

PARK CITY GROUP INC
Form 10-Q
May 12, 2014

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

FORM 10-Q

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

For the quarterly period ended March 31, 2014

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 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. Yes No

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

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

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

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common Stock, \$0.01 par value: 16,919,072 shares as of May 9, 2014.

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. | |

PARK CITY GROUP, INC.
Consolidated Condensed Balance Sheets

| | March 31, 2014 (unaudited) | June 30, 2013 |
|--|----------------------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash | \$ 3,411,181 | \$ 3,616,585 |
| Receivables, net of allowance of \$70,000 and \$190,000 at March 31, 2014 and June 30, 2013, respectively | 3,018,850 | 2,383,366 |
| Prepaid expenses and other current assets | 272,133 | 403,909 |
| Total current assets | 6,702,164 | 6,403,860 |
| Property and equipment, net | 814,649 | 671,959 |
| Other assets: | | |
| Deposits and other assets | 14,866 | 14,866 |
| Note receivable | 2,543,406 | 1,622,863 |
| Customer relationships | 2,023,598 | 2,340,335 |
| Goodwill | 4,805,933 | 4,805,933 |
| Capitalized software costs, net | - | 73,082 |
| Total other assets | 9,387,803 | 8,857,079 |
| Total assets | \$ 16,904,616 | \$ 15,932,898 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 737,498 | \$ 653,655 |
| Accrued liabilities | 1,402,445 | 1,096,982 |
| Deferred revenue | 1,542,532 | 1,777,326 |
| Lines of credit | 1,200,000 | 1,200,000 |
| Notes payable | 246,039 | 551,421 |
| Total current liabilities | 5,128,514 | 5,279,384 |
| Long-term liabilities: | | |
| Notes payable, less current portion | 512,783 | 310,642 |
| Other long-term liabilities | 97,988 | 101,500 |
| Total liabilities | 5,739,285 | 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 March 31, 2014 and June 30, | 4,119 | 4,119 |

2013, respectively

| | | |
|---|---------------|---------------|
| Common Stock, \$0.01 par value, 50,000,000 shares authorized; 16,910,009 and 16,128,530 shares issued and outstanding at March 31, 2014 and June 30, 2013, respectively | 169,100 | 161,285 |
| Additional paid-in capital | 46,698,419 | 43,314,986 |
| Accumulated deficit | (35,706,307) | (33,239,018) |
| Total stockholders' equity | 11,165,331 | 10,241,372 |
| Total liabilities and stockholders' equity | \$ 16,904,616 | \$ 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 March 31, | | Nine Months Ended March 31, | |
|---|---------------------------------|--------------------|--------------------------------|---------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues: | | | | |
| Subscription | \$2,489,772 | \$2,007,821 | \$6,968,606 | \$5,917,978 |
| Other Revenue | 598,725 | 1,039,167 | 1,915,441 | 2,500,739 |
| Total revenues | 3,088,497 | 3,046,988 | 8,884,047 | 8,418,717 |
| Operating expenses: | | | | |
| Cost of services and product support | 1,336,818 | 1,141,643 | 3,792,364 | 3,321,290 |
| Sales and marketing | 1,073,200 | 747,120 | 3,442,675 | 2,090,777 |
| General and administrative | 905,225 | 692,548 | 3,032,842 | 1,862,049 |
| Depreciation and amortization | 211,661 | 222,602 | 679,963 | 683,125 |
| Total operating expenses | 3,526,904 | 2,803,913 | 10,947,844 | 7,957,241 |
| (Loss) income from operations | (438,407) | 243,075 | (2,063,797) | 461,476 |
| Other expense: | | | | |
| Interest income (expense) | 31,987 | (33,781) | 59,927 | (111,649) |
| (Loss) income before income taxes | (406,420) | 209,294 | (2,003,870) | 349,827 |
| (Provision) benefit for income taxes: | - | - | - | - |
| Net (loss) income | (406,420) | 209,294 | (2,003,870) | 349,827 |
| Dividends on preferred stock | (154,473) | (288,721) | (463,419) | (788,002) |
| Net (loss) applicable to common shareholders | \$(560,893) | \$(79,427) | \$(2,467,289) | \$(438,175) |
| Weighted average shares, basic and diluted | 16,867,000 | 12,750,000 | 16,640,000 | 12,420,000 |
| Basic and diluted loss per share | \$(0.03) | \$(0.01) | \$(0.15) | \$(0.04) |

See accompanying notes to consolidated condensed financial statements.

