PARK CITY GROUP INC
Form 10-Q
May 09, 2013

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

FORM 10-Q

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

For the quarterly period ended March 31, 2013.

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.)

299 S Main Street, Suite 2370,
Salt Lake City, UT 84111
(Address of principal executive offices)

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company þ

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

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 16,119,342 shares common stock, par value $0.01 per share, as of May 8, 2013.

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PARK CITY GROUP, INC.
Consolidated Condensed Balance Sheets

	March 31, 2013 (unaudited)	June 30, 2012
Assets		
Current assets:		
Cash	$ 4,395,904	$ 1,106,176
Receivables, net of allowance of $165,000 and $220,000 at March 31, 2013 and June 30, 2012, respectively	3,132,677	2,290,859
Prepaid expenses and other current assets	325,953	171,526
Total current assets	7,854,534	3,568,561
Property and equipment, net	647,751	559,140
Other assets:		
Deposits and other assets	32,079	20,697
Customer relationships	2,445,914	2,762,651
Goodwill	4,805,933	4,805,933
Capitalized software costs, net	109,624	219,248
Total other assets	7,393,550	7,808,529
Total assets	$ 15,895,835	$ 11,936,230
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 625,913	$ 550,846
Accrued liabilities	1,037,747	1,242,328
Deferred revenue	1,570,724	2,081,459
Capital lease obligations	-	41,201
Lines of credit	1,200,000	1,200,000
Notes payable	665,162	798,704
Total current liabilities	5,099,546	5,914,538
Long-term liabilities:		
Notes payable, less current portion	420,009	711,571
Other long-term liabilities	101,840	-
Total liabilities	5,621,395	6,626,109
Commitments and contingencies	-	-
Stockholders' equity:		
Series A Convertible Preferred Stock, $0.01 par value, 30,000,000 shares authorized; zero and 685,671 shares issued and outstanding at March 31, 2013 and	-	6,857

June 30, 2012, respectively		
Series B Convertible Preferred Stock, $0.01 par value, 30,000,000 shares authorized; 411,927 shares issued and outstanding at March 31, 2013 and June 30, 2012, respectively	4,119	4,119
Common Stock, $0.01 par value, 50,000,000 shares authorized; 13,778,085 and 12,087,431 shares issued and outstanding at March 31, 2013 and June 30, 2012, respectively	137,781	120,874
Additional paid-in capital	36,949,963	37,763,196
Series A Convertible Preferred redemption payable	6,313,677	-
Subscription receivable	(108,000)	-
Accumulated deficit	(33,023,100)	(32,584,925)
Total stockholders' equity	10,274,440	5,310,121
Total liabilities and stockholders' equity	$ 15,895,835	$ 11,936,230

See accompanying notes to consolidated condensed financial statements.

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

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Nine Months Ended March 31, 2013	Nine Months Ended March 31, 2012
Revenues:				
Subscription	$ 2,007,821	$ 1,682,751	$ 5,917,978	$ 5,105,882
Other Revenue	1,039,167	826,896	2,500,739	2,550,167
Total revenues	3,046,988	2,509,647	8,418,717	7,656,049
Operating expenses:				
Cost of services and product support	1,141,643	1,198,421	3,321,290	3,453,795
Sales and marketing	747,120	712,256	2,090,777	1,942,801
General and administrative	692,548	734,523	1,862,049	2,284,915
Depreciation and amortization	222,602	226,198	683,125	670,998
Total operating expenses	2,803,913	2,871,398	7,957,241	8,352,509
Income (loss) from operations	243,075	(361,751)	461,476	(696,460)
Other income (expense):				
Interest expense	(33,781)	(46,881)	(111,649)	(167,765)
Other gains/(losses)	-	55,995	-	55,995
Income (loss) before income taxes	209,294	(352,637)	349,827	(808,230)
(Provision) benefit for income taxes	-	-	-	-
Net income (loss)	209,294	(352,637)	349,827	(808,230)
Dividends on preferred stock	(288,721)	(208,415)	(788,002)	(625,635)
Net (loss) applicable to common shareholders	$ (79,427)	$ (561,052)	$ (438,175)	$ (1,433,865)
Weighted average shares, basic and diluted	12,750,000	11,838,000	12,420,000	11,733,000
Basic and diluted loss per share	$ (0.01)	$ (0.05)	$ (0.04)	$ (0.12)

See accompanying notes to consolidated condensed financial statements.

