated effective January 1, 2006 is payable in 3,571 share increments for a total of 14,284 shares, 3,571 shares have been issued under this agreement.

NOTE 5 – OUTSTANDING STOCK OPTIONS

The following tables summarize information about fixed stock options and warrants outstanding and exercisable at December 31, 2007:

| Range of exercise prices | Options and Warrants Outstanding at December 31, 2007 | | | Options and Warrants Exercisable at December 31, 2007 | |
|--------------------------|---|--|---------------------------------|---|---------------------------------|
| | Number Outstanding at December 31, 2007 | Weighted average remaining contractual life(years) | Weighted average exercise price | Number Exercisable at December 31, 2007 | Weighted average exercise price |
| \$1.50 - \$3.00 | 109,104 | 2.81 | \$ 2.60 | 109,104 | \$ 2.60 |
| \$3.50 - \$4.00 | 922,193 | 3.40 | 3.71 | 922,193 | 3.71 |
| | 1,031,297 | 3.34 | \$ 3.60 | 1,031,297 | \$ 3.60 |

NOTE 6 – RELATED PARTY TRANSACTIONS

In March 2006, the Company obtained a note payable from a bank in the amount of \$1,940,000. Riverview Financial Corporation (Riverview), a wholly owned affiliate of the Company's CEO, guaranteed this note payable from inception through June 2007 and received a fee of 3% per annum of the outstanding balance of the note payable paid monthly as consideration for the guarantee. In June 2007, with partial proceeds from the sale of its Series A Convertible Preferred Stock, the Company collateralized the note payable from its bank and eliminated its guarantor Riverview Financial. The \$1.94 million of collateral is reflected on the balance sheet as restricted cash. The maturity date for the note payable is March 31, 2008.

NOTE 7 – PROPERTY AND EQUIPMENT

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

| | December 31, 2007 (Unaudited) | June 30, 2007 |
|-----------------------------------|----------------------------------|---------------|
| Computer equipment | \$ 716,521 | \$ 429,929 |
| Furniture and equipment | 307,278 | 358,358 |
| Leasehold improvements | 126,063 | 126,063 |
| | 1,149,862 | 914,350 |
| Less accumulated depreciation and | (442,856) | (432,817) |

| | | |
|--------------|------------|------------|
| amortization | \$ 707,006 | \$ 481,533 |
|--------------|------------|------------|

NOTE 8 – CAPITALIZED SOFTWARE COSTS

Capitalized software costs consist of the following as of:

| | December 31, 2007 (Unaudited) | June 30, 2007 |
|-------------------------------|-------------------------------------|------------------|
| Capitalized software costs | \$ 2,174,305 | \$ 2,096,627 |
| Less accumulated amortization | (1,328,738) | (1,181,660) |
| | \$ 845,567 | \$ 914,967 |

NOTE 9 – ACCRUED LIABILITIES

Accrued liabilities consist of the following as of:

| | December 31, 2007 | June 30, 2007 |
|------------------------------------|-------------------------|------------------|
| | (Unaudited) | |
| Accrued compensation | \$ 233,711 | \$ 155,610 |
| Preferred dividends payable | 75,136 | - |
| Other accrued liabilities | 73,527 | 43,598 |
| Accrued legal fees | 39,007 | 45,274 |
| Third - party license/support fees | - | 28,118 |
| Accrued board compensation | 12,500 | - |
| | \$ 433,881 | \$ 272,600 |

NOTE 10 – INCOME TAXES

The Company or one of 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 2000.

The Internal Revenue Service (IRS) commenced an examination of the Company's U.S. income tax returns for 2004 in July 2007 that is anticipated to be completed by the end of March 2008. As of December 31, 2007, the IRS has not proposed any adjustments to the Company's tax positions. However, the IRS may propose adjustments to the Company's tax positions. If adjustments are proposed, management will evaluate those proposed adjustments to determine if it agrees. The Company does not anticipate any adjustments would result in a material change to its financial position, given the amount of its net operating loss carryforward.

The Company adopted the provisions of FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes, on July 1, 2007. The Company did not record any amounts as a result of the implementation of FIN 48.

Included in the balance at December 31, 2007 are nominal amounts of 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 tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

The Company's policy is to recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the three and six months ended December 31, 2007 and 2006, the Company did not recognize any interest or penalties. The Company does not have any interest and penalties accrued at December 31, 2007, and June 30, 2007.

