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PARK CITY GROUP INC
Form 10QSB/A
September 14, 2006

FORM 10-QSB/A

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

For the Quarterly Period Ended March 31, 2006

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.)

333 Main Street, P.O. Box 5000; Park City, Utah 84060

(Address of principal executive offices)

(435) 649-2221

(Registrant's telephone number)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [] No Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). [] Yes No

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

| Class | Outstanding as of May 15, 2006 |
|--|--|
| ----- Common Stock, \$.01 par value | ----- 7,106,010 2,425 shareholders |

Explanatory Note

This Form 10-QSB/A is being filed to amend and restate the Park City Group, Inc. (the "Company") Quarterly Report on Form 10-QSB for the Three Months Ended, March 31, 2006. The restatement arose out of, and in conjunction with, a letter of comment dated September 1, 2006 received from the staff of the Securities and

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Exchange Commission as a result of the Company's submission and filing of Form SB-2 Registration Statement. The financial statements and references thereto have been amended and updated to reflect the effect of the 1:50 reverse stock split effective August 11, 2006 pursuant to SAB Topic 4:C. At the time of the reverse split, the Articles of Incorporation were amended to reflect authorized common shares from 500,000,000 to 50,000,000.

Generally, no attempt has been made in this Form 10-QSB/A to modify or update other disclosures presented in the original report on Form 10-QSB except as required to meet the staff's comments. This Form 10-QSB/A does not reflect events occurring after the filing of the original Form 10-QSB or modify or update those disclosures. Information not affected by the amendment is unchanged and reflects the disclosures made at the time of the original filing of the Form 10-QSB with the Securities and Exchange Commission on May 15, 2006. The following items have been amended as of result of the restatement:

Quarterly Report on Form 10-QSB/A
March 31, 2006

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PARK CITY GROUP, INC.

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| Exhibit 31 | Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | |
| Exhibit 32 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | |

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PARK CITY GROUP, INC. Consolidated Condensed Balance Sheets

| | March 31, 2006 (unaudited) |
|--|-------------------------------|
| | ----- (Restated) |
| Assets | |
| Current Assets: | |
| Cash | \$ 40,925 |
| Receivables, net of allowance \$49,304 and \$56,000 at March 31, 2006 and June 30, 2005, respectively | 913,719 |
| Prepaid expenses and other current assets | 102,595 |
| | ----- |
| Total current assets | 1,057,239 |
| | ----- |
| Property and equipment, net of accumulated depreciation of \$1,647,823 and \$1,592,079 at March 31, 2006 and June 30, 2005, respectively | 98,918 |
| | ----- |
| Other assets: | |
| Deposits and other assets | 27,826 |
| Capitalized software costs, net of accumulated amortization of \$930,576 and \$731,167 at March 31, 2006 and June 30, 2005, respectively | 132,940 |
| | ----- |
| Total other assets | 160,766 |
| | ----- |
| Total assets | \$ 1,316,923 |
| | ===== |
| Liabilities and Stockholders' Deficit | |
| Current liabilities: | |
| Accounts payable | \$ 363,576 |
| Accrued liabilities | 310,003 |
| Deferred revenue | 1,007,967 |
| Current portion of capital lease obligations | 19,289 |
| Lines of credit | 100,000 |
| Related party payable | 206,842 |
| Related party accrued interest | - |

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| | |
|--|--------------|
| Related party notes payable, net of discount of \$12,375 at June 30, 2005 | - |
| Notes payable, net of discounts of \$54,976 at June 30, 2005 | - |
| | ----- |
| Total current liabilities | 2,007,677 |
| | ----- |
| Long-term liabilities | |
| Long-term note payable, net of discount of \$106,700 | 1,833,300 |
| Long-term related party note payable, net of discount of \$122,992 at June 30, 2005 | - |
| Capital lease obligations, less current portion | 8,295 |
| | ----- |
| Total long-term liabilities | 1,841,595 |
| | ----- |
| Total liabilities | 3,849,272 |
| | ----- |
| Commitments and contingencies | |
| Stockholders' deficit: | |
| Preferred stock, \$0.01 par value, 30,000,000 shares authorized, none issued | - |
| Common stock, \$0.01 par value, 50,000,000 shares authorized; 7,090,454 and 5,651,118 issued outstanding at March 31, 2006 and June 30, 2005, respectively | 70,905 |
| Additional paid-in capital | 16,538,688 |
| Accumulated deficit | (19,141,942) |
| | ----- |
| Total stockholders' deficit | (2,532,349) |
| | ----- |
| Total liabilities and stockholders' deficit | \$ 1,316,923 |
| | ===== |

See accompanying notes to consolidated condensed financial statements.

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PARK CITY GROUP, INC.
Consolidated Condensed Statements of Operations (Unaudited)
For the Three and Nine Months Ended March 31, 2006 and 2005

| | Three Months Ended March 31, | | Nine Months M |
|-------------------------|---------------------------------|------------|---------------------|
| | 2006 | 2005 | 2006 |
| | ----- | ----- | ----- |
| | (Restated) | (Restated) | (Restated) |
| Revenues: | | | |
| Software licenses | \$ 573,900 | \$ 149,760 | \$ 3,434,92 |
| Maintenance and support | 535,311 | 531,682 | 1,750,06 |
| ASP | 48,525 | 28,950 | 147,67 |