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

	2013	2012
Cash Flows From Operating Activities:		
Net income (loss)	$349,827	$(808,230)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	683,125	670,997
Bad debt expense	81,260	173,194
Stock compensation expense	777,200	811,171
Other gains	-	(55,995)
(Increase) decrease in:		
Receivables	(923,078)	460,350
Prepaids and other assets	(165,809)	53,435
(Decrease) increase in:		
Accounts payable	75,067	(227,811)
Accrued liabilities	50,364	31,559
Deferred revenue	(510,735)	(465,163)
Net cash provided by operating activities	417,221	643,507
Cash Flows From Investing Activities:		
Purchase of property and equipment	(345,375)	(145,058)
Net cash used in investing activities	(345,375)	(145,058)
Cash Flows From Financing Activities:		
Proceeds from issuance of stock	4,054,921	-
Proceeds from exercise of options and warrants	-	14,748
Proceeds from issuance of notes	176,797	255,334
Dividends paid	(370,734)	(370,734)
Payments on notes payable and capital leases	(643,102)	(2,384,894)
Net cash used in financing activities	3,217,882	(2,485,546)
Net increase (decrease) in cash	3,289,728	(1,987,097)
Cash at beginning of period	1,106,176	2,618,229
Cash at end of period	$4,395,904	$631,132
Supplemental Disclosure of Cash Flow Information:		
Cash paid for income taxes	$-	$-
Cash paid for interest	$112,806	$238,264
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Common stock to pay accrued liabilities	$846,513	$645,938
Dividends accrued on preferred stock	$788,002	$625,635
Dividends paid with preferred stock	$501,060	$251,960

See accompanying notes to consolidated condensed financial statements.

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

NOTE 1. ORGANIZATION AND DESCRIPTION OF BUSINESS

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 relationship with Leavitt Partners, an internationally known health care and food safety-consulting firm, which formed ReposiTrak, Inc., formerly, Global Supply Chain Systems, Inc. ("ReposiTrak"). ReposiTrak provides a targeted solution for improving supply chain visibility for food and drug safety. ResposiTrak's solution, similarly called ResposiTrakTM, 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 2012. ResposiTrakTM 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, ResposiTrakTM 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.

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 299 S Main Street, Suite 2370, Salt Lake City, Utah 84111. The telephone number is (435) 645-2000. The website address is http://www.parkcitygroup.com.

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Recent Developments

Series A Redemption

On March 15, 2013, the Company called for the redemption of all outstanding shares of its Series A Convertible Preferred Stock ("Series A Preferred"), pursuant to the Certificate of Designation of the Relative Rights, Powers and Preference of the Series A Preferred (the "Certificate of Designation"), which allows the Company to, upon 30 days written notice, redeem all issued and outstanding shares of Series A Preferred for $10.00 per share (the "Series A Preferred Redemption"). Holders of Series A Preferred could also elect to convert, rather than redeem, their shares of Series A Preferred into 3.33 shares of common stock, at $3.00 per share. The Company completed the Series A Preferred Redemption on April 15, 2013. All but one holder of Series A Preferred elected to convert their shares of Series A Preferred into shares of the Company's common stock.

Series A Private Offering

In March 2013, the Company issued an aggregate total of 756,858 shares of its common stock for $3.50 per share, and five year warrants (the "Investor Warrant(s)") to purchase an aggregate total of 249,763 shares of common stock for $3.50 per share to certain accredited investors (the "Investors") in a series of private transactions (the "Private Offering") in order to finance the Series A Preferred Redemption. The Company also issued warrants to certain affiliates of the placement agent for three of the Investors, on substantially similar terms to those offered to the Investors ("Placement Agent Warrant(s)"), to purchase 18,857 shares of common stock as partial consideration for facilitating a portion of the Private Offering.

The Company also entered into a Registration Rights Agreement with certain investors, wherein the Company agreed to register the shares of common stock, Investor Warrants and Placement Agent Warrants with the Securities and Exchange Commission (the "SEC"). In accordance with this Registration Rights Agreement, the Company filed a registration statement on Form S-3 with the SEC on April 15, 2013.

