

PARK CITY GROUP INC
Form 10-Q
November 08, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012.

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

For the transition period from to .

Commission File Number 000-03718

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

Nevada
(State or other jurisdiction of incorporation or
organization)

37-1454128
(IRS Employer Identification No.)

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

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

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

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

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

Edgar Filing: PARK CITY GROUP INC - Form 10-Q

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

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

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common Stock, \$0.01 par value: 12,274,191 shares as of November 7, 2012.

PARK CITY GROUP, INC.
TABLE OF CONTENTS

	Page
PART I - FINANCIAL INFORMATION	
Item 1. Financial Statements	
Consolidated Condensed Balance Sheets as of September 30, 2012 (Unaudited) and June 30, 2012	1
Consolidated Condensed Statements of Operations for the Three and Nine Months Ended September 30, 2012 and 2011 (Unaudited)	2
Consolidated Condensed Statements of Cash Flows for the Nine Months Ended September 30, 2012 and 2011 (Unaudited)	3
Notes to Consolidated Condensed Financial Statements	4
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	8
Item 3. Quantitative and Qualitative Disclosures About Market Risk	15
Item 4. Controls and Procedures	16
PART II – OTHER INFORMATION	
Item 1. Legal Proceedings	17
Item 1A. Risk Factors	17
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	17
Item 3. Defaults Upon Senior Securities	17
Item 5. Other Information	17
Item 6. Exhibits	17
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.	
Signatures	

PARK CITY GROUP, INC.
Consolidated Condensed Balance Sheets

	September 30, 2012 (unaudited)	June 30, 2012
Assets		
Current assets:		
Cash	\$ 1,088,387	\$ 1,106,176
Receivables, net of allowance of \$140,624 and \$220,000 at September 30, 2012 and June 30, 2012, respectively	2,269,257	2,290,859
Prepaid expenses and other current assets	190,012	171,526
Total current assets	3,547,656	3,568,561
Property and equipment, net	520,018	559,140
Other assets:		
Deposits and other assets	35,466	20,697
Customer relationships	2,657,072	2,762,651
Goodwill	4,805,933	4,805,933
Capitalized software costs, net	182,707	219,248
Total other assets	7,681,178	7,808,529
Total assets	\$ 11,748,852	\$ 11,936,230
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 464,336	\$ 550,846
Accrued liabilities	1,049,100	1,242,328
Deferred revenue	1,919,864	2,081,459
Capital lease obligations	25,880	41,201
Lines of credit	1,200,000	1,200,000
Notes payable	807,575	798,704
Total current liabilities	5,466,755	5,914,538
Long-term liabilities:		
Notes payable, less current portion	602,091	711,571
Total liabilities	6,068,846	6,626,109
Commitments and contingencies	-	-
Stockholders' equity:		
Series A Convertible Preferred Stock, \$0.01 par value, 30,000,000 shares authorized; 685,582 and 685,671 shares issued and outstanding at September 30, 2012 and June 30, 2012, respectively	6,856	6,857

Edgar Filing: PARK CITY GROUP INC - Form 10-Q

Series B Convertible Preferred Stock, \$0.01 par value, 30,000,000 shares authorized; 411,927 shares issued and outstanding at September 30, 2012 and June 30, 2012, respectively	4,119	4,119
Common Stock, \$0.01 par value, 50,000,000 shares authorized; 12,245,617 and 12,087,431 shares issued and outstanding at September 30, 2012 and June 30, 2012, respectively	122,456	120,874
Additional paid-in capital	38,137,088	37,763,196
Accumulated deficit	(32,590,513)	(32,584,925)
Total stockholders' equity	5,680,006	5,310,121
Total liabilities and stockholders' equity	\$ 11,748,852	\$ 11,936,230

See accompanying notes to consolidated condensed financial statements.

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

	Three Months Ended September 30,	
	2012	2011
Revenues:		
Subscription	\$ 1,954,595	\$ 1,742,131
Other Revenue	758,232	837,149
Total revenues	2,712,827	2,579,280
Operating expenses:		
Cost of services and product support	1,080,484	1,140,261
Sales and marketing	580,356	661,748
General and administrative	574,094	759,537
Depreciation and amortization	230,068	223,965
Total operating expenses	2,465,002	2,785,511
Income (loss) from operations	247,825	(206,231)
Other income (expense):		
Interest expense	(43,433)	(73,490)
Income (loss) before income taxes	204,392	(279,721)
(Provision) benefit for income taxes:	-	-
Net income (loss)	204,392	(279,721)
Dividends on preferred stock	(209,980)	(208,353)
Net income (loss) applicable to common shareholders	\$ (5,588)	\$ (488,074)
Weighted average shares, basic and diluted	12,215,000	11,650,000
Basic and diluted loss per share	\$ (0.00)	\$ (0.04)

See accompanying notes to consolidated condensed financial statements.

