PARK CITY GROUP INC
Form 10-Q
February 13, 2014

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

FORM 10-Q

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

For the quarterly period ended December 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	37-1454128
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

299 South 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. [X] Yes [ ] No

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

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

Large accelerated filer	[ ]	Accelerated filer	[ ]
Non-accelerated filer	[ ]	Smaller reporting company	[X]

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

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common Stock, $0.01 par value: 16,869,917 shares as of February 13, 2014.

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PARK CITY GROUP, INC.
Consolidated Condensed Balance Sheets

Assets	December 31, 2013 (unaudited)	June 30, 2013
Current assets:		
Cash	$ 3,859,451	$ 3,616,585
Receivables, net of allowance of $115,000 and $190,000 at December 31, 2013 and June 30, 2013, respectively	2,904,634	2,383,366
Prepaid expenses and other current assets	290,165	403,909
Total current assets	7,054,250	6,403,860
Property and equipment, net	846,543	671,959
Other assets:		
Deposits and other assets	14,866	14,866
Note receivable	2,097,452	1,622,863
Customer relationships	2,129,177	2,340,335
Goodwill	4,805,933	4,805,933
Capitalized software costs, net	-	73,082
Total other assets	9,047,428	8,857,079
Total assets	$ 16,948,221	$ 15,932,898
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 698,625	$ 653,655
Accrued liabilities	1,386,508	1,096,982
Deferred revenue	1,683,221	1,777,326
Lines of credit	1,200,000	1,200,000
Notes payable	332,723	551,421
Total current liabilities	5,301,077	5,279,384
Long-term liabilities:		
Notes payable, less current portion	474,588	310,642
Other long-term liabilities	99,709	101,500
Total liabilities	5,875,374	5,691,526
Commitments and contingencies		
Stockholders' equity:		
Series B Convertible Preferred Stock, $0.01 par value, 30,000,000 shares authorized; 411,927 shares issued and outstanding at December 31, 2013 and June	4,119	4,119

30, 2013, respectively		
Common Stock, $0.01 par value, 50,000,000 shares authorized; 16,742,115 and 16,128,530 shares issued and outstanding at December 31, 2013 and June 30, 2013, respectively	167,421	161,285
Additional paid-in capital	46,046,721	43,314,986
Accumulated deficit	(35,145,414)	(33,239,018)
Total stockholders' equity	11,072,847	10,241,372
Total liabilities and stockholders' equity	$ 16,948,221	$ 15,932,898

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 December 31, 2013	Three Months Ended December 31, 2012	Six Months Ended December 31, 2013	Six Months Ended December 31, 2012
Revenues:				
Subscription	$ 2,344,178	$ 1,955,562	$ 4,478,834	$ 3,910,157
Other Revenue	675,436	703,340	1,316,716	1,461,572
Total revenues	3,019,614	2,658,902	5,795,550	5,371,729
Operating expenses:				
Cost of services and product support	1,246,443	1,099,165	2,455,546	2,179,649
Sales and marketing	1,129,832	763,301	2,369,475	1,343,657
General and administrative	979,144	595,407	2,127,617	1,169,501
Depreciation and amortization	240,727	230,455	468,302	460,523
Total operating expenses	3,596,146	2,688,328	7,420,940	5,153,330
(Loss) income from operations	(576,532)	(29,426)	(1,625,390)	218,399
Other expense:				
Interest income (expense)	26,447	(34,435)	27,940	(77,868)
(Loss) income before income taxes	(550,085)	(63,861)	(1,597,450)	140,531
(Provision) benefit for income taxes:	-	-	-	-
Net (loss) income	(550,085)	(63,861)	(1,597,450)	140,531
Dividends on preferred stock	(154,473)	(289,300)	(308,946)	(499,280)
Net (loss) applicable to common shareholders	$ (704,558)	$ (353,161)	$(1,906,396)	$ (358,749)
Weighted average shares, basic and diluted	16,693,000	12,303,000	16,529,000	12,259,000
Basic and diluted loss per share	$ (0.04)	$ (0.03)	$ (0.12)	$ (0.03)

See accompanying notes to consolidated condensed financial statements.