Director Investment

Concurrently with the Private Offering, the Company sold an aggregate total of 470,281 shares of its common stock to the directors of the Company for $3.60 per share, and five year warrants to purchase an aggregate total of 155,190 shares of common stock for $3.60 per share in a series of above-market private transactions.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements of the Company have been prepared by the Company pursuant to the rules and regulations of the SEC on a basis consistent with the Company's audited annual financial statements and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial information set forth therein. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to SEC rules and regulations, although the Company believes that the following disclosures, when read in conjunction with the audited annual financial statements and the notes thereto included in the Company's most recent Annual Report on Form 10–K, are adequate to make the information presented not misleading. Operating results for the three and nine months ended March 31, 2013 are not necessarily indicative of the operating results that may be expected for the fiscal year ending June 30, 2013.

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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 March 31, 2013 and 2012 options and warrants to purchase 486,110 and 250,729 shares of common stock, respectively, were not included in the computation of diluted EPS due to the anti-dilutive effect. For the three and nine months ended March 31, 2013 and 2012, 1,029,818 and 3,298,348 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.

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NOTE 3. LIQUIDITY AND MANAGEMENT'S PLAN

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

At March 31, 2013, the Company had positive working capital of $2,754,988, compared with negative working capital of $2,345,977 at June 30, 2012. This $5,100,965 increase in working capital is principally due to cash received in connection with the Private Offering and Director Investment in March 2013, an increase in accounts receivable and decreases in deferred revenue and current notes payable during the period ended March 31, 2013. 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. Management believes these conditions 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.

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 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 March 31, 2013:

	Options and Warrants Outstanding at March 31, 2013			Options and Warrants Exercisable at March 31, 2013	
Range of exercise prices	Number outstanding at March 31, 2013	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at March 31, 2013	Weighted average exercise price
Options					
$ 1.50 - 2.50	12,300	0.32	$ 1.61	12,300	$ 1.61
Warrants					
$ 1.80	50,000	0.78	$ 1.80	50,000	$ 1.80
$ 3.50 - 3.60	423,810	4.96	$ 3.54	423,810	$ 3.54
	486,110	4.41	$ 3.31	486,110	$ 3.31

NOTE 6. RELATED PARTY TRANSACTIONS

As discussed in Note 1 above, on March 14 and 15, 2013, the Company sold an aggregate total of 470,281 shares of its common stock to the directors of the Company for $3.60 per share, and five year warrants to purchase an aggregate total of 155,190 shares of common stock for $3.60 per share in a series of above-market private transactions in order to facilitate the Series A Preferred Redemption.

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NOTE 7. PROPERTY AND EQUIPMENT

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

	March 31, 2013 (unaudited)	June 30, 2012
Computer equipment	$ 2,343,760	$ 2,236,625
Furniture and fixtures	321,281	314,823
Leasehold improvements	231,782	141,043
	2,896,823	2,692,491
Less accumulated depreciation and amortization	(2,249,072)	(2,133,351)
	$ 647,751	$ 559,140

NOTE 8. CAPITALIZED SOFTWARE COSTS

Capitalized software costs consist of the following as of:

	March 31, 2013 (unaudited)	June 30, 2012
Capitalized software costs	$ 2,443,128	$ 2,443,128
Less accumulated amortization	(2,333,504)	(2,223,880)
	$ 109,624	$ 219,248

NOTE 9. ACCRUED LIABILITIES

Accrued liabilities consist of the following as of:

	March 31, 2013 (unaudited)	June 30, 2012
Accrued stock-based compensation	$ 412,063	$ 506,677
Accrued compensation	251,131	216,694
Taxes payable	233,695	165,502
Accrued dividends	132,900	347,554
Other accrued liabilities	7,958	5,901
	$ 1,037,747	$ 1,242,328

NOTE 10. 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.

As discussed in Note 1 above, on March 15, 2013, the Company called for the redemption of 686,210 issued and outstanding shares of Series A Preferred. The Company completed the Series A Preferred Redemption on April 15, 2013. On that date, of the 686,210 shares of Series A Preferred issued and outstanding, 2,172 shares were redeemed for $10.00 per share, or an aggregate total of $21,720, and the remaining 684,038 shares were converted into 3.33

shares of common stock for each share of Series A Preferred redeemed, or an aggregate total of 2,280,149 shares of the Company's common stock.