PARK CITY GROUP, INC.
Consolidated Condensed Statements of Cash Flows (Unaudited)
For the Three Months Ended September 30,

	2012	2011
Cash Flows From Operating Activities:		
Net income (loss)	\$ 204,392	\$ (279,721)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	230,068	223,964
Bad debt expense	-	42,597
Stock compensation expense	235,222	252,767
(Increase) decrease in:		
Receivables	21,602	460,282
Prepays and other assets	(33,255)	35,184
(Decrease) increase in:		
Accounts payable	(86,510)	(302,994)
Accrued liabilities	(139,379)	(167,519)
Deferred revenue	(161,595)	(320,618)
Net cash provided by operating activities	270,545	(56,058)
Cash Flows From Investing Activities:		
Purchase of property and equipment	(48,826)	(20,072)
Net cash used in investing activities	(48,826)	(20,072)
Cash Flows From Financing Activities:		
Proceeds from issuance of notes	95,548	137,028
Proceeds from exercise of options and warrants	-	12,750
Dividends paid	(123,578)	-
Payments on notes payable and capital leases	(211,478)	(1,695,533)
Net cash used in financing activities	(239,508)	(1,545,755)
Net decrease in cash	(17,789)	(1,621,885)
Cash at beginning of period	1,106,176	2,618,229
Cash at end of period	\$ 1,088,387	\$ 996,344
Supplemental Disclosure of Cash Flow Information:		
Cash paid for income taxes	\$ -	\$ -
Cash paid for interest	\$ 43,873	\$ 133,350
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Common stock to pay accrued liabilities	\$ 290,423	\$ 133,154
Dividends accrued on preferred stock	\$ 209,980	\$ 208,353
Dividends paid with preferred stock	\$ 85,050	\$ 82,750

See accompanying notes to consolidated condensed financial statements.

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

NOTE 1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Overview

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

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

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

The Company has also established a partnership with Levitt Partners, an internationally known health care and food safety-consulting firm, to form ReposiTrak, Inc., formerly, Global Supply Chain Systems, Inc. (“ReposiTrak”), which provides a targeted solution for improving supply chain visibility for food and drug safety. The solution, ResposiTrak™, is powered by the Company’s technology and was developed in response to the passage of the Food Safety and Modernization Act in January of 2011. ResposiTrak™ enables grocery, supermarkets, packaged goods manufacturers, food processing facilities, drug stores and drug manufacturers, as well as logistics partners, to track and trace products and components to products throughout the food, drug and dietary supplement supply chains. In the event of a product recall, the solution quickly identifies the supply chain path taken by the recalled product or product component, and allows for the removal of affected products in a matter of minutes, rather than weeks. Additionally, ResposiTrak™ reduces risk of further contamination in the supply chain by identifying backward chaining sources and forward chaining recipients of affected products in near real time. On August 8, 2012, the Company announced that ReposiTrak had begun the first two implementations of ResposiTrak™ at a global grocery retailer and a major grocery wholesaler.

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

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

Recent Developments

On September 4, 2012, the Company announced that its Board of Directors had approved a share repurchase program (the "Repurchase Program") of up to \$2.0 million of the Company's common stock over the next two years, or such other date, which ever is earlier, when the Repurchase Program is revoked or varied by the Board of Directors. The Repurchase Program does not obligate the Company to acquire any particular number of shares of common stock, and is contingent on the redemption by the Company of its Series A Convertible Preferred Stock. The Repurchase Program may be suspended, modified or discontinued at any time at the Company's discretion without prior notice.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements of the Company have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") on a basis consistent with the Company's audited annual financial statements and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial information set forth therein. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to SEC rules and regulations, although the Company believes that the following disclosures, when read in conjunction with the audited annual financial statements and the notes thereto included in the Company's most recent Annual Report on Form 10-K, are adequate to make the information presented not misleading. Operating results for the three months ended September 30, 2012 are not necessarily indicative of the operating results that may be expected for the fiscal year ending June 30, 2013.