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

| | 2014 | 2013 |
|--|--------------------|-------------------|
| Cash Flows From Operating Activities: | | |
| Net (loss) income | \$(2,003,870) | \$349,827 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | |
| Depreciation and amortization | 679,963 | 683,125 |
| Stock issued for charitable contribution | 96,900 | - |
| Stock compensation expense | 1,323,984 | 662,463 |
| Bad debt expense | 171,692 | 81,260 |
| (Increase) decrease in: | | |
| Receivables | (807,176) | (923,078) |
| Prepays and other assets | 11,233 | (165,809) |
| (Decrease) increase in: | | |
| Accounts payable | 83,843 | 75,067 |
| Accrued liabilities | (33,801) | 8,359 |
| Deferred revenue | (234,794) | (510,735) |
| Net cash (used in) provided by operating activities | (712,026) | 260,479 |
| Cash Flows From Investing Activities: | | |
| Cash from sales of property and equipment | 6,505 | - |
| Cash advanced on note receivable | (800,000) | - |
| Purchase of property and equipment | (439,339) | (345,375) |
| Net cash used in investing activities | (1,232,834) | (345,375) |
| Cash Flows From Financing Activities: | | |
| Proceeds from issuance of stock | 1,493,818 | 4,054,921 |
| Proceeds from exercise of options and warrants | 627,529 | - |
| Proceeds from employee stock plans | 153,874 | 156,742 |
| Proceeds from issuance of note payable | 338,287 | 176,797 |
| Dividends paid | (432,524) | (370,734) |
| Payments on notes payable | (441,528) | (643,102) |
| Net cash provided by financing activities | 1,739,456 | 3,374,624 |
| Net (decrease) increase in cash | (205,404) | 3,289,728 |
| Cash at beginning of period | 3,616,585 | 1,106,176 |
| Cash at end of period | \$3,411,181 | \$4,395,904 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid for income taxes | \$6,634 | \$- |
| Cash paid for interest | \$64,738 | \$112,806 |
| Supplemental Disclosure of Non-Cash Investing and Financing Activities: | | |

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| | | |
|---|-------------|-----------|
| Common stock to pay accrued liabilities | \$1,004,127 | \$846,513 |
| Dividends accrued on preferred stock | \$463,419 | \$788,002 |
| Dividends paid with preferred stock | \$- | \$501,060 |

See accompanying notes to consolidated condensed financial statements.

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, PC Group, Inc. and Park City Group, Inc. ("Prescient"), respectively, are incorporated in the states of Utah and Delaware, respectively. 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.

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 nine months ended March 31, 2014 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.

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 March 31, 2014 and June 30, 2013, the allowance for doubtful accounts was \$70,000 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 nine months ended March 31, 2014 and 2013, warrants to purchase 320,154 and 486,110 shares of common stock were not included in the computation of diluted EPS due to the anti-dilutive effect. For the three and nine months ended March 31, 2014, 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 3,298,348 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 nine months ended March 31, 2013. 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.

NOTE 3. LIQUIDITY

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, 2014, the Company had positive working capital of \$1,573,650 compared with positive working capital of \$1,124,476 at June 30, 2013. This \$449,174 increase in working capital is principally due to 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 and decrease in prepaid expenses. 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 pay down, pay off or refinance certain of the Company's indebtedness to extend the maturities of such indebtedness. Management believes that these initiatives will enable us to address our debt service requirements during the next twelve months without negatively impacting our working capital. 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. As of May 12, 2014, the Company had not repurchased any shares of common stock under the Repurchase Program. It is unlikely at this time that the Board of Directors will repurchase any shares under the Repurchase Program through the date of the Repurchase Program's termination, on August 22, 2014.