Item 2. Management's Discussion and Analysis or Plan of Operation.

Form 10-KSB for the year ended June 30, 2007 incorporated herein by reference.

Forward-Looking Statements

This quarterly report on Form 10-QSB 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, 2007 Form 10-KSB annual report, incorporated herein by reference. Statements made herein are as of the date of the filing of this Form 10-QSB 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 develops and markets computer software and profit optimization consulting services that help its retail customers to reduce their inventory and labor costs; the two largest controllable operating expenses in the retail industry, while increasing the customer's sales, reducing shrink, increasing gross margin, contribution margin, and thus improving the bottom line results. Our suite of products, Fresh Market Manager, ActionManager™ and Supply Chain Profit Link ("SCPL") are designed to address the needs of multi-store retailers and suppliers in store operations management, manufacturing, and both durable goods and perishable product management.

Because the product concepts originated in the environment of actual multi-unit retail chain ownership, the products are strongly oriented to an operation's bottom line results. The products use a contemporary technology platform that is capable of supporting existing product lines and can also be expanded to support related products. The Company continues to transition its software business from a licensed based approach to its new subscription based model through its targeted Supply Chain Profit Link strategy ("SCPL"). The subscription based SCPL tool and analytics group focuses on leveraging multi-store retail chains, C-Store Chains, and their respective suppliers in order to reduce shrink, labor costs, and increase profitability.

We have experienced recent significant developments that we expect to have a positive impact on our company, although there is no assurance that the expected positive impact will take place. Recent developments that occurred in the six months ended, December 31, 2007 included the following:

- The Company expanded its Supply Chain Profit Link trials and engagements with both retailers and suppliers.
- The Company currently has 3 active software implementations in process. In December of 2007, the Company successfully completed 2 of its 5 implementations that were reported in process as of September 30, 2007.
- The Company is in the expansion phase of a global deployment of Fresh Market Manager for one of its existing customers to be deployed in its stores worldwide.

Results of Operations For The Three Months Ended December 31, 2007 and 2006

Total Revenues

Total revenues were \$494,497 and \$560,687 for the three months ended December 31, 2007 and 2006, respectively, a 12% decrease. This \$66,190 decrease in total revenues is the result of a \$25,300 decrease in license sales and a \$36,173 decrease in professional services. This decrease is reduced by a \$10,064 increase in software sold as a subscription. Management believes that as it continues to focus its resources on marketing its suite of software products and services on a subscription basis, there may be periodic impacts to its sales of software on a license basis.

Subscription Revenue

Subscription revenues were \$34,027 and \$23,333, respectively for the three months ended December 31, 2007 and 2006; an increase of 46% in the three months ended, December 31, 2007 compared to the three months ended, December 31, 2006. This \$10,694 increase was the result of the Company's continued progression of its newest subscription offering, the Supply Chain Profit Link ("SCPL") tool. The Company continues to focus its internal resources to increase the number of retailers, suppliers and manufacturers using the Supply Chain Profit Link tool in both perishable and non-perishable categories. In early 2007, the Company began marketing its products on a subscription basis in order to reduce the Company's overall reliance on one-time non-recurring license fees.

Maintenance Revenue

Maintenance revenues were \$381,702 and \$397,113 for the three months ended December 31, 2007 and 2006, respectively, a decrease of 4% in the three months ended, December 31, 2007 compared to the three months ended, December 31, 2006. The \$15,411 decrease is due to the expiration of two (2) customer maintenance agreements that were not renewed. The Company believes that as a result of the proven reliability of the software, some of its customers may choose not to renew annual maintenance support altogether or its customers may require a reduced level of support in subsequent periods.

Professional Services and Other Revenue

Professional Services and other revenue were \$78,768 and \$114,941 for the three months ended December 31, 2007 and 2006, respectively, a 31% decrease. This \$36,173 decrease in the three months ended December 31, 2007 compared to the three months ended, December 31, 2006 is due to the completion of certain phases of implementation provided to one of its existing international customers. Management believes that services revenue may be impacted in the short term as projects are completed and its development resources are utilized to deploy the SCPL product.

License Revenue

Software license revenues were zero for the three months ended December 31, 2007 as compared to \$25,300 in the three months ended December 31, 2006. This decrease in license sales is attributable to the ongoing shift to the Company's continued initiative to market its products and services on a subscription basis. The Company's ongoing license revenues may be impacted by this shift toward a recurring revenue model.