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| | | | |
|--------------------------------------|--------------|--------------|-------------|
| Consulting and other | 211,952 | 95,473 | 849,53 |
| | ----- | ----- | ----- |
| | 1,369,688 | 805,865 | 6,182,20 |
| Cost of revenues | 396,976 | 394,192 | 1,219,04 |
| | ----- | ----- | ----- |
| Gross margin | 972,712 | 411,673 | 4,963,16 |
| | ----- | ----- | ----- |
| Operating expenses: | | | |
| Research and development | 225,180 | 256,309 | 684,77 |
| Sales and marketing | 395,055 | 310,081 | 988,68 |
| General and administrative | 418,777 | 377,748 | 1,048,37 |
| | ----- | ----- | ----- |
| Total operating expenses | 1,039,012 | 944,138 | 2,721,83 |
| | ----- | ----- | ----- |
| (Loss) income from operations | (66,300) | (532,465) | 2,241,32 |
| Other income (expense): | | | |
| Interest expense | (319,491) | (300,517) | (817,06 |
| | ----- | ----- | ----- |
| (Loss) income before income taxes | (385,791) | (832,982) | 1,424,26 |
| (Provision) benefit for income taxes | - | - | |
| | ----- | ----- | ----- |
| Net (loss) income | \$ (385,791) | \$ (832,982) | \$ 1,424,26 |
| | ===== | ===== | ===== |
| Weighted average shares, basic | 5,730,000 | 5,547,000 | 5,684,00 |
| | ===== | ===== | ===== |
| Weighted average shares, diluted | 5,730,000 | 5,547,000 | 5,850,00 |
| | ===== | ===== | ===== |
| Basic (loss) income per share | \$ (0.07) | \$ (0.15) | \$ 0.2 |
| | ===== | ===== | ===== |
| Diluted (loss) income per share | \$ (0.07) | \$ (0.15) | \$ 0.2 |
| | ===== | ===== | ===== |

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, 2006 and 2005

| | |
|---------------------------------------|--------------|
| | 2006 |
| | ----- |
| Cash flows from operating activities: | |
| Net income (loss) | \$ 1,424,261 |

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| | |
|---|-------------|
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | |
| Depreciation and amortization | 255,152 |
| Bad debt expense | (6,696) |
| Stock issued for services and expenses | 139,849 |
| Stock issued for interest | 294,334 |
| Amortization of discounts on debt | 215,093 |
| (Increase) decrease in: | |
| Trade Receivables | (550,681) |
| Prepays and other assets | (68,361) |
| (Decrease) increase in: | |
| Accounts payable | (264,823) |
| Accrued liabilities | (6,705) |
| Deferred revenue | 124,542 |
| Related party payable | 97,000 |
| Accrued interest, related party | (848,258) |
| | |
| Net cash provided by (used in) operating activities | 804,707 |
| | |
| Cash Flows From Investing Activities: | |
| Purchase of property and equipment | (20,445) |
| Proceeds from disposal of property | - |
| | |
| Net cash used in investing activities | (20,445) |
| | |
| Cash Flows From Financing Activities: | |
| Net (decrease) increase in lines of credit | (409,901) |
| Proceeds from issuance of stock | - |
| Payment to extend note | (9,000) |
| Proceeds from debt | 1,833,300 |
| Payments on notes payable and capital leases | (2,367,406) |
| | |
| Net cash (used in) provided by financing activities | (953,007) |
| | |
| Net decrease in cash | (168,745) |
| Cash at beginning of period | 209,670 |
| | |
| Cash at end of period | \$ 40,925 |
| | |

See accompanying notes to consolidated condensed financial statements.

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Note 1 - Unaudited Financial Statements

The accompanying unaudited financial statements have been prepared in accordance with U.S. generally accepted accounting principles for quarterly financial statements, and include all normal, recurring adjustments which in the opinion of management are necessary in order to make the financial statements not misleading. Although the Company believes that the disclosures in these unaudited financial statements are adequate to make the information presented for the interim periods not misleading, certain information and footnote information normally included in quarterly financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission, and these financial statements should be read in conjunction with the Company's audited annual financial statements included in the Company's June 30, 2005 Annual Report on Form 10-KSB.

Note 2 - Liquidity

Cash flow information for the nine months ended March 31, 2006 and March 31, 2005 was as follows:

| | March 31, 2006 | March 31, 2005 |
|---|-------------------|-------------------|
| | ----- | ----- |
| Cash, cash equivalents, marketable securities and long-term marketable securities | \$ 40,925 | \$ 121,936 |
| | ----- | ----- |
| Net cash provided by operating activities | \$ 804,707 | \$ (814,952) |
| Net cash used in investing activities | \$ (20,445) | \$ (28,737) |
| Net cash provided by financing activities | \$ (953,007) | \$ 652,808 |
| | ----- | ----- |
| Net increase/decrease in cash and cash equivalents | \$ (168,745) | \$ (190,881) |
| | ===== | ===== |

As shown in the consolidated financial statements, the Company had a loss for the three months ending March 31, 2006 and incurred a loss for the same quarter in 2005. The Company did show a profit for the nine months ending March 31, 2006 verses an incurred loss for the same nine months in 2005. Current liabilities are in excess of current assets at March 31, 2006, however deferred revenues account for \$1,007,967 of the current liabilities. These deferred revenues are for maintenance fees paid annually by customers but recognized as revenues at a rate of one-twelve per month. Current liabilities without this category are slightly less than current assets. The company did generate positive cash flow from operations during the nine months ended March 31, 2006 and was able to retire a large amount of current debt. In addition the company converted roughly \$3.2 million dollars of debt owed to Riverview Financial Corporation at a rate of \$2.62 per share, or 1,324,693. In addition the company refinanced \$1,940,000 of short term liabilities with U.S. Bank at a significantly lower interest rate. In total the company has lowered their expected interest expense from \$1,178,454 in fiscal year 2005 to an estimated \$275,000 for the next twelve months.