Recent Accounting Pronouncements

In July 2012, the FASB issued ASU 2012-02, Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment ("ASU 2012-02"), which permits an entity to make a qualitative assessment of whether it is more likely than not that the fair value of a reporting unit's indefinite-lived intangible asset is less than the asset's carrying value before applying the two-step goodwill impairment model that is currently in place. If it is determined through the qualitative assessment that the fair value of a reporting unit's indefinite-lived intangible asset is more likely than not greater than the asset's carrying value, the remaining impairment steps would be unnecessary. The qualitative assessment is optional, allowing companies to go directly to the quantitative assessment. ASU 2012-02 is effective for the Company for annual and interim indefinite-lived intangible asset impairment tests performed beginning July 1, 2013, however, early adoption is permitted. The Company is currently evaluating the impact ASU 2012-02 will have on its Condensed Consolidated Financial Statements.

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

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

Use of Estimates in the Preparation of Financial Statements

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

Net Income and Income Per Common Share

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

For the three months ended September 30, 2012 and 2011 options and warrants to purchase 62,300 and 585,696 shares of common stock, respectively, were not included in the computation of diluted EPS due to the anti-dilutive effect. For the three months ended September 30, 2012 and 2011, 3,315,091 and 3,272,051 shares of common stock issuable upon conversion of the Company's Series A Convertible Preferred Stock ("Series A Preferred") and Series B Convertible Preferred Stock ("Series B Preferred"), respectively, were not included in the diluted EPS calculation as the effect would have been anti-dilutive.

NOTE 3. LIQUIDITY AND MANAGEMENT'S PLAN

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

At September 30, 2012, the Company had negative working capital of \$1,919,099 when compared with negative working capital of \$2,345,977 at June 30, 2012. This \$426,878 increase in working capital is principally due to decreases in accounts payable, accrued liabilities and deferred revenue. While no assurances can be given, management currently believes that the Company will continue to increase its working capital position, and thereby reduce its indebtedness in subsequent periods utilizing existing cash resources and projected cash flow from operations. In addition, management may also refinance or restructure certain of the Company's indebtedness to extend the maturities of such indebtedness to address its short-term and long-term working capital requirements. Management believes that these initiatives will enable us to address our debt service requirements during the next twelve months, as well as fund our currently anticipated operations and capital spending requirements. The financial statements do not reflect any adjustments should cash flow from operations be insufficient to meet our spending and debt service requirements, and we are otherwise unable to refinance or restructure our indebtedness.

On September 4, 2012, the Company announced that its Board of Directors had approved a share repurchase program (the "Repurchase Program") of up to \$2.0 million of the Company's common stock over the next two years, or such other date, which ever is earlier, when the Repurchase Program is revoked or varied by the Board of Directors. The Repurchase Program does not obligate the Company to acquire any particular number of shares of common stock, and is contingent on the redemption by the Company of its Series A Convertible Preferred Stock. The Repurchase Program may be suspended, modified or discontinued at any time at the Company's discretion without prior notice.

NOTE 4. 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.

NOTE 5. OUTSTANDING STOCK OPTIONS

The following tables summarize information about fixed stock options and warrants outstanding and exercisable at September 30, 2012:

Range of exercise prices	Options and Warrants Outstanding at September 30, 2012			Options and Warrants Exercisable at September 30, 2012	
	Number outstanding at September 30, 2012	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at September 30, 2012	Weighted average exercise price
Options					
1.50 - \$2.50	12,300	0.82	\$1.61	12,300	\$1.61
Warrants					
\$1.80	50,000	1.28	\$1.80	50,000	\$1.80
	62,300	1.19	\$1.76	62,300	\$1.76

NOTE 6. RELATED PARTY TRANSACTIONS

None.