Cost of Services and Product Support

Cost of services and product support were \$581,296 and \$378,204 for the three months ended December 31, 2007 and 2006 respectively, a 54% increase in the three months ended December 31, 2007 compared to the three months ended December 31, 2006. This \$203,092 comparative increase is due to: (1) the reduction of costs that qualified under FAS 86 to be capitalized as significant enhancements that occurred in Fiscal 2007. The Company is currently in the final stages of development of one significant enhancement to its FMM suite of software products that it anticipates will be released in the 4th Fiscal Quarter. In addition to the lower capitalized software costs, (2) the Company expanded its development and business analytics workforce both domestically and in India in anticipation of an increase in demand for its products and services. The Company has increased its Services and Support headcount by 6 personnel since June 30, 2007. (3) As a result of this increase in headcount, the Company has experienced a growth in both direct personnel costs including travel and training costs for its new employees. (4) The Company has utilized several consulting firms to improve its database architecture and to improve processing capabilities required of its Supply Chain Profit Link customers.

Sales and Marketing Expense

Sales and marketing expenses were \$582,545 and \$380,523 for the three months ended December 31, 2007 and 2006, respectively. This \$202,022 increase in the three months ended December 31, 2007 compared to the three months ended December 31, 2006 is attributable to: (1) the Company adding additional sales and marketing personnel in order to elevate market awareness of its products and services, and (2) an increase in sales related travel costs as a result of cultivating new prospects both domestically and internationally, and (3) an increase in costs associated with reimagining the Company's marketing materials, logo, brochures, convention booth, and other sales tools, and (4) an increase in sales training for its sales force and conducting additional market research.

General and Administrative Expense

General and administrative expenses were \$582,530 and \$536,190 for the three months ended December 31, 2007 and 2006, respectively a 9% increase in the three months ended December 31, 2007 compared to the three months ended December 31, 2006. This \$46,340 increase is due to the following: (1) an increase in associated legal fees and expert testimony costs incurred as a result of the Company's ongoing patent lawsuits, and, (2) an increase in stock compensation expense under FAS 123R, and, (3) an increase in health care and other benefit costs.

Depreciation and Amortization Expense

Depreciation and Amortization expenses were \$122,574 and \$32,651 for the three months ended December 31, 2007 and 2006, respectively, an increase of 275% in the three months ended December 31, 2007 compared to the three months ended December 31, 2006. This increase of \$89,923 is attributable to the following; (1) an increase in depreciation expenses related to property plant and equipment acquisitions and (2) an increase in capitalized software amortization due to the completion of significant enhancements and one new product release. These increases were partially offset by a decrease in debt discounts that were fully amortized in prior years.

Other Income and Expense

Interest income was \$13,379 for the three months ended December 31, 2007 compared to interest expense of \$2,800 for the same period in 2006. This \$16,179 change in interest income (expense) in the three months ended December 31, 2007 compared to the three months ended December 31, 2006 is the result of interest income earnings generated from the Company's excess cash balances as a result of its issuance of 584,000 shares of its Series A Convertible Preferred Stock in June 2007.

Preferred Dividends

Dividends accrued on preferred stock was \$74,634 for the three months ended December 31, 2007 compared to zero dividends accrued in the same period in 2006. The preferred dividends are the result of the issuance of 584,000 shares of the Company's Series A Convertible Preferred Stock that occurred in June 2007. 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.

Results of Operations For The Six Months Ended December 31, 2007 and 2006

Total Revenues

Total revenues were \$1,348,761 and \$1,146,582 for the six months ended December 31, 2007 and 2006, respectively, an 18% increase. This \$202,179 increase in total revenues is primarily a result of an increase of \$75,361 of software sold on subscription and the \$237,769 increase in license revenue from its existing customers. The \$313,130 increase in license and software sold on subscription for the six months ended December 31, 2007 and 2006, comparatively is offset by a \$84,808 decrease in maintenance revenue and a \$26,143 decrease in professional services revenue for the same period.

Subscription Revenue

Subscription revenues were \$119,944 and \$44,583, respectively for the six months ended December 31, 2007 and 2006; an increase of 169% for the six months ended, December 31, 2007 compared to the six months ended, December 31, 2006. This \$75,361 increase was the result of the Company's continued progression of its newest subscription offering, the SCPL tool. The Company continues to focus its resources to increase the number of retailers, suppliers and manufacturers using the SCPL tool in both perishable and non-perishable categories. In early 2007, the Company began selling its products on a subscription basis in order to reduce the Company's overall reliance on one-time non-recurring license fees.