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NOTE 11. 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 12. SUBSEQUENT EVENTS

Series A Redemption

On March 15, 2013, the Company called for the redemption of all outstanding shares of its Series A Preferred, pursuant to the Certificate of Designation, which allows the Company to, upon 30 days written notice, redeem all issued and outstanding shares Series A Preferred for $10.00 per share. Holders of Series A Preferred could also elect to convert, rather than redeem, their shares of Series A Preferred into 3.33 shares of common stock, at $3.00 per share. The Company completed the Series A Preferred Redemption on April 15, 2013. All but one holder of Series A Preferred elected to convert their shares into shares of the Company's common stock. As previously stated in Note 10 "Preferred Dividends", the Company issued an aggregate total of 2,280,149 shares of the Company's common stock upon conversion of certain shares of Series A Preferred.

Series A Private Offering

In March 2013, the Company issued an aggregate total of 756,858 shares of its common stock for $3.50 per share, and five year Investor Warrants to purchase an aggregate total of 249,763 shares of common stock for $3.50 per share to certain Investors in the Private Offering, in order to finance the Series A Preferred Redemption. The Company also issued Placement Agent Warrants to certain affiliates of the placement agent for three of the Investors, on substantially similar terms to those offered to the Investors, to purchase 18,857 shares of common stock as partial consideration for facilitating a portion of the Private Offering.

The Company also entered into a Registration Rights Agreement with certain investors, wherein the Company agreed to register the shares of common stock, Investor Warrants and Placement Agent Warrants with the SEC. In accordance with the Registration Rights Agreement, the Company filed a registration statement on Form S-3 with the SEC on April 15, 2013.

Director Investment

Concurrently with the Private Offering, the Company sold an aggregate total of 470,281 shares of its common stock to the directors of the Company for $3.60 per share, and five year warrants to purchase an aggregate total of 155,190 shares of common stock for $3.60 per share in a series of above-market private transactions.

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

The Company's Annual Report on Form 10-K for the year ended June 30, 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 relationship with Leavitt Partners, an internationally known health care and food safety-consulting firm, which formed ReposiTrak, Inc., formerly, Global Supply Chain Systems, Inc. ("ReposiTrak"). ReposiTrak provides a targeted solution for improving supply chain visibility for food and drug safety. ResposiTrak's solution, similarly called ResposiTrakTM, 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 2012. ResposiTrakTM 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, ResposiTrakTM 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.

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.

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The principal executive offices of the Company are located at 299 S Main Street, Suite 2370, Salt Lake City, Utah 84111. The telephone number is (435) 645-2000. The website address is http://www.parkcitygroup.com.

Recent Developments

Series A Redemption

On April 15, 2013, the Company called for the redemption of all outstanding shares of its Series A Preferred, pursuant to the Certificate of Designation, which allows the Company to, upon 30 days written notice, redeem all issued and outstanding shares Series A Preferred for $10.00 per share. Holders of Series A Preferred could also elect to convert, rather than redeem, their shares of Series A Preferred into 3.33 shares of common stock, at $3.00 per share. All but one of the holders of Series A Preferred elected to convert their shares of Series A Preferred into shares of the Company's common stock.

Series A Private Offering

In March 2013, the Company issued an aggregate total of 756,858 shares of its common stock for $3.50 per share, and five year Investor Warrants to purchase an aggregate total of 249,763 shares of common stock for $3.50 per share to certain Investors in the Private Offering, in order to finance the Series A Preferred Redemption. The Company also issued Placement Agent Warrants to certain affiliates of the placement agent for three of the Investors, on substantially similar terms to those offered to the Investors, to purchase 18,857 shares of common stock as partial consideration for facilitating a portion of the Private Offering.

The Company also entered into a Registration Rights Agreement with certain investors, wherein the Company agreed to register the shares of common stock, Investor Warrants and Placement Agent Warrants with the SEC. In accordance with the Registration Rights Agreement, the Company filed a registration statement on Form S-3 with the SEC on April 15, 2013.

Director Investment

Concurrently with the Private Offering, the Company sold an aggregate total of 470,281 shares of its common stock to the directors of the Company for $3.60 per share, and five year warrants to purchase an aggregate total of 155,190 shares of common stock for $3.60 per share in a series of above-market private transactions.