NOTE 7. PROPERTY AND EQUIPMENT

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

	September 30, 2012 (unaudited)	June 30, 2012
Computer equipment	\$ 2,285,451	\$ 2,236,625
Furniture and fixtures	314,823	314,823
Leasehold improvements	141,043	141,043
	2,741,317	2,692,491

Edgar Filing: PARK CITY GROUP INC - Form 10-Q

Less accumulated depreciation and amortization	(2,221,299)	(2,133,351)
	\$ 520,018	\$ 559,140

-6-

NOTE 8. CAPITALIZED SOFTWARE COSTS

Capitalized software costs consist of the following as of:

	September 30, 2012 (unaudited)	June 30, 2012
Capitalized software costs	\$ 2,443,128	\$ 2,443,128
Less accumulated amortization	(2,260,421)	(2,223,880)
	\$ 182,707	\$ 219,248

NOTE 9. ACCRUED LIABILITIES

Accrued liabilities consist of the following as of:

	September 30, 2012 (unaudited)	June 30, 2012
Accrued stock-based compensation	\$ 414,947	\$ 506,677
Accrued compensation	225,400	347,554
Accrued dividends	218,046	216,694
Taxes payable	185,246	165,502
Accrued interest	5,461	5,901
	\$ 1,049,100	\$ 1,242,328

NOTE 9. PREFERRED DIVIDENDS

Holders of Series A Preferred are entitled to a 5.00% annual dividend payable quarterly in either cash or additional Series A Preferred at the option of the Company with fractional shares paid in cash. Holders of Series B Preferred are entitled to a 12.00% annual dividend payable quarterly in cash.

The Dividend Rate with respect the Series A Preferred increases to 10% per annum in the event the average closing price of the Company's common stock during the last thirty (30) trading days of any calendar quarter is less than \$3.00 per share (a "Dividend Adjustment"). A holder of Series A Preferred has notified the Company that a Dividend Adjustment is required as a result of the average closing price of the Company's common stock for the thirty-day period ended March 31, 2012. Management disagrees with the method of calculation used by the holder and believes that the Company's calculation determining that a Dividend Adjustment is not required is reasonable, and that an ultimate determination that an alternative method should be employed is doubtful. The pro-forma effect of a Dividend Adjustment is shown in the table below:

	Fiscal Quarter Ended September 30, 2012		Variance	
	As Reported	Pro-forma	Dollars	Percent
Dividends on Series A Preferred	\$ 86,402	\$ 177,095	\$ 90,693	105%
Net loss applicable to common shareholders	\$ (5,588)	\$ (96,281)	\$ (90,693)	-1,623%
Basic and diluted loss per share	\$ (0.00)	\$ (0.01)	\$ (0.01)	-1,623%

NOTE 10. INCOME TAXES

The Company and its subsidiaries file 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 2009.

NOTE 11. SUBSEQUENT EVENTS

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

-7-

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

The Company's Annual Report on Form 10-K for the year ended June 30, 2012 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, 2012 Annual Report on Form 10-K, incorporated herein by reference. Statements made herein are as of the date of the filing of this Form 10-Q with the Securities and Exchange Commission and should not be relied upon as of any subsequent date. Unless otherwise required by applicable law, we do not undertake, and specifically disclaim any obligation, to update any forward-looking statements to reflect occurrences, developments, unanticipated events or circumstances after the date of such statement.

Overview

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

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

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

The Company has also established a partnership with Levitt Partners, an internationally known health care and food safety-consulting firm, to form ReposiTrak, Inc., formerly Global Supply Chain Systems, Inc. ("ReposiTrak"), which provides a targeted solution for improving supply chain visibility for food and drug safety. The solution, ResposiTrak™, is powered by the Company's technology and was developed in response to the passage of the Food Safety and Modernization Act in January of 2011. ResposiTrak™ enables grocery, supermarkets, packaged goods manufacturers, food processing facilities, drug stores and drug manufacturers, as well as logistics partners, to track and trace products and components to products throughout the food, drug and dietary supplement supply chains. In the event of a product recall, the solution quickly identifies the supply chain path taken by the recalled product or product component, and allows for the removal of affected products in a matter of minutes, rather than weeks. Additionally, ResposiTrak™ reduces risk of further contamination in the supply chain by identifying backward chaining sources and forward chaining recipients of affected products in near real time. On August 8, 2012, the Company announced that ReposiTrak had begun the first two implementations of ResposiTrak™ at a global grocery retailer and a major

grocery wholesaler.

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

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

Recent Developments

On September 4, 2012, the Company announced that its Board of Directors had approved a share repurchase program (the "Repurchase Program") of up to \$2.0 million of the Company's common stock over the next two years, or such other date, which ever is earlier, when the Repurchase Program is revoked or varied by the Board of Directors. The Repurchase Program does not obligate the Company to acquire any particular number of shares of common stock, and is contingent on the redemption by the Company of its Series A Convertible Preferred Stock. The Repurchase Program may be suspended, modified or discontinued at any time at the Company's discretion without prior notice.