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

	2013	2012
Cash Flows From Operating Activities:		
Net (loss) income	$ (1,597,450)	$ 140,531
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	468,302	460,523
Stock issued for charitable contribution	96,900	-
Stock compensation expense	855,190	449,719
Bad debt expense	60,008	-
(Increase) decrease in:		
Receivables	(581,276)	(208,976)
Prepaids and other assets	39,155	(81,607)
(Decrease) increase in:		
Accounts payable	44,970	218,252
Accrued liabilities	50,375	34,458
Deferred revenue	(94,105)	(214,934)
Net cash (used in) provided by operating activities	(657,931)	797,966
Cash Flows From Investing Activities:		
Cash from sales of property and equipment	6,505	-
Cash advanced on note receivable	(400,000)	-
Purchase of property and equipment	(365,151)	(297,426)
Net cash used in investing activities	(758,646)	(297,426)
Cash Flows From Financing Activities:		
Proceeds from issuance of stock	1,493,818	-
Proceeds from exercise of options and warrants	436,296	-
Proceeds from employee stock plans	62,132	81,469
Proceeds from issuance of note payable	278,290	95,548
Dividends paid	(278,051)	(247,156)
Payments on notes payable	(333,042)	(425,173)
Net cash provided by (used in) financing activities	1,659,443	(495,312)
Net increase (decrease) in cash	242,866	5,228
Cash at beginning of period	3,616,585	1,106,176
Cash at end of period	$ 3,859,451	$ 1,111,404
Supplemental Disclosure of Cash Flow Information:		
Cash paid for income taxes	$ 6,500	$ -
Cash paid for interest	$ 50,771	$ 79,118

Supplemental Disclosure of Non-Cash Investing and Financing Activities:				
Common stock to pay accrued liabilities	$	633,725	$	608,802
Dividends accrued on preferred stock	$	308,946	$	499,280
Dividends paid with preferred stock	$	-	$	171,200

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. DESCRIPTION OF BUSINESS AND MERGER OF PRESCIENT APPLIED INTELLIGENCE, INC.

Summary of Business

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

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

Recent Developments

Listing of Common Stock on the NASDAQ Capital Market

On October 15, 2013, the Company notified the NYSE MKT LLC (the "NYSE MKT") of the Company's intent to withdraw the listing and registration of its common stock from the NYSE MKT, and transfer the listing of its common stock to the NASDAQ Capital Market. The Company’s common stock ceased trading on the NYSE MKT at the close of business on October 25, 2013, and began trading on the NASDAQ Capital Market on October 28, 2013 under the stock symbol "PCYG".

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements of the Company have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") on a basis consistent with the Company’s audited annual financial statements and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial information set forth therein. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to SEC rules and regulations, although the Company believes that the following disclosures, when read in conjunction with the audited annual financial statements and the notes thereto included in the Company’s most recent Annual Report on Form 10−K, are adequate to make the information presented not misleading. Operating results for the three and six months ended December 31, 2013 are not necessarily indicative of the operating results that may be expected for the fiscal year ending June 30, 2014.

Recent Accounting Pronouncements

In January 2013, the FASB issued ASU 2013-01, Balance Sheet (Topic 210) – Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. The main purpose of this Update is to clarify that the disclosures regarding offsetting assets and liabilities per ASU 2011-11 apply to derivatives including embedded derivatives, repurchase agreements and reverse repurchase agreements and securities borrowing and lending transactions that are offset or subject to a master netting agreement. Other types of transactions are not impacted. This Update is effective for fiscal years beginning on or after January 1, 2013 and for all interim periods within that fiscal year. The Company doesn't expect this Update to impact the Company's financials since it does not have instruments noted in the Update that are offset.