Results of Operations

Comparison of the Three Months Ended March 31, 2013 to the Three Months Ended March 31, 2012.

Revenue

	Fiscal Quarter Ended March 31,		Variance	
	2013	2012	Dollars	Percent
Subscription	$ 2,007,821	$ 1,682,751	$ 325,070	19%
Other revenue	1,039,167	826,896	212,271	26%
Total revenue	$ 3,046,988	$ 2,509,647	$ 537,341	21%

Total revenue was $3,046,988 for the three months ended March 31, 2013, a 21% increase from $2,509,647 for the three months ended March 31, 2012. This $537,341 increase in total revenue was principally due to an increase of

$325,070 in subscription revenue and an increase of $212,271 in other revenue, as more particularly described below.

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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 service agreement with CVS Pharmacy, Inc., announced in July 2012, will continue to 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 necessary to power ResposiTrakTM. ResposiTrakTM 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.

Subscription Revenue

The Company generated $2,007,821 from subscription revenue during the three months ended March 31, 2013, as compared to $1,682,751 for the same period ended March 31, 2012, a 19% increase in the three months ended March 31, 2013 when compared with the three months ended March 31, 2012. The net increase of $325,070 is principally due to (i) the increase of subscription customers added to the Company’s customer base which contributed approximately $348,000 in new subscription revenue and (ii) a $135,000 increase attributable to the growth of existing retailer and supplier subscriptions. The increase in subscription revenue was partially offset by a decrease of approximately $158,000 resulting from the non-renewal of existing clients.

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 $1,039,167 and $826,896 for the three months ended March 31, 2013 and 2012, respectively, an increase of 26% in the three months ended March 31, 2013 compared with the three months ended March 31, 2012. This increase of $212,271 is principally due to (i) the renewal of maintenance contracts, partially offset by cancellations resulting in a net increase in maintenance revenue of approximately $105,000; (ii) an increase in license revenue of $74,000; and (iii) an increase in other revenue related to a management agreement with ReposiTrak. These increases were partially offset by a decrease in professional service revenue of $125,000.

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 March 31,		Variance	
	2013	2012	Dollars	Percent
Cost of services and product support	$ 1,141,641	$ 1,198,421	$ (56,780)	(5)%
Percent of total revenue	37%	48%		

Cost of services and product support was $1,141,641 and $1,198,421 for the three months ended March 31, 2013 and 2012, respectively, a 5% decrease in the three months ended March 31, 2013 compared with the three months ended

March 31, 2012. This decrease of $56,780 for the quarter ended March 31, 2013 when compared with the same period ended March 31, 2012 is principally due to a $62,000 decrease in employee related expenses. This decrease was partially offset by a $5,000 increase in other product support costs.

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Sales and Marketing Expense

	Fiscal Quarter Ended March 31,		Variance	
	2013	2012	Dollars	Percent
Sales and marketing	$ 747,120	$ 712,256	$ 34,864	5%
Percent of total revenue	25%	28%		

Sales and marketing expense was $747,120 and $712,256 for the three months ended March 31, 2013 and 2012, respectively, a 5% increase. This $34,864 increase over the comparable quarter was primarily the result of an increase of approximately $47,000 in employee related expenses. This increase was partially offset by a decrease of approximately $12,000 in other selling expenses.

General and Administrative Expense

	Fiscal Quarter Ended March 31,		Variance	
	2013	2012	Dollars	Percent
General and administrative	$ 692,548	$ 734,523	$ (41,975)	(6)%
Percent of total revenue	23%	29%		

General and administrative expense was $692,548 and $734,523 for the three months ended March 31, 2013 and 2012, respectively, a 6% decrease in the three months ended March 31, 2013 compared with the three months ended March 31, 2012. This $41,975 decrease when comparing expenditures for the quarter ended March 31, 2013 with the same period ended March 31, 2012 is principally due (i) a decrease of approximately $10,000 in employee related expenses, (ii) a decrease of $23,000 in bad debt expense, and (iii) a decrease of $9,000 in other operational expenses.