The Company believes that cash flows from sales, as well as the ability and commitment of its majority shareholder to contribute funds necessary to continue to operate, will allow the Company to fund its currently anticipated working

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capital, capital spending and debt service requirements during the year ended June 30, 2006. The financial statements do not reflect any adjustments should the Company's operations not be achieved.

Off-Balance Sheet Arrangements.

Off-balance sheet arrangements, as defined by SEC, include certain transactions, agreements, or other contractual arrangements pursuant to which a company has any obligation under certain guarantee contracts, certain retained or contingent interests in assets transferred to an unconsolidated entity, any obligation under certain derivative investments, or any obligation under a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support or engages in leasing, hedging or research and development services with us.

Currently the company has no Off Balance Sheet Arrangements

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Note 3 - Stock-Based Compensation

At March 31, 2006 and 2005, the Company has outstanding stock options to certain of its employees. The Company accounts for these options under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation cost is reflected in net loss, as all options granted had an exercise price equal to or greater than the market value of the underlying common stock on the date of grant. Had compensation cost for the Company's stock option plans been determined based on fair value consistent with the provisions of SFAS No. 123, Accounting for Stock-Based Compensation, the Company's net income (loss) and earnings (loss) per share would have been the pro forma amounts indicated below for the three and nine months ended March 31, 2006 and 2005:

| | Three Months Ended March 31, | |
|--|---------------------------------|--------------|
| | 2006 | 2005 |
| | ---- | ---- |
| Net Loss available to common shareholders, as reported | \$ (385,791) | \$ (832,982) |
| Add: Stock-based employee compensation expense included in reported net income, net of related tax effects | - | - |
| Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects. | - | - |
| | ----- | ----- |
| Net (loss) income - pro forma | \$ (385,791) | \$ (832,982) |
| | ===== | ===== |
| (Loss) income per share: | | |
| Basic - as reported | \$ (0.07) | \$ (0.15) |
| | ===== | ===== |
| Diluted - as reported | \$ (0.07) | \$ (0.15) |
| | ===== | ===== |
| Basic - pro forma | \$ (0.07) | \$ (0.15) |
| | ===== | ===== |
| Diluted - pro forma | \$ (0.07) | \$ (0.15) |

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

Agreement with Vice President of Professional Services, dated effective April 11, 2005 is payable in 10,000 share increments for a total of 40,000 shares.

Agreement with Vice President, dated effective December 28, 2005 is payable in 3,571 share increments for a total of 14,284 shares.

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

Note 4 - Outstanding Stock Options

The following tables summarize information about fixed stock options and warrants outstanding and exercisable at March 31, 2006:

| | | Number of Options | Warrants | Price |
|--------------------------------|----------------|----------------------|-----------|-------|
| | | ----- | ----- | ----- |
| Outstanding and exercisable at | June 30, 2005 | 108,930 | 943,830 | |
| | Granted | - | - | |
| | Exercised | - | (58,571) | |
| | Called | - | - | |
| | Cancelled | - | - | |
| | Expired | (5,080) | (250,238) | |
| | | ----- | ----- | |
| Outstanding and exercisable at | March 31, 2006 | 103,850 | 635,021 | |
| | | ===== | ===== | |

Options and Warrants Outstanding and Exercisable
at March 31, 2006

| Range of exercise prices | Number Outstanding at March 31, 2006 | Weighted average remaining contractual life (years) | Weighted average exercise price |
|-----------------------------|--|---|--|
| ----- | ----- | ----- | ----- |
| \$1.50 - \$2.50 | 568,879 | 1.90 | \$ 1.98 |
| \$3.50 - \$4.00 | 159,992 | 3.76 | 3.55 |
| \$7.00 | 10,000 | .61 | 7.00 |
| | ----- | ----- | ----- |
| | 738,871 | 2.28 | \$ 2.39 |
| | ===== | ===== | ===== |

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Note 5 - Related Party Transactions

In December 2005, the note payable funding from Riverview extended for 12 months making the new maturity date December 24, 2006. The company issued 4,500 shares valued at \$15,750 and \$9,000 as consideration for the extension. This consideration was recorded as a debt discount and will be amortized to interest expense of the extended term of the note. This note payable was retired in March 2006. See Note 6.

In December 2005, the line of credit the company has with Riverview was cancelled and reissued in the amount of \$800,000. The reissued line of credit carries an interest rate of 12% with a fee for draws on the line. All other terms remained the same.

In February 2006, Riverview Financial converted 58,571 warrants at \$2.00. The equivalent cash value of \$117,143 from this exercise was applied as a reduction in the principal amount outstanding on the note payable funding from Riverview reducing the principal balance to \$3,179,263. See Note 6.

In March 2006, \$3,473,597 of note payable funding and accrued interest from Riverview Financial Corp. was converted into 1,324,693 shares of Park City Group's common stock. See Note 6. An additional \$1,930,300 of principal and interest payable to Riverview Financial Corp. was repaid with cash in March 2006 with remaining principal and interest totalling \$109,841 repaid subsequently with cash in April 2006.

Note 6 - Supplemental Cash Flow Information

In connection with the note payable funding from a Shareholder of the Company issued warrants and issued shares of common stock, which were recorded as a debt discount. In June 2005 the note payable to the shareholder was extended and ownership of the note payable was transferred to the shareholders company Triplenet Investments. As consideration for the extension the Company issued cash and shares. The fair value of the cash and shares issued in connection with the extension was recorded as a discount to the note payable and added to the previous discount to be amortized over the remaining life of the note as extended. Of the debt discount amounts \$54,976 and \$79,048 was amortized to interest expense during the nine months ended March 31, 2006 and 2005, respectively.