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 March 31, 2014:

| Range of exercise prices | Warrants Outstanding at March 31, 2014 | | | Warrants Exercisable at March 31, 2014 | | |
|--------------------------|--|---|---------------------------------|--|---------------------------------|--|
| | Number outstanding at March 31, 2014 | Weighted average remaining contractual life (years) | Weighted average exercise price | Number exercisable at March 31, 2014 | Weighted average exercise price | |
| Warrants | | | | | | |
| \$ 3.50 – 3.60 | 243,410 | 3.96 | \$ 3.56 | 243,410 | \$ 3.56 | |
| \$ 6.45 | 76,744 | 4.41 | \$ 6.45 | 76,744 | \$ 6.45 | |
| | 320,154 | 4.06 | \$ 4.25 | 320,154 | \$ 4.25 | |

NOTE 6. RELATED PARTY TRANSACTIONS

None.

NOTE 7. PROPERTY AND EQUIPMENT

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

| | March 31, 2014 (unaudited) | June 30, 2013 |
|------------------------|----------------------------------|------------------|
| Computer equipment | \$ 2,879,976 | \$ 2,444,129 |
| Furniture and fixtures | 260,574 | 321,281 |
| Leasehold improvements | 231,782 | 231,782 |
| | 3,372,332 | 2,997,192 |

| | | |
|--|-------------|-------------|
| Less accumulated depreciation and amortization | (2,557,683) | (2,325,233) |
| | \$ 814,649 | \$ 671,959 |

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NOTE 8. CAPITALIZED SOFTWARE COSTS

Capitalized software costs consist of the following as of:

| | March 31, 2014 (unaudited) | June 30, 2013 |
|-------------------------------|----------------------------------|------------------|
| Capitalized software costs | \$ 2,443,128 | \$ 2,443,128 |
| Less accumulated amortization | (2,443,128) | (2,370,046) |
| | \$ - | \$ 73,082 |

NOTE 9. ACCRUED LIABILITIES

Accrued liabilities consist of the following as of:

| | March 31, 2014 (unaudited) | June 30, 2013 |
|----------------------------------|----------------------------------|------------------|
| Accrued stock-based compensation | \$ 815,371 | \$ 497,012 |
| Accrued compensation | 272,871 | 295,377 |
| Accrued other liabilities | 159,730 | 176,892 |
| Accrued dividends | 154,473 | 123,578 |
| Accrued interest | - | 4,123 |
| | \$ 1,402,445 | \$ 1,096,982 |

NOTE 10. PREFERRED DIVIDENDS

Holders of Series B Preferred are entitled to a 15.00% annual dividend payable quarterly in cash. The Company's Series B Preferred are held by affiliates of the Company, consisting of the Chief Executive Officer, his spouse, and a director.

Holders of Series A Preferred were entitled to a 10.00% annual dividend payable quarterly in either cash or additional Series A Preferred at the option of the Company with fractional shares paid in cash. 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.

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

In accordance with the Subsequent Events Topic of the FASB ASC 855, we have evaluated subsequent events through the date of this filing, and have determined that no subsequent events are reasonably likely to impact the

financial statements.

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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, 2013 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, 2013 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 enabling lower inventory levels for both retailers and their suppliers.

Our services are delivered principally through proprietary software products designed, developed, marketed and supported by the Company. These products are designed to facilitate improved business processes among all key constituents in the supply chain, starting with the retailer and moving back to suppliers and eventually raw material providers. 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.

Historically, the Company offered applications and related maintenance contracts to new customers for a one-time, non-recurring up front license fee. Although not completely abandoning the license fee and maintenance model, since the acquisition of Prescient in January 2009, the Company has focused its strategic initiatives and resources to marketing and selling prospective customers a subscription for its product offerings. In support of this strategic shift toward a subscription-based model, the Company has scaled its contracting process, streamlined its customer on-boarding and implemented a financial package that integrates multiple systems in an automated fashion. As a result, subscription based revenue has grown from \$203,000 for the 2008 fiscal year to \$8 million in the year ended June 30, 2013. During that same period our revenue has transitioned from 6% subscription revenue and 94% license and other revenue basis to 71% subscription revenue and 29% license and other revenue basis.

The Company is incorporated in the state of Nevada. The Company's 98.76% and 100% owned subsidiaries, PC Group, Inc. and Prescient, which recently changed its name to Park City Group, Inc., respectively, are incorporated in the states of Utah and Delaware, respectively. All intercompany transactions and balances have been eliminated in consolidation.