Depreciation and Amortization Expense

	Fiscal Quarter Ended March 31,		Variance	
	2013	2012	Dollars	Percent
Depreciation and amortization	$ 222,602	$ 226,198	$ (3,596)	(2)%
Percent of total revenue	7%	9%		

Depreciation and amortization expense was $222,602 and $226,198 for the three months ended March 31, 2013 and 2012, respectively, a decrease of 2% in the three months ended March 31, 2013 compared with the three months ended March 31, 2012. This decrease of $3,596 for the quarter ended March 31, 2013 when compared to the quarter ended March 31, 2012 is due to a decrease in depreciation expense related to fully depreciated equipment.

Other Income and Expense

	Fiscal Quarter Ended March 31,		Variance	
	2013	2012	Dollars	Percent
Interest expense	$ (33,781)	$ (46,881)	$ (13,100)	(28)%
Other gains	-	55,995	(55,995)	(100)%
Total other (expense) income	$ (33,781)	$ 9,114	$ (42,895)	(471)%
Percent of total revenue	1%	0%		

Total other expense was $33,781 and other income of $9,114 for the three months ended March 31, 2013 and 2012, respectively, an increase of 271% in the three months ended March 31, 2013 compared with the three months ended March 31, 2012. This net change of $42,895 for the quarter ended March 31, 2013 when compared to the quarter ended March 31, 2012 is due to reduced principal balances in the current year offset by a gain in the prior year.

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Preferred Dividends

	Fiscal Quarter Ended March 31, 2013	Fiscal Quarter Ended March 31, 2012	Variance Dollars	Variance Percent
Preferred dividends	$ 288,721	$ 208,415	$ 80,306	39%
Percent of total revenue	9%	8%		

Dividends accrued on the Company's Series A Preferred and Series B Preferred was $288,721 and $208,415 for the three months ended March 31, 2013 and 2012, respectively. Before the Series A Redemption in April 2013, holders of Series A Preferred were 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. This dividend rate increased to 10.00% per annum as a result of the average closing price of the Company's common stock during the last thirty (30) trading days of the quarter ending March 31, 2012 being less than $3.00 per share (a "Dividend Adjustment"). Holders of Series B Preferred are entitled to a 12.00% annual dividend payable quarterly in cash.

On April 15, 2013, the Company called for the redemption of all 686,210 issued and outstanding shares of Series A Preferred. 2,172 shares were redeemed for $10.00 per share, or an aggregate total of $21,720, and the remaining 684,038 shares were converted into 3.33 shares of common stock for each share of Series A Preferred redeemed, or an aggregate total of 2,280,149 shares of the Company's common stock.

Comparison of the Nine Months Ended March 31, 2013 to the Nine Months Ended March 31, 2012.

Revenues

	Nine Months Ended March 31, 2013	Nine Months Ended March 31, 2012	Variance Dollars	Variance Percent
Subscription	$ 5,917,978	$ 5,105,882	$ 812,096	16%
Other revenue	2,500,739	2,550,167	(49,428)	(2)%
Total revenue	$ 8,418,717	$ 7,656,049	$ 762,668	10%

Total revenue was $8,418,717 for the nine months ended March 31, 2013, a 10% increase over the $7,656,049 for the nine months ended March 31, 2012. This $762,668 increase in total revenues is principally due to an increase of $812,096 in subscription revenue, partially offset by a decrease of $49,428 in other revenue, as more particularly described below. Management believes that, as a percentage of total revenue, subscription revenue will continue to increase and license and maintenance revenue will continue to decrease, or remain volatile, as the Company continues its emphasis of marketing its services based on the SaaS model.

Subscription Revenue

Subscription revenue was $5,917,978 for the nine months ended March 31, 2013, a 16% increase over the $5,105,882 for the nine months ended March 31, 2012. The net increase of $812,096 is principally due to (i) the increase of subscription customers added to the Company's customer base caused by the expected addition of new contracts with suppliers ("spokes") connected to existing retail clients acquired by the Company ("hubs"), which contributed approximately $979,000 of new subscription revenue; and (ii) a $492,000 increase attributable to the growth of existing retailer and supplier subscriptions. The increase in subscription revenue was partially offset by a decrease of approximately $659,000 resulting from the non-renewal of existing customers, including the non-renewal of a significant retail client and related connections in January 2012. While no assurances can be given, the Company anticipates that revenue from subscription-based services will continue to increase on a year-over-year basis.