-8-

Results of Operations

Comparison of the Three Months Ended September 30, 2012 to the Three Months Ended September 30, 2011.

Revenue

	Fiscal Quarter Ended		Variance	
	September 30,		Dollars	Percent
	2012	2011		
Subscription	\$ 1,954,595	\$ 1,742,131	\$ 212,464	12.2%
Other revenue	758,232	837,149	(78,917)	-9.4%
Total revenue	\$ 2,712,827	\$ 2,579,280	\$ 133,547	5.2%

Total revenue was \$2,712,827 and \$2,579,280 for the three months ended September 30, 2012 and 2011, respectively, a 5.2% increase. This \$133,547 increase in total revenue was principally due to an increase of \$212,464 in subscription revenue, offset by a decrease of \$78,917 in other revenue, as more particularly described below.

Management believes that the Company's strategy of pursuing contracts with suppliers ("spokes") to connect to retail customers ("hubs") that have been added in the most recently completed fiscal year, including the recently announced service agreement with CVS Pharmacy, Inc., should result in increased revenue during the fiscal year ending June 30, 2013, and in subsequent periods. In addition, management believes that revenue in subsequent periods will increase as a result of the receipt of subscription payments from ReposiTrak resulting from the license of the Company's technology from ReposiTrak necessary to power ResposiTrak™, ReposiTrak's solution to enable grocery, supermarkets, packaged goods manufacturers, food processing facilities, drug stores and drug manufacturers, as well as logistics partners, to track and trace products and components to products throughout the food, drug and dietary supplement supply chains.

Subscription Revenue

Subscription revenue was \$1,954,595 and \$1,742,131 for the three months ended September 30, 2012 and 2011, respectively, a 12.2% increase in the three months ended September 30, 2012 when compared with the three months ended September 30, 2011. The net increase of \$212,464 is principally due to (i) the increase of subscription customers added to the Company's customer base which contributed approximately \$322,000 in new subscription revenue and (ii) a \$175,000 increase attributable to the growth of existing retailer and supplier subscriptions. The increase in subscription revenue was partially offset by a decrease of approximately \$285,000 resulting from the non-renewal of existing clients, including the non-renewal of a significant retail client and related connections in January 2012.

The Company continues to focus its strategic initiatives on increasing the number of retailers, suppliers and manufacturers that use its software on a subscription basis. 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.

Other Revenue

Other revenue was \$758,232 and \$837,149 for the three months ended September 30, 2012 and 2011, respectively, a decrease of 9.4% in the three months ended September 30, 2012 compared with the three months ended September 30, 2011. The net decrease of \$78,917 is principally due to (i) the non-renewal of maintenance contracts, partially offset

by increasing existing contracts resulting in a net reduction of maintenance revenue of approximately \$35,000; (ii) a decrease in license revenue of \$109,000; and (iii) a decrease in professional service revenue of \$108,000. These decreases were partially offset by an increase in other revenue related to a management agreement with ReposiTrak.

While these other sources of revenue will continue in future periods, management's focus on recurring subscription-based revenue will cause license, maintenance, and consulting services to fluctuate and be difficult to predict.

Cost of Services and Product Support

	Fiscal Quarter Ended		Variance	
	September 30,		Dollars	Percent
	2012	2011		
Cost of services and product support	\$ 1,080,484	\$ 1,140,261	\$ (59,777)	-5.2%
Percent of total revenue	39.8%	44.2%		

Cost of services and product support was \$1,080,484 and \$1,140,261 for the three months ended September 30, 2012 and 2011, respectively, a 5.2% decrease in the three months ended September 30, 2012 compared with the three months ended September 30, 2011. This decrease of \$59,777 for the quarter ended September 30, 2012 when compared with the same period ended September 30, 2011 is principally due to a \$80,000 decrease in salary, employee benefits, stock-based compensation, and other head count related expenses. This decrease was partially offset by increases related to (i) data center expansion of \$12,000, (ii) and increase of \$8,000 for hardware and software maintenance and support contracts, contractors for system upgrade and travel and related expenditures.