Maintenance Revenue

Maintenance revenues were \$760,508 and \$845,316 for the six months ended December 31, 2007 and 2006, respectively, a decrease of 10% for the six months ended, December 31, 2007 compared to the six months ended, December 31, 2006. The \$84,808 decrease is due to the expiration of two (2) customer maintenance agreements that were not renewed. The Company believes that as a result of the proven reliability of the software, some of its customers may choose not to renew annual maintenance support or limit the support it requires.

Professional Services and Other Revenue

Professional services and other revenue were \$205,240 and \$231,383 for the six months ended December 31, 2007 and 2006, respectively, an 11% decrease. This \$26,143 decrease for the six months ended December 31, 2007 compared to the six months ended, December 31, 2006 is due to: (1) the completion of major implementation phases to one of its existing international customers in August 2007, and, (2) continued focus of its information technology personnel to expand its SCPL application and analytics service. Management believes that revenues may be impacted in the short term as it utilizes its development and sales resources to focus on its growth of marketing and deploying its software on a subscription basis.

License Revenue

Software license revenues were \$263,069 for the six months ended December 31, 2007 as compared to \$25,300 for the six months ended December 31, 2006. This increase in license sales is attributable to organic growth of existing customers who purchased additional software licenses as a result of opening additional locations, expanding service requirements, or adding new stores.

Cost of Services and Product Support

Cost of services and product support were \$1,161,150 and \$720,089 for the six months ended December 31, 2007 and 2006 respectively, a 61% increase. This \$441,061 comparative increase is due to: (1) the reduction of costs that qualified under FAS 86 to be capitalized as significant enhancements that occurred in Fiscal 2007. The Company is currently in the final phase of development of one significant enhancement to its FMM suite of software products that it anticipates will be released in the 4th Fiscal Quarter, and, (2) the Company expanded its local and Indian workforce by six new hires, and, (3) the Company also experienced higher travel costs as a result of providing training and continuing education to both its local workforce and those located in India, and, (4) the Company has retained outside consultants to improve its ability to process large quantities of data as a result of its SCPL application and service offerings.

Sales and Marketing Expense

Sales and marketing expenses were \$1,001,846 and \$670,933 for the six months ended December 31, 2007 and 2006, respectively. This \$330,913 increase in the six months ended December 31, 2007 compared to the six months ended December 31, 2006 is attributable to: (1) the Company has added four additional sales and marketing personnel in FY 2008 in order to expand market awareness and focus its staff on selling its products on a subscription basis, and, (2) an increase in sales related travel costs as a result of meeting with new prospects both domestically and internationally, (3) an increase in costs associated with the Company's imaging of new marketing materials, brochures, and other sales tools, and (4) commissions paid to sales staff, and (5) conducting sales training. The Company believes that increasing its depth and breath of its sales and marketing department is essential to its continued success in fiscal 2008.

General and Administrative Expense

General and administrative expenses were \$1,204,069 and \$964,501 for the six months ended December 31, 2007 and 2006, respectively a 25% increase in the six months ended December 31, 2007 compared to the six months ended December 31, 2006. This \$239,568 increase is due to; (1) an increase in associated legal fees and expert testimony costs incurred as a result of the Company's ongoing patent lawsuits. In 2006, the Company identified several of its patents that it believes have been violated. Management has and will continue to vigorously defend and take action to

protect both current and future patents on its software development. (2) an increase in stock issued for services, and (3) an increase in health care costs and other benefits.

Depreciation and Amortization Expense

Depreciation and Amortization expenses were \$234,543 and \$132,539 for the six months ended December 31, 2007 and 2006, respectively, an increase of 77% for the six months ended December 31, 2007 compared to the six months ended December 31, 2006. This increase of \$102,004 is attributable to the following; (1) an increase in depreciation expenses related to property plant and equipment acquisitions and (2) an increase in capitalized software amortization due to the completion of significant enhancements and one new product release. These increases were partially offset by a decrease in debt discounts that were fully amortized in prior years.