The Company continues to focus its strategic initiatives on increasing the number of retailers, suppliers and manufacturers that use its software on a subscription basis. However, while management believes that marketing its suite of software solutions as a renewable and recurring subscription is an effective strategy, it cannot be assured that subscribers will renew the service at the same level in future years, propagate services to new categories or recognize the need for expanding the service offering of the Company's suite of actionable products and services.

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Other Revenue

Other revenue was $2,500,739 and $2,550,167 for the nine months ended March 31, 2013 and 2012, respectively, a decrease of 2% in the nine months ended March 31, 2013 compared with the nine months ended March 31, 2012. The net decrease of $49,428 is principally due to (i) license sales in the prior year that did not recur resulting in a decrease of $239,000 and (ii) a decrease in professional services revenue of $296,000 resulting from the shift to subscription based revenue. These decreases were partially offset by (i) an increase in other revenue related to a management agreement with ReposiTrak and (ii) renewal of maintenance contracts, partially offset by cancellations resulting in a net increase in maintenance revenue of approximately $37,000.

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

	Nine Months Ended March 31,		Variance	
	2013	2012	Dollars	Percent
Cost of services and product support	$ 3,321,290	$ 3,453,795	$ (132,505)	(4)%
Percent of total revenue	40%	45%		

Cost of services and product support was $3,321,290 and $3,453,795 for the nine months ended March 31, 2013 and 2012, respectively, a 4% decrease in the nine months ended March 31, 2013 compared with the nine months ended March 31, 2012. This decrease of $132,505 for the nine months ended March 31, 2013 when compared with the same period ended March 31, 2012 is principally due to $199,000 decrease in employee related expenses. This decrease was partially offset by a $66,000 increase in infrastructure expansion and upgrades.

Sales and Marketing Expense

	Nine Months Ended March 31,		Variance	
	2013	2012	Dollars	Percent
Sales and marketing	$ 2,090,777	$ 1,942,801	$ 147,976	8%
Percent of total revenue	25%	25%		

Sales and marketing expense was $2,090,777 and $1,942,801 for the nine months ended March 31, 2013 and 2012, respectively, a 8% increase. This $147,976 increase over the comparable period ended March 31, 2012 was primarily the result of (i) an increase of $142,000 in marketing costs and (ii) an increase of approximately $56,000 in employee related expenses. These increases were partially offset by a decrease of approximately $50,000 in other selling expenses.

General and Administrative Expense

	Nine Months Ended March 31,		Variance	
	2013	2012	Dollars	Percent
General and administrative	$ 1,862,049	$ 2,284,915	$ (422,866)	(19)%
Percent of total revenue	22%	30%		

General and administrative expense was $1,862,049 and $2,284,915 for the nine months ended March 31, 2013 and 2012, respectively, a 19% decrease in the nine months ended March 31, 2013 compared with the nine months ended March 31, 2012. This $422,866 decrease when comparing expenditures for the nine months ended March 31, 2013 with the same period ended March 31, 2012 is principally due to (i) a decrease of approximately $142,000 in employee related expenses; (ii) a decrease in professional fees of $125,000; (iii) a $92,000 decrease in bad debt due to increased collection efforts; and (iv) a decrease of $64,000 in other operational expenses.

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Depreciation and Amortization Expense

	Nine Months Ended March 31, 2013	Nine Months Ended March 31, 2012	Variance Dollars	Variance Percent
Depreciation and amortization	$ 683,125	$ 670,998	$ 12,127	2%
Percent of total revenue	8%	9%		

Depreciation and amortization expense was $683,125 and $670,998 for the nine months ended March 31, 2013 and 2012, respectively, an increase of 2% in the nine months ended March 31, 2013 compared with the nine months ended March 31, 2012. This increase of $12,127 for the nine months ended March 31, 2013 when compared to the nine months ended March 31, 2012 is due to increased depreciation expense related to new hardware.

Other Income and Expense

	Nine Months Ended March 31, 2013	Nine Months Ended March 31, 2012	Variance Dollars	Variance Percent
Interest expense	$ (111,649)	$ (167,765)	$ (56,116)	(33)%
Other gains	-	55,995	(55,995)	(100)%
Total other expense	$ (111,649)			