Sales and Marketing Expense

	Fiscal Quarter Ended		Variance	
	September 30,		Dollars	Percent
	2012	2011		
Sales and marketing	\$ 580,356	\$ 661,748	\$ (81,392)	-12.3%
Percent of total revenue	21.4%	25.7%		

Sales and marketing expense was \$580,356 and \$661,748 for the three months ended September 30, 2012 and 2011, respectively, a 12.3% decrease. This \$81,392 decrease over the comparable quarter was primarily the result of (i) a decrease of approximately \$125,000 in salary, employee benefits and training, stock-based compensation, and commission expense, (ii) a decrease of \$15,000 in the use of outside sales contractors, and (ii) a decrease of \$13,000 in public relations, advertising, marketing and tradeshow expense, and travel related expenditures. These decreases were partially offset by an increase of approximately \$71,000 in non-employee commissions primarily related to retailer marketing allowances.

General and Administrative Expense

	Fiscal Quarter Ended		Variance	
	September 30,		Dollars	Percent
	2012	2011		
General and administrative	\$ 574,094	\$ 759,537	\$ (185,443)	-24.4%
Percent of total revenue	21.2%	29.4%		

General and administrative expense was \$574,094 and \$759,537 for the three months ended September 30, 2012 and 2011, respectively, a 24.4% decrease in the three months ended September 30, 2012 compared with the three months ended September 30, 2011. This \$185,443 decrease when comparing expenditures for the quarter ended September 30, 2012 with the same period ended September 30, 2011 is principally due (i) a decrease of approximately \$107,000 in investor relations, shareholder costs, and other professional fees, (ii) a decrease of \$43,000 in bad debt expense, (iii) a decrease of \$24,000 in facility related costs, (iv) a decrease of \$11,000 resulting from lower estimated tax payment in the current year, (v) a \$10,000 decrease in head count related expense, and (vi) a \$10,000 decrease in travel and related expenditures. These decreases were partially offset by a \$20,000 increase in insurance costs related to a workers compensation refund in the prior year and an increase in life insurance costs related to renewal of a key man

policy.

Depreciation and Amortization Expense

	Fiscal Quarter Ended		Variance	
	September 30,		Dollars	Percent
	2012	2011		
Depreciation and amortization	\$ 230,068	\$ 223,965	\$ 6,103	2.7%
Percent of total revenue	8.5%	8.7%		

Depreciation and amortization expense was \$230,068 and \$223,965 for the three months ended September 30, 2012 and 2011, respectively, an increase of 2.7% in the three months ended September 30, 2012 compared with the three months ended September 30, 2011. This increase of \$6,103 for the quarter ended September 30, 2012 when compared to the quarter ended September 30, 2011 is due to an increase in depreciation expense related to new equipment.

-10-

Other Income and Expense

	Fiscal Quarter Ended		Variance	
	September 30,		Dollars	Percent
	2012	2011		
Interest expense	\$ (43,433)	\$ (73,490)	\$ (30,057)	-40.9%
Percent of total revenue	1.6%	2.8%		

Interest expense was \$43,433 and \$73,490 for the three months ended September 30, 2012 and 2011, respectively, a decrease of 40.9% in the three months ended September 30, 2012 compared with the three months ended September 30, 2011. This decrease of \$30,057 for the quarter ended September 30, 2012 when compared to the quarter ended September 30, 2011 is due to reduced principal balances in the current year.

Preferred Dividends

	Fiscal Quarter Ended		Variance	
	September 30,		Dollars	Percent
	2012	2011		
Preferred dividends	\$ 209,980	\$ 208,353	\$ 1,627	0.8%
Percent of total revenue	7.7%	8.1%		

Dividends accrued on the Company's Series A Preferred and Series B Preferred was \$209,980 and \$208,353 for the three months ended September 30, 2012 and 2011, respectively. Holders of Series A Preferred are entitled to a 5.00% annual dividend payable quarterly in either cash or additional Series A Preferred at the option of the Company with fractional shares paid in cash. Holders of Series B Preferred are entitled to a 12.00% annual dividend payable quarterly in cash.