The Triplenet Investments loan was retired in August 2005 with cash generated from operations. The company did pay a pre-payment penalty fee of \$30,000 or one month interest on the loan.

The fair value of shares issued in connection with the \$345,000 note payable funding from Riverview obtained as a condition of the Whale Investment, Ltd. Funding as well as the additional shares issued for extension of the due date were recorded as a discount on the note payable, of which \$43,313 and \$10,473 was amortized into interest expense during the six months ended March 31, 2006 and 2005, respectively.

The Riverview note payable obtained as a condition of the Whale Investments funding was retired in March 2006 with cash provided from a financing transaction with US Bank.

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Due to the funding transaction with US Bank the Company was able to repay \$981,149 of accrued interest due to Riverview Financial Corp.

The non-cash conversion of the senior debt with Riverview Financial Corp. on March 30, 2006 resulted in the issuance of 1,324,693 shares of Park City Group common stock to retire principal and current year accrued interest of \$3,179,263 and \$294,334, respectively. The conversion had an effective price of \$2.62 per share representing fair value of the shares on the date of the conversion.

For the nine months ended March 31, 2006 and 2005 the Company paid cash for interest expense of \$1,028,888 and \$350,600, respectively. No cash was paid for income taxes.

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Note 7 - Accrued liabilities

Accrued liabilities consist of the following as of March 31, 2006 and June 30, 2005:

| | 3/31/06 ----- | 6/30/05 ----- |
|----------------------------|------------------|------------------|
| Accrued payroll | \$ 131,776 | \$ 156,300 |
| Accrued vacation | 125,155 | 112,722 |
| Other accrued liabilities | 41,405 | 47,684 |
| Accrued stock compensation | 11,667 | - |
| | ----- | ----- |
| | \$ 310,003 | \$ 316,706 |
| | ===== | ===== |

Note 8 - Net Income (Loss) Per Common Share

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

For the three months ended March 31, 2006 and 2005 options and warrants to purchase 738,871 and 1,031,690 shares of common stock, respectively, were not included in the computation of diluted EPS due to the dilutive effect of a net loss in both periods. The inclusion of the options would have been anti-dilutive, thereby decreasing net loss per common share.

For the nine months ended March 31, 2006 and 2005 options and warrants to purchase 169,992 and 1,031,690 shares of common stock, respectively, were not included in the computation of diluted EPS due either to the dilutive effect from a net loss or a strike price in excess of market price. Using the treasury stock method 165,903 shares were assumed repurchased and added to shares outstanding for the computation of Diluted EPS for the nine months ended March 31, 2006.

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9. Explanation of Restatement

In connection with the filing of an amendment to the Company's June 30, 2005 Form 10KSB/A, September 30, 2005 Form 10QSB, December 31, 2005 Form 10QSB, March 31, 2006 Form 10QSB, and an amended SB-2 registration statement, the financial statements and references thereto have been amended and updated to reflect the effect of a 1:50 reverse stock split effective August 11, 2006 pursuant to SAB Topic 4:C. At the time of the reverse split, the Articles of Incorporation were amended to reflect authorized common shares from 500,000,000 to 50,000,000. These changes had the following effect on the consolidated financial statements:

Effects on the Consolidated Balance Sheet

| | 3/31/06 As Reported | Restatements | 3/31/06 As Restated | 6/30/05 As Reported |
|--|------------------------|----------------|------------------------|------------------------|
| Stockholders' deficit: | | | | |
| Preferred stock, \$.01 par value, 30,000,000 shares authorized no shares issued, | - | - | - | - |
| Common stock, \$.01 par value, 50,000,000 shares, authorized, 7,090,454 and 5,651,118, respectively issued and outstanding | \$ 3,545,227 | \$ (3,474,322) | \$ 70,905 | \$ 2,825,561 |
| Additional paid-in-capital | 13,064,366 | 3,474,322 | 16,538,688 | 10,037,693 |
| Accumulated deficit | (19,141,942) | - | (19,141,942) | (20,566,203) |
| Total stockholders' deficit | \$ (2,532,349) | \$ - | \$ (2,532,349) | \$ (7,702,949) |

Effects on the Consolidated Statement of Operations for the Three Months Ended March 31,

| | 2005 As Reported | Restatements | 2005 As Restated | 2004 As Reported | Restatements |
|-------------------------------------|---------------------|---------------|---------------------|---------------------|---------------|
| Net loss | \$ (385,791) | - | \$ (385,791) | \$ (832,982) | - |
| Weighted average shares, basic | 286,477,000 | (280,747,000) | 5,730,000 | 277,374,000 | (271,827,000) |
| Weighted average shares, diluted | 286,477,000 | (280,747,000) | 5,730,000 | 277,374,000 | (271,827,000) |
| Basic earnings (loss) per share | \$ (0.00) | \$ (0.07) | \$ (0.07) | \$ (0.00) | \$ (0.15) |

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| | | | | | |
|--------------------------------------|-----------|-----------|-----------|-----------|-----------|
| Diluted earnings (loss) per share | \$ (0.00) | \$ (0.07) | \$ (0.07) | \$ (0.00) | \$ (0.15) |
| | ===== | ===== | ===== | ===== | ===== |