Other Income and Expense

The Company sold one of its patents for \$200,000 during the six months ended December 31, 2007. The patent was internally generated for use and in accordance with U.S. Generally Accepted Accounting Principles (GAAP), the Company has recorded a gain on the sale of this patent. The Company will continue to monetize the intellectual property portfolio that it has developed and from time to time it may otherwise sell, license, or collect royalties from interested parties who may wish to utilize this uniquely patented technology. Interest income was \$37,054 for the six months ended December 31, 2007 compared to interest expense of \$28,526 for the same period in 2006. This \$65,580 change in interest income (expense) during the six months ended December 31, 2007 compared to the six months ended December 31, 2006 is the result of interest income earnings generated from the Company's excess cash balances associated with its preferred stock issuance in June 2007.

Preferred Dividends

Dividends on preferred stock were \$157,126 for the six months ended December 31, 2007 compared to zero dividends in the same period in 2006. The preferred dividends are the result of the issuance of 584,000 shares of the Company's Series A Convertible Preferred Stock that occurred in June 2007. 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

Liquidity and Capital Resources

Cash Flows from Operations

Net cash used in operations for the six months ended December 31, 2007, was \$1,702,720 compared to \$1,520,045 for the same period in 2006. At June 30, 2007, the Company had accrued \$272,600 in legal and professional fees associate with its ongoing patent defense, compensation expense, accounting fees, and fees associated with the filing of its registration statement that were paid in fiscal 2008.

Cash Flows from Investing

Net cash used in investing activities was \$190,616 and \$520,639 during the six months ended December 31, 2007 and 2006, respectively. The comparative decrease in cash used in investing was primarily due the reduction of software development costs capitalized under FAS 86, and the sale of a patent. This was partially offset by the procurement of property plant and equipment associated with the Company's expansion of its database system and new computer equipment.

Cash Flows from Financing

Net cash provided by financing activities for the six months ended December 31, 2007 was \$45,120 compared to cash used of \$53,382 for the same period in 2006. The change in net cash provided by financing activities is attributable to the receipt of stock subscriptions outstanding at June 30, 2007 that were received subsequently and as a result of the Company's stock placement that was completed in June 2007.

Cash, Cash Equivalents and Restricted Cash

Cash, cash equivalents, and restricted cash on hand was \$3,365,208 at December 31, 2007, a decrease of \$1,848,216 over the \$5,213,424 on hand at June 30, 2007. This comparative decrease from June 30, 2007 to December 31, 2007 is the result of cash utilized to procure capital equipment, recruit and hire additional sales and R&D personnel, and to fund general needs of its day to day operations.

Current Assets

Current assets at December 31, 2007 totaled \$4,102,839, a 35% decrease from current assets on hand of \$6,350,648 at June 30, 2007. The \$2,247,809 decrease in current assets is due in part to; (1) cash used by the Company in order to fund operations, purchase equipment, recruit and hire additional personnel and (2) a \$464,640 sales transaction that occurred on or about June 30, 2007 that was not invoiced to the customer until July of 2007. The reduction in unbilled

receivables reflects the billing and collection of payment on the transaction that was received in August 2007.

Current Liabilities

Current liabilities as of December 31, 2007 and June 30, 2007 were \$3,087,772 and \$3,177,296 respectively. This 3% decrease in current liabilities is due to the following: (1) a \$448,197 decrease in deferred revenue as a result of calendar maintenance contracts, and (2) an increase in accounts payable, and, (3) an increase in accrued liabilities.

Working Capital

At December 31, 2007, the Company had a working capital surplus of \$1,015,067, as compared to a working capital surplus of \$3,173,352 at June 30, 2007. This 68% decrease in working capital is due to: (1) the increase in costs associated with adding eight new employees and contractors including one-time recruitment fees, (2) increase in capital equipment spending, and (3) cash paid for legal, accounting, and other fees associated with regulatory compliance and patent defense.

Liquidity and Capital Resources General

Historically, the Company has financed its operations through operating revenues, loans from directors, officers and stockholders, loans from the CEO and majority shareholder, and private placements of equity securities. Since 2006, the Company has converted all loans and notes payable from its officers and directors to stock. In July 2007, due to its increase in financial position, the Company was able to eliminate Riverview Financial Corp as its guarantor and maintains its own collateralization of the note payable for \$1.940 million. The maturity date for the note payable is March 31, 2008. The Company believes that anticipated revenue growth in combination with strategic cost control will allow the Company to meet its minimum operating cash requirements for the next twelve months.