The dividend rate with respect the Series A Preferred increases to 10% per annum in the event the average closing price of the Company's common stock during the last thirty (30) trading days of any calendar quarter is less than \$3.00 per share (a "Dividend Adjustment"). A holder of Series A Preferred has notified the Company that a Dividend Adjustment is required as a result of the average closing price of the Company's common stock for the thirty-day period ended March 31, 2012. Management disagrees with the method of calculation used by the holder and believes that the Company's calculation determining that a Dividend Adjustment is not required is reasonable, and that an ultimate determination that an alternative method should be employed is doubtful. The pro-forma effect of a Dividend Adjustment is shown in the table below:

	Fiscal Quarter Ended		Variance	
	September 30, 2012		Dollars	Percent
	As Reported	Pro-forma		
Dividends on Series A Preferred	\$ 86,402	\$ 177,095	\$ 90,693	105%
Net loss applicable to common shareholders	\$ (5,588)	\$ (96,281)	\$ (90,693)	-1,623%
Basic and diluted loss per share	\$ (0.00)	\$ (0.01)	\$ (0.01)	-1,623%

Financial Position, Liquidity and Capital Resources

We believe our existing cash and short-term investments, together with funds generated from operating activities, will be sufficient to fund operating and investment requirements for at least the next twelve months, in addition to our debt service requirements. Our future capital requirements will depend on many factors, including our rate of revenue growth and expansion of our sales and marketing activities, the timing and extent of spending required for research

and development efforts, the continuing market acceptance of our products, and our ability to restructure certain of our notes payable. Although the Company anticipates that available cash resources will be sufficient to meet its working capital and debt service requirements, no assurances can be given. To the extent that available funds are insufficient to fund our future activities, or satisfy our short-term debt service requirements, or in the event we are unable to restructure certain notes payable, we may need to raise additional funds through public or private equity or debt financings. Additional equity or debt financing may not be available on terms favorable to us, in a timely fashion or at all.

We have historically funded our operations with cash from operating activities, equity financings and debt borrowings. As set forth below, cash was \$1,088,387 and \$996,344 at September 30, 2012, and September 30, 2011, respectively. This increase from September 30, 2012 to September 30, 2011 was principally the result of reduced debt payments in the current year. A significant amount of outstanding debt was retired in the September 30, 2011 period.

Edgar Filing: PARK CITY GROUP INC - Form 10-Q

	As of September 30,		Variance	
	2012	2011	Dollars	Percent
Cash	\$ 1,088,387	\$ 996,344	\$ 92,043	9.2%

Net Cash Flows from Operating Activities

	Three Months Ended		Variance	
	September 30, 2012	2011	Dollars	Percent
Cash provided by operating activities	\$ 270,545	\$ (56,058)	\$ 326,603	582.6%

Net cash provided by operating activities is summarized as follows:

	Three Months Ended		September 30,	
	2012	2011	Dollars	Percent
Net income (loss)			\$ 204,392	\$ (279,721)
Noncash expense and income, net			465,290	519,328
Net changes in operating assets and liabilities			(399,137)	(295,665)
			\$ 270,545	\$ (56,058)

Noncash expense decreased by \$54,038 in the three months ended September 30, 2012 compared to September 30, 2011. Noncash expense decreased as a result of a \$17,545 decrease in the use of stock based compensation and the \$42,597 of bad debt expense. These decreases were partially offset by an increase in depreciation.

The net changes in operating assets and liabilities resulted in the use of \$103,472 more cash in the three months ended September 30, 2012 compared to the same period in 2011.

Net Cash Flows from Investing Activities

	Three Months Ended		Variance	
	September 30, 2012	2011	Dollars	Percent
Cash used in investing activities	\$ (48,826)	\$ (20,072)	\$ (28,754)	143.3%

Net cash used in investing activities for the three months ended September 30, 2012 was \$48,826 compared to net cash used in investing activities of \$20,072 for the three months ended September, 2011. This \$28,754 increase in cash used in investing activities for the three months ended September 30, 2012 when compared to the same period in 2011 was the result of increased purchases of property and equipment.

Net Cash Flows from Financing Activities

	Three Months Ended		Variance	
	September 30, 2012	2011	Dollars	Percent
Cash used in financing activities	\$ (239,508)	\$ (1,545,755)	\$ 1,306,247	84.5%

Net cash used in financing activities totaled \$239,508 for the three months ended September 30, 2012 as compared to cash flows used in financing activities of \$1,545,755 for the three months ended September 30, 2011. The change in

net cash used in financing activities is attributable to (i) \$1,484,000 decrease in cash used for payments on notes payable and capital leases; (ii) a \$13,000 decrease in proceeds from the issuance of common stock for cash and exercise of options and warrants, (iii) a \$41,000 decrease in proceeds from the issuance of notes payable and (iv) a \$124,000 increase in cash used to pay dividends.