Effects on the Consolidated Statement of Operations for the Six Months Ended December 31,

| | 2005 As Reported | Restatements | 2005 As Restated | 2004 As Reported | Restatements |
|--------------------------------------|---------------------|---------------|---------------------|---------------------|---------------|
| Net loss | | | | | |
| Net loss | \$1,424,261 | - | \$1,424,261 | \$(2,278,203) | - |
| | ===== | ===== | ===== | ===== | ===== |
| Weighted average shares, basic | 284,201,000 | (278,517,000) | 5,684,000 | 272,281,000 | (266,835,000) |
| | ===== | ===== | ===== | ===== | ===== |
| Weighted average shares, diluted | 292,496,000 | (286,646,000) | 5,850,000 | 272,281,000 | (266,835,000) |
| | ===== | ===== | ===== | ===== | ===== |
| Basic earnings (loss) per share | \$0.01 | \$0.24 | \$0.25 | \$(0.01) | \$(0.41) |
| | ===== | ===== | ===== | ===== | ===== |
| Diluted earnings (loss) per share | \$0.01 | \$0.23 | \$0.24 | \$(0.01) | \$(0.41) |
| | ===== | ===== | ===== | ===== | ===== |

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Item 2. Management's Discussion and Analysis or Plan of Operation.
Form 10-KSB for the year ended June 30, 2005 incorporated herein by reference.

Forward-Looking Statements

This quarterly report on Form 10-QSB/A 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 Form 10-KSB/A annual report at June 30, 2005, incorporated herein by reference. Statements made herein are as of the date of the filing of this Form 10-QSB with the Securities and Exchange Commission and should not be relied upon as of any subsequent date. Unless otherwise required by applicable law, we do not undertake, and specifically disclaim any obligation, to update any forward-looking statements to reflect occurrences, developments, unanticipated events or circumstances after the date of such statement.

Overview

Park City Group develops and markets patented computer software and profit optimization consulting services that help its retail customers to reduce their inventory and labor costs; the two largest controllable expenses in the retail industry, while increasing the customer's sales and gross margin. The technology has its genesis in the operations of Mrs. Fields Cookies co-founded by Randy Fields, CEO of Park City Group, Inc. Industry leading customers such as The Home

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Depot, Victoria's Secret, Limited Brands, Anheuser Busch Entertainment, Del Monte, WaWa and Tesco Lotus benefit from the Company's software. Park City Group products, Supply Chain Profit Link, C-Store Manager, Fresh Market Manager and ActionManager are proven, patented technologies that address the needs of retailers in store operations management, manufacturing and both durable goods and perishable product management. Because the product concepts originated in the environment of actual multi-unit-retail chain ownership, the products are strongly oriented to an operation's bottom line results. The products are highly pragmatic in their approach to standardizing and improving managerial actions. The products use a fully developed, contemporary patented technology platform that is not only capable of supporting existing offerings, but can also be expanded to support related products.

The critical strength of the products is its artificial intelligence-like rules based technology that allows customers to tailor the operating rules to replicate the expert knowledge and practices of their most successful managers. Rules based systems are applications in which the action to be taken is determined by the rules defined by the user. As such, customers who use rules based system determine what action the system will perform when an identified condition occurs, usually based on the policies and procedures or "rules" of the customer's business operations. In this way, the customer decomposes its business operation into different rules or the way in which it wants certain conditions or actions to be addressed. In comparison, in non-rules based systems, the applications perform action as they have been designed and coded by the vendor, regardless of the action the customer might wish to take.

Our corporate headquarters is located in Park City, Utah. All of our development, and administrative activities are conducted at this location. We sell our products through an internal sales team consisting of 9 people, which includes all of the senior executives of the company.

We have experienced recent significant developments that we expect to have a positive impact on our company, including the following:

- o In March the company signed new Action Manager license agreements with Kwik Trip an existing customer and RaceTrac Petroleum Inc.
- o In March the company signed an agreement to allow Oracle to use one of the company's patents.

Three Months Ended March 31, 2006 and 2005

Total revenues were \$1,369,688 and \$805,865 for the quarters ended March 31, 2006 and 2005, respectively, a 70% increase. Software license revenues were \$573,900 and \$149,760 for the quarters ended March 31, 2006 and 2005, respectively, a 283% increase. This increase is primarily attributable to software license sales to existing customers and a large agreement with Oracle, during the quarter ended March 31, 2006. Maintenance and support revenues were \$535,311 and \$531,682 for the quarters ended March 31, 2006 and 2005, respectively, about even with last year. ASP revenues were \$48,525 and \$28,950, respectively for the quarters ending March 31, 2006 and 2005; an increase of 68%. This increase was the result of our success in the Perishable Manufacturing Channel where we have signed 6 new contracts in the last 8 months. Consulting and other revenue was \$211,952 and \$95,473 for the quarters ended March 31, 2006 and 2005, respectively, a 122% increase. This increase is due to increased FMM implementation services resulting from the Cannon Equipment agreements.

Cost of revenues, as a percent of total revenues was 29% and 49% for the

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quarters ended March 31, 2006 and 2005, respectively. This decrease came from the additional sales of licenses during the quarter.

Research and development expenses were \$225,180 and \$256,309 for the quarters ended March 31, 2006 and 2005 respectively, an 12% decrease. This decreased expense reflects the fact that both Action Manager and FMM software suites have had major releases completed in addition to the streamlining of our development process. The company has also started to utilize off-shore development resources.

Sales and marketing expenses were \$395,055 and \$310,081 for the quarters ended March 31, 2006 and 2005, respectively, a 27% increase over the previous year. The company continues to deploy a commissioned based sales force which allows them to maintain a lower fixed level of costs to generate sales however, additional sales did increase costs slightly. The company also hired one additional full time sales person during the quarter. General and administrative expenses were \$418,777 and \$377,748 for the quarters ended March 31, 2006 and 2005, respectively a 11% increase. There was a \$165,200 one time expense for the settlement of a legal case in the 2005.