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In July 2012, the FASB issued ASU 2012-02, Intangibles—Goodwill and Other (Topic 350)—Testing Indefinite-Lived Intangible Assets for Impairment, to allow entities to use a qualitative approach to test indefinite-lived intangible assets for impairment. ASU 2012-02 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed quantitative impairment test by comparing the fair value of the indefinite-lived intangible asset with its carrying value. Otherwise, the quantitative impairment test is not required. The Company has adopted ASU 2012-02 for fiscal 2014 and does not believe that the adoption will have a material effect on the 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.

Receivables

Trade account and notes receivable are stated at the amount the Company expects to collect. Receivables are reviewed individually for collectability. If the financial condition of the Company's customers were to deteriorate, adversely affecting their ability to make payments, allowances may be required. Interest income on current notes receivable is recognized on an accrual basis at a stated interest rate of 8%.

Allowance for Doubtful Accounts Receivable

The Company offers credit terms on the sale of the Company's products to a significant majority of the Company's customers and requires no collateral from these customers. The Company performs ongoing credit evaluations of customers' financial condition and maintains an allowance for doubtful accounts receivable based upon the Company's historical experience and a specific review of accounts receivable at the end of each period. As of December 31, 2013 and June 30, 2013, the allowance for doubtful accounts was $115,000 and $190,000, respectively.

Net Income and Income Per Common Share

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

For the three and six months ended December 31, 2013 and 2012, options and warrants to purchase 374,792 and 62,300 shares of common stock, respectively, were not included in the computation of diluted EPS due to the anti-dilutive effect. For the three and six months ended December 31, 2013, 1,029,818 shares of common stock issuable upon conversion of the Company's Series B Convertible Preferred Stock ("Series B Preferred") were not included in the diluted EPS calculation as the effect would have been anti-dilutive, as compared to the 1,029,818 and 3,221,421 shares of common stock issuable upon conversion of the Company's Series A Convertible Preferred Stock ("Series A Preferred") and Series B Preferred for the three and six months ended December 31, 2012. The Company redeemed all outstanding shares of Series A Preferred on April 15, 2013, after which there were no shares of Series A Preferred outstanding.

Certain prior-year amounts have been reclassified to conform with the current year's presentation.

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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 December 31, 2013, the Company had positive working capital of $1,753,173 compared with positive working capital of $1,124,476 at June 30, 2013. This $628,697 increase in working capital is principally due to the additional Director Investment in August 2013, increased accounts receivable, and reductions in deferred revenue and current notes payable. These were partially offset by an increase in accrued liabilities and accounts payable. 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, whichever 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. 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

The following tables summarize information about warrants outstanding and exercisable at December 31, 2013:

	Warrants Outstanding at December 31, 2013			Warrants Exercisable at December 31, 2013	
Range of exercise prices	Number outstanding at December 31, 2013	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at December 31, 2013	Weighted average exercise price
Warrants					
$ 3.50 – 3.60	298,048	4.46	$ 3.55	298,048	$ 3.55

$	6.45	76,744	4.91	$	6.45	76,744	$	6.45
		374,792	4.55	$	4.14	374,792	$	4.14

NOTE 6. RELATED PARTY TRANSACTIONS

None.

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NOTE 7. PROPERTY AND EQUIPMENT

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

	December 31, 2013 (unaudited)	June 30, 2013
Computer equipment	$ 2,805,788	$ 2,444,129
Furniture and fixtures	260,574	321,281
Leasehold improvements	231,782	231,782
	3,298,144	2,997,192
Less accumulated depreciation and amortization	(2,451,601)	(2,325,233)
	$ 846,543	$ 671,959

NOTE 8. CAPITALIZED SOFTWARE COSTS

Capitalized software costs consist of the following as of:

	December 31, 2013 (unaudited)	June 30, 2013
Capitalized software costs	$ 2,443,128	$ 2,443,128
Less accumulated amortization		