Working Capital

At September 30, 2012, the Company had negative working capital of \$1,919,099 when compared with negative working capital of \$2,345,977 at June 30, 2012. This \$426,878 increase in working capital is principally due to a decrease in accounts payable, accrued liabilities and deferred revenue. While no assurances can be given, management currently believes that the Company will continue to increase its working capital position, and thereby reduce its indebtedness in subsequent periods utilizing existing cash resources and projected cash flow from operations.

Edgar Filing: PARK CITY GROUP INC - Form 10-Q

	As of		Variance	
	September 30, 2012	June 30, 2012	Dollars	Percent
Current assets	\$ 3,547,656	\$ 3,568,561	\$ 20,905	0.6%

Current assets as of September 30, 2012 totaled \$3,547,656, a decrease of \$20,905 when compared to \$3,568,561 as of June 30, 2012. This 0.6% decrease in current assets is due primarily to normal fluctuations in operating assets.

	As of		Variance	
	September 30, 2012	June 30, 2012	Dollars	Percent
Current liabilities	\$ 5,466,755	\$ 5,914,538	\$ (447,783)	-7.6%

Current liabilities totaled \$5,466,755 as of September 30, 2012 as compared to \$5,914,538 as of June 30, 2012. The \$447,783 comparative decrease in current liabilities is principally due to decreases in the current portion of notes and capital leases of \$6,000, deferred revenue of \$162,000, accounts payable of \$87,000, and accrued liabilities of \$193,000.

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

Off-Balance Sheet Arrangements

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

Recent Accounting Pronouncements

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

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

In July 2012, the FASB issued ASU 2012-02, Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment ("ASU 2012-02"), which permits an entity to make a qualitative assessment of whether it is more likely than not that the fair value of a reporting unit's indefinite-lived intangible asset

is less than the asset's carrying value before applying the two-step goodwill impairment model that is currently in place. If it is determined through the qualitative assessment that the fair value of a reporting unit's indefinite-lived intangible asset is more likely than not greater than the asset's carrying value, the remaining impairment steps would be unnecessary. The qualitative assessment is optional, allowing companies to go directly to the quantitative assessment. ASU 2012-02 is effective for the Company for annual and interim indefinite-lived intangible asset impairment tests performed beginning July 1, 2013, however, early adoption is permitted. The Company is currently evaluating the impact ASU 2012-02 will have on its Condensed Consolidated Financial Statements.

Critical Accounting Policies

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

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

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

Deferred Income Taxes and Valuation Allowance

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

Revenue Recognition

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

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

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

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

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

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

Stock-Based Compensation

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

Capitalization of Software Development Costs

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

Goodwill and Long-lived Assets

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

Our exposure to interest rate changes related to borrowing has been limited by the use of fixed rate borrowings on the majority of our outstanding debt, and we believe the effect, if any, or reasonably possible near-term changes in interest rates on our financial position, results of operations and cash flows should not be material. At September 30, 2012, the debt portfolio was composed of approximately 73.6% variable-rate debt and 26.4% fixed-rate debt.

	September 30, 2012 (unaudited)	Percent of Total Debt
Fixed rate debt	\$ 689,605	26.4%
Variable rate debt	1,920,061	73.6%

Edgar Filing: PARK CITY GROUP INC - Form 10-Q

Total debt	\$	2,609,666	100.0%
------------	----	-----------	--------

The table that follows presents fair values of principal amounts and weighted average interest rates for our investment portfolio as of September 30, 2012:

Cash and Cash Equivalents:		Aggregate Fair Value	Weighted Average Interest Rate
Cash	\$	1,088,387	N/A

-15-

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our Management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operations of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of September 30, 2012. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports submitted under the Securities and Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, including to ensure that information required to be disclosed by the Company is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in internal controls over financial reporting.

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

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

There were no material changes from the risk factors previously disclosed in Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended June 30, 2012.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

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

Exhibit 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS* XBRL Instance Document

101.SCH* XBRL Taxonomy Extension Schema

101.CAL* XBRL Taxonomy Extension Calculation Linkbase

101.DEF* XBRL Taxonomy Extension Definition Linkbase

101.LAB* XBRL Taxonomy Extension Label Linkbase

101.PRE* XBRL Taxonomy Extension Presentation Linkbase

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

SIGNATURES

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

Date: November 8, 2012

PARK CITY GROUP, INC

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

Date: November 8, 2012

By /s/ Edward L. Clissold
Edward L. Clissold
Chief Financial Officer
(Principal Financial Officer & Principal
Accounting Officer)