Nine Months Ended March 31, 2006 and 2005

Total revenues were \$6,182,210 and \$2,736,604 for the nine months ended March 31, 2006 and 2005, respectively, a 126% increase in 2006 over the comparable period for 2005. Software license revenues were \$3,434,927 and \$453,615 for the nine months ended December 31, 2005 and 2003, respectively, a 657% increase. License sales in 2005 includes the Cannon Equipment license sale as referenced in the companies 8K filed August 11, 2005. Maintenance and support revenues were \$1,750,068 and \$1,793,215 for the nine months ended March 31, 2006 and 2005, respectively, a 2% decrease. This decrease is primarily attributable to a two existing Action Manager customers reducing their maintenance fees due to store closures by a major customer. ASP revenues were \$147,675 and \$61,100 for the nine months March 31, 2006 and 2005, respectively, a 142% increase in 2006 over the comparable period for 2005. This increase is driven by the companies success selling FMM Category Manager to perishable manufactures. Consulting and other revenue was \$849,539 and \$428,674 for the nine months ended March 31, 2006 and 2005, respectively, a 99% increase. This increase is driven by the Cannon Equipment agreement and increased Action Manager consulting during the first quarter of 2005

Cost of Goods for the nine months were 19.7% and 38% of total revenues for the nine months ending March 31, 2006 and 2005 respectively. This decrease is attributable to the increase in license sales in the two compared periods.

Research and development expenses were \$684,776 and \$763,159 for the nine months ended March 31, 2006 and 2005 respectively, a 9% decrease. This decrease represents the general stabilization of both the Fresh Market Manager and Action Manager 4X software and the company's use of off-shore resources.

Sales and marketing expenses were \$988,688 and \$985,804 for the nine months ended March 31, 2006 and 2005, respectively. Sales and marketing expenses are even with last years costs although we have generated more sales. General and administrative expenses were \$1,048,370 and \$1,356,678 for the nine months ended March 31, 2006 and 2005, respectively, a 23% decrease. The 2005 expenses include a \$165,200 one time expense for the settlement of a legal case.

Liquidity and Capital Resources

The Company had a working capital deficit at March 31, 2006 of \$950,438 verses \$4,129,588 at March 31, 2005.

The company had net loss of \$385,791 versus a net loss of \$832,982 for the

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quarters ending March 31, 2006 and 2005 respectively. The Company had interest expense of \$319,491 and \$300,517 for the quarters ending March 31, 2006 and 2005 respectively. This slight increase was caused by the company refinancing and converting over \$5,400,000 of debt during this quarter. The company has lowered its notes payable debt by \$4,876,922 during the last nine months which will lower interest expense approximately \$900,000 over the next twelve months. To date, the Company has financed its operations through operating revenues, loans from directors, officers and stockholders, loans from the CEO and majority shareholder, and private placements of equity securities. The Company may be unable to raise additional equity capital until it achieves profitable operations and refinances its debt. The Company anticipates that it will meet its working capital requirements primarily through increased revenue, while controlling and reducing costs and expenses. However, no assurances can be given that the Company will be able to meet its working capital requirements.

Risk Factors

The Company is subject to certain other risk factors due to the organization and structure of the business, the industry in which it competes and the nature of its operations. These risk factors include the following:

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Risk Factors Related to the Company's Operations

Continued net losses could impair the ability to raise capital.

The Company cannot accurately predict future revenues. The future marketing strategy emphasizes sales activities for the Fresh Market Manager and ActionManager applications, in the sales channels of Grocery, C-Store, Specialty Retail, Financial Service and Food Manufactures. If this marketing strategy fails, revenues and operations will be negatively affected. All Park City Group applications are designed to be highly flexible so that they can work in diverse business environments. There is no assurance that the markets will accept the Park City Group applications in proportion to the increased marketing of these product lines, although current business activity might suggest that the market opportunity and acceptance of the Park City Group applications are positive. The Company may face significant competition that may negatively affect demand for the Park City Group applications. This includes the public's preference for competitor's new product releases or updates over the Company's releases or updates. The company is focusing our marketing effort on the development of the new expanded sales channels, this will be increasing our marketing and operational costs.

There can be no assurance that the Company will be able to generate significant revenues or that it will achieve or maintain profitability, or generate revenues from operations in the future. Management believes that success will depend upon the ability to generate and retain new customers, which cannot be assured, and in many circumstances, may be beyond the Company's control. The ability to generate sales will depend on a variety of factors, including:

- o Sales and marketing efforts as well as the co-marketing efforts of strategic partners,
- o The success of the new strategic sales channels
- o The length of the sales cycle for our products
- o The reliability and cost-effectiveness of services, and
- o Customer service and support.

The Company faces competition from existing and emerging technologies that may

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affect our profitability. The markets for our type of software products and that of our competitors are characterized by: (i) Development of new software, software solutions, or enhancements that are subject to constant change, (ii) Rapidly evolving technological change, (iii) Unanticipated changes in customer needs.

Because these markets are subject to such rapid change, the life cycle of the products is difficult to predict; accordingly, the Company is subject to following risks:

- o Whether or how the Company will respond to technological changes in a timely or cost-effective manner,
- o Whether the products or technologies developed by competitors will render the products and services less attractive to potential buyers or shorten the life cycle of the Company's products and services, and
- o Whether products and services will achieve and sustain market acceptance.

If the Company is unable to adapt to the constantly changing markets and to continue to develop new products and technologies to meet customers' needs, revenues and profitability will be negatively affected. Future revenues are dependent on the successful development and licensing of new and enhanced versions of the products and potential product offerings. If the Company fails to successfully upgrade existing products and develop new products or the product upgrades and new products do not achieve market acceptance, revenues will be negatively impacted.