The financial statements do not reflect any adjustments should the Company's operations not be achieved. Although the Company anticipates that it will meet its working capital requirements, there can be no assurances that the Company will be able to meet its working capital requirements. Should the Company desire to raise additional equity or debt financing, there are no assurances that the Company could do so on acceptable terms.

Off-Balance Sheet Arrangements

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

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109 ("FIN 48"), which clarifies the accounting for uncertainty in tax positions. FIN No. 48 requires that the Company recognize the impact of a tax position in the financial statements, if that position is more likely than not to be sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006, with the cumulative effect, if any, of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company adopted the provisions of FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes, on July 1, 2007. The Company did not record any amounts as a result of the implementation of FIN 48.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements", which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact SFAS No. 157 will have on the Company's financial position, results of operations and liquidity and its related disclosures.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("FAS 159"). SFAS No. 159 allows companies to make an election, on an individual instrument basis, to report financial assets and liabilities at fair value. The election must be made at the inception of a transaction and may not be reversed. The election may also be made for existing financial assets and liabilities at the time of adoption. Unrealized gains and losses on assets or liabilities for which the fair value option has been elected are to be reported in earnings. SFAS No. 159 requires additional disclosures for instruments for which the election has been made, including a description of management's reasons for making the election. SFAS No. 159 is effective as of fiscal years

beginning after November 15, 2007 and is to be adopted prospectively and concurrent with the adoption of SFAS No. 157. The Company is currently evaluating the impact SFAS No. 159 will have on the Company's financial position, results of operations and liquidity and its related disclosures.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations", and SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51". SFAS No. 141R will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS No. 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 141R and SFAS 160 are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Early adoption is not permitted. The Company does not expect the adoption of these new standards to have an impact on its financial statements.

Critical Accounting Policies

The Company's critical accounting policies include the following:

- Deferred income tax assets and related valuation allowances
- Revenue Recognition
- Stock-Based Compensation
- Capitalization of Software Development Costs
- Impairment and Useful Lives of Long-Lived Assets

Deferred Income Taxes and Valuation Allowance.

In determining the carrying value of the Company's net deferred 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 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 subscription. 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. Maintenance provides the customer access to software service releases, bug fixes, patches and technical support personnel. Professional service sales are derived from the sale of services to design, develop and implement custom software applications. Subscription sales are derived from the sale of the Company's products on a subscription basis. Supply Chain Profit Link, is a category management product that is sold on a subscription basis. The Company intends to offer all of its software solutions on a subscription basis in fiscal 2008.

1. 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.
2. 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.
3. 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.

4.

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 terms and conditions of the agreement. Until revenue recognition requirements are met, the cash payments received are treated as deferred revenue.

Stock-Based Compensation.

The Company values and accounts for the issuance of equity instruments to employees and non-employees to acquire goods and services based on the fair value of the goods and services or the fair value of the equity instrument at the time of issuance, whichever is more reliably measurable. The fair value of stock issued for goods or services is determined based on the quoted market price on the date the commitment to issue the stock has occurred. The fair value of stock options or warrants granted to employees and non-employees for goods or services is calculated on the date of grant using the Black-Scholes options pricing model.

Capitalization of Software Development Costs

The Company accounts for research and development costs in accordance with several accounting pronouncements, including SFAS No. 2, "Accounting for Research and Development Costs", and SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed". SFAS No. 86 specifies that costs incurred internally in researching and developing a computer software product should be charged to expense until technological feasibility has been established for the product. Once technological feasibility is established, all software costs should be 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.

Impairment and Useful Lives of Long-lived Assets.

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.

Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Item 6, Management's Discussion and Analysis in our Annual Report on Form 10-KSB for the year ended June 30, 2007, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-KSB are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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Item 3 – Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our Management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operations of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of December 31, 2007. 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 Securities and Exchange Commission ("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

There have been no changes in legal proceedings since those disclosed in the Company's form 10-KSB filed for the year ended June 30, 2007.

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3 - Defaults upon Senior Securities

None

Item 4 - Submission of Matters to a Vote of Security Holders

None

Item 5 – Other Information

None

Item 6 – Exhibits

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

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

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

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SIGNATURES

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

Date: February 14, 2008

PARK CITY GROUP, INC

By /s/ Randall K. Fields

Randall K. Fields

Chief Executive Officer, Chairman and Director (Principal Executive Officer)

Date: February 14, 2008

By /s/ John R. Merrill

John R. Merrill

Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)

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