Operating results may fluctuate, which makes it difficult to predict future performance.

Management expects a portion of the revenue stream to come from license sales, maintenance and services charged to new customers, which will fluctuate in amounts because software sales to retailers tend to be cyclical in nature. In addition, the Company may potentially experience significant fluctuations in future operating results caused by a variety of factors, many of which are outside of its control, including:

- o Demand for and market acceptance of new products,
- o Introduction or enhancement of products and services by the Company or its competitors,
- o Capacity utilization,
- o Technical difficulties, system downtime,
- o Fluctuations in data communications and telecommunications costs,
- o Maintenance subscriber retention,
- o The timing and magnitude of capital expenditures and requirements,
- o Costs relating to the expansion or upgrading of operations, facilities, and infrastructure,
- o Changes in pricing policies and those of competitors,
- o Changes in regulatory laws and policies, and
- o General economic conditions, particularly those related to the information technology industry.

Because of the foregoing factors, Management expects future operating results to fluctuate. As a result of such fluctuations, it will be difficult to predict operating results. Period-to-period comparisons of operating results are not necessarily meaningful and should not be relied upon as an indicator of future

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performance. In addition, a relatively large portion of the Company's expenses will be relatively fixed in the short-term, particularly with respect to facilities and personnel. Therefore, future operating results will be particularly sensitive to fluctuations in revenues because of these and other short-term fixed costs.

The Company may be unable to collect receivables in amounts previously estimated.

In accordance with United States generally accepted accounting principles, the Company has established allowances against its receivables for the estimated uncollectible portion of receivables. However, the Company may experience collection rates below its established allowances, which could reduce the amount of available funds and require additional allowances. There can be no assurance that the Company will be able to collect its receivables in sufficient amounts. Failure to collect adequate amounts of its receivables could materially adversely affect the business and results of operations.

Some competitors are larger and have greater financial and operational resources that may give them an advantage in the market. Many of the Company's competitors are larger and have greater financial and operational resources. This may allow them to offer better pricing terms to customers in the industry, which could result in a loss of potential or current customers or could force the Company to lower prices. Any of these actions could have a significant effect on revenues. In addition, the competitors may have the ability to devote more financial and operational resources to the development of new technologies that provide improved operating functionality and features to their product and service offerings. If successful, their development efforts could render the Company's product and service offerings less desirable to customers, again resulting in the loss of customers or a reduction in the price the Company can demand for our offerings.

The Company needs to hire and retain qualified personnel to sustain its business.

The Company is currently managed by a small number of key management and operating personnel. There are no employment agreements with most of the employees. Future success depends, in part, on the continued service of key executive, management, and technical personnel, some of whom have only recently been hired, and the ability to attract highly skilled employees. If key officers or employees are unable or unwilling to continue in their present positions, business could be harmed. From time to time, the Company has experienced, and expects to continue to experience, difficulty in hiring and retaining highly skilled employees. Competition for employees in the industry is intense. If the Company is unable to retain key employees or attract, assimilate or retain other highly qualified employees in the future, it may have a material adverse effect on the business and results of operations.

The Company is dependent on the continued participation of certain key executives and personnel to effectively execute its business plan and strategies and must effectively integrate its management team. The business is dependent on the continued services of its founder and Chief Executive Officer, Randall K. Fields. Should the services of Mr. Fields be lost, operations will be negatively impacted. The Company currently maintains three key man insurance policies on Mr. Fields life in the amount of \$10,000,000 each. The beneficiary of each policy is (1) to the Fields Trust, (2) to Park City Group, Inc. and (3) to the Fields Trust. The third policy is a new policy which will replace the first policy as soon as all contingencies and waiting periods have been removed from the new policy. The loss of the services of Mr. Fields would have a materially adverse effect on the business.

The Company depends on the ability of its management team to effectively execute

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its business plan and strategies. During the last year, key executives have had to forgo a portion of their salary, and as such are at risk for their continued commitment. If the management group is unable to effectively integrate its activities, or if the Company is unable to integrate new employees into its operations, its business plan and strategies will not be effectively executed and operations could suffer.

The business is currently dependent on a limited customer base; should any of these customer accounts be lost, revenues will be negatively impacted. The Company expects that existing customers will continue to account for a substantial portion of total revenues in future reporting periods. The ability to retain existing customers and to attract new customers will depend on a variety of factors, including the relative success of marketing strategies and the performance, quality, features, and price of current and future products. Accordingly, if customer accounts are lost or customer orders decrease, revenues and operating results will be negatively impacted. The company has experienced the loss of long term maintenance customers due to the high reliability of the product, and in some cases, the customer deciding to replace Park City Group applications. The company continues to focus on these long term clients to provide new functionality and applications to meet their business needs. The company also expects to lose some maintenance revenue due to consolidation of industries or customer operational difficulties that lead to their reduction of size. In addition, future revenues will be negatively impacted if the Company fails to add new customers that will make purchases of its products and services.

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The Company may be unable to raise necessary funds for operations. The Company anticipates that we need to raise additional funds to meet cash flow and capital requirements. In the past, the Company has frequently experienced cash flow shortages because not enough cash has been generated from operations to cover expenses. Raising additional funds will be necessary to meet capital needs. There can be no assurance that such financing will be available in amounts or on acceptable terms, if at all. Further, the lack of tangible assets to pledge could prevent the Company from establishing debt-based sources of financing. The inability to raise necessary funding would adversely affect the ability to successfully implement the business plan. There can be no assurance that the Company will be able to obtain additional financing to meet the current or future requirements on satisfactory terms, if at all. Failure to obtain sufficient capital could materially adversely affect the business and results of operations.

The Company faces risks associated with proprietary protection of its software. The Company's success depends on its ability to develop and protect existing and new proprietary technology and intellectual property rights. It seeks to protect its software, documentation and other written materials primarily through a combination of patents, trademark, and copyright laws, confidentiality procedures and contractual provisions. While the Company has attempted to safeguard and maintain its proprietary rights, there are no assurances there it will be successful in doing so. Competitors may independently develop or patent technologies that are substantially equivalent or superior.

Despite efforts to protect proprietary rights, unauthorized parties may attempt to copy aspects of the Company's products or obtain and use information regarded as proprietary. Policing unauthorized use of the Company's products is difficult. While the Company is unable to determine the extent to which piracy of its software exists, software piracy can be expected to be a persistent problem, particularly in foreign countries where the laws may not protect proprietary rights as fully as the United States. The Company can offer no assurance that its means of protecting its proprietary rights will be adequate

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or that its competitors will not reverse engineer or independently develop similar technology.

The Company incorporates third party software providers' licensed technologies into its products; the loss of these technologies may prevent sales of its products or lead to increased costs.

The Company now licenses, and in the future will license, technologies from third party software providers that are incorporated into its products. The loss of third-party technologies could prevent sales of products and increase costs until substitute technologies, if available, are developed or identified, licensed and successfully integrated into the products. Even if substitute technologies are available, there can be no guarantee that the Company will be able to license these technologies on commercially reasonable terms, if at all.

The Company may discover software errors in its products that may result in a loss of revenues or injury to its reputation.

Non-conformities or bugs ("errors") may be found from time to time in the existing, new or enhanced products after commencement of commercial shipments, resulting in loss of revenues or injury to the Company's reputation. In the past, the Company has discovered errors in its products and, as a result, has experienced delays in the shipment of products. Errors in its products may be caused by defects in third-party software incorporated into the products. If so, these defects may not be able to be fixed without the cooperation of these software providers. Since these defects may not be as significant to the software provider as they are to the Company, it may not receive the rapid cooperation that may be required. The Company may not have the contractual right to access the source code of third-party software and, even if it does have access to the source code, it may not be able to fix the defect. Since its customers use its products for critical business applications, any errors, defects or other performance problems could result in damage to the customers' business. These customers could seek significant compensation from the Company for their losses. Even if unsuccessful, a product liability claim brought against the Company would likely be time consuming and costly.

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Item 3 - Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

The Company maintains disclosure controls and procedure that are designed to ensure that information required to be disclosed in the Company's reports filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed summarized and reported within the specified time periods. As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of these disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15(e) of the Exchange Act. Based on the evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective.

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While the Company believes that the disclosure controls currently in place are adequate to prevent material misstatements, the Company has found significant internal control deficiencies in its accounting for pre-1999, fully aged, and fully depreciated property, plant and equipment that they will work to rectify in the coming year in preparation for section 404 of the Sarbanes Oxley Act of 2002. The Company has conducted its physical inventory and reconciled it to both its fixed asset software and the fully depreciated Pre-1999 assets still available for used in its operation. It is anticipated that the Company will be disposing of approximately \$724,900 worth of Pre-1999 fully depreciated computer and office equipment that it has identified as obsolete or unusable and approximately \$29,643 whose location and existence is unknown (Pre-1996 Assets). It is anticipated that the net financial effect will be non-existent as the identified assets are fully depreciated. The Company will be working with its external auditors HJ & Associates in preparation for its year end audit FYE 2006 in order to employ the changes to Property, Plant & Equipment balances and their relative balances of accumulated depreciation. The Company maintains that there is no material weakness or misstatement and expects to fully reconcile the disparities and resolve the control deficiencies in its Fiscal 2006 Annual Filing.

(b) Changes in internal controls.

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

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Part II - OTHER INFORMATION

Item 1 - Legal Proceedings

None

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

- o In July 2005, 3,115 shares of common stock were issued per anti-dilution agreement with the CEO.
- o In August 2005, 2,688 shares of common stock were issued to an employee in lieu of cash compensation.
- o In November 2005, 14,667 shares of common stock were issued to management in lieu of cash compensation.
- o In November 2005, 10,500 shares of common stock were issued to board members in lieu of cash compensation.
- o In January 2006, 4,500 shares of common stock were issued as a fee for extension of a note payable.
- o In February 2006, 58,571 shares of common stock were issued

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- o due to exercise of warrants.
- o In March 2006, 2,500 shares of common stock were issued to board members in lieu of cash compensation.
- o In March 2006, 18,097 shares of common stock were issued to management in lieu of cash compensation.
- o In March 2006, 1,324,693 shares of common stock were issued for conversion of a note payable.

Item 3 - Defaults upon Senior Securities

None

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

None

Item 5 - Other Information

Jim Horton resigned as President of the company effective April, 1, 2006

Item 6 - Exhibits

- | | |
|--------------|--|
| Exhibit 31.1 | Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbannes-Oxley Act of 2002. |
| Exhibit 31.2 | Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbannes-Oxley Act of 2002. |
| Exhibit 32.1 | Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbannes-Oxley Act of 2002. |
| Exhibit 32.2 | Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbannes-Oxley Act of 2002. |

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SIGNATURES

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

PARK CITY GROUP, INC

Date: September 13, 2006

By /s/ Randall K. Fields

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Principal Executive Officer & CEO
Chairman of the Board and Director

Date: September 13, 2006

By /s/ William Dunlavy

William Dunlavy
Chief Financial Officer and
Secretary (Principal
Financial Officer)

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