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

Results of Operations

Comparison of the Three Months Ended March 31, 2014 to the Three Months Ended March 31, 2013.

Revenue

| | Fiscal Quarter Ended | | Variance | |
|---------------|----------------------|--------------|------------|---------|
| | March 31, | | Dollars | Percent |
| | 2014 | 2013 | | |
| Subscription | \$ 2,489,772 | \$ 2,007,821 | \$ 481,951 | 24% |
| Other revenue | 598,725 | 1,039,167 | (440,442) | -42% |
| Total revenue | \$ 3,088,497 | \$ 3,046,988 | \$ 41,509 | 1% |

Total revenue was \$3,088,497 and \$3,046,988 for the three months ended March 31, 2014 and 2013, respectively, a 1% increase. This \$41,509 increase in total revenue was principally due to an increase of \$481,951 in subscription revenue, offset by a decrease of \$440,442 in other revenue, as more particularly described below.

Management believes that the Company's strategy of pursuing contracts with suppliers ("spokes") to connect to retail customers ("hubs") that have been added in the most recently completed fiscal year, and year-to-date, including the service agreement with CVS Pharmacy, Inc., announced in July 2012, will continue to result in increased subscription revenue during the fiscal year ending June 30, 2014, 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 ResposiTrak resulting from the license of the Company's technology necessary to power ResposiTrak. ResposiTrak enables grocery, supermarkets, packaged goods manufacturers, food processing facilities, drug stores and drug manufacturers, as well as logistics partners, to track and trace products and components to products throughout the food, drug and dietary supplement supply chains.

Subscription Revenue

Subscription revenue was \$2,489,772 and \$2,007,821 for the three months ended March 31, 2014 and 2013, respectively, a 24% increase in the three months ended March 31, 2014 when compared with the three months ended March 31, 2013. The net increase of \$481,951 is principally due to (i) the growth of existing retailer and supplier subscriptions of \$461,000 and (ii) the addition of new customers contributing \$89,000. The increase in subscription revenue was partially offset by a decrease of approximately \$68,000 resulting from the non-renewal of existing clients. 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. Subscription revenue recognized from the relationship with ResposiTrak was \$403,597 and \$300,000 for the three months ended March 31, 2014 and 2013, respectively.

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 \$598,725 and \$1,039,167 for the three months ended March 31, 2014 and 2013, respectively, a decrease of 42% in the three months ended March 31, 2014 compared with the three months ended March 31, 2013. The net decrease of \$440,442 is principally due to (i) a net decrease in maintenance revenue of \$210,000, (ii) a

decrease of \$193,000 in license sales to our legacy customer base, and (iii) a decrease in professional services of \$37,000. Other revenue includes management fees from the relationship with Repositrak which totaled \$171,073 and \$158,335 for the three months ended March 31, 2014 and 2013, respectively.

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 | |
|--------------------------------------|-----------------------------------|--------------|------------|---------|
| | 2014 | 2013 | Dollars | Percent |
| Cost of services and product support | \$ 1,336,818 | \$ 1,141,643 | \$ 195,175 | 17% |
| Percent of total revenue | 43% | 37% | | |

Cost of services and product support was \$1,336,818 and \$1,141,643 for the three months ended March 31, 2014 and 2013, respectively, a 17% increase in the three months ended March 31, 2014 compared with the three months ended March 31, 2013. This increase of \$195,175 for the quarter ended March 31, 2014 when compared with the same period ended March 31, 2013 is principally due to (i) a \$205,000 increase in employee related expense, and (ii) a \$36,000 increase travel related expense. These increases were partially offset by a decrease of \$46,000 in other product support costs.

Sales and Marketing Expense

| | Fiscal Quarter Ended March 31, | | Variance | |
|--------------------------|-----------------------------------|------------|------------|---------|
| | 2014 | 2013 | Dollars | Percent |
| Sales and marketing | \$ 1,073,200 | \$ 747,120 | \$ 326,080 | 44% |
| Percent of total revenue | 35% | 25% | | |

Sales and marketing expense was \$1,073,200 and \$747,120 for the three months ended March 31, 2014 and 2013, respectively, a 44% increase. This \$326,080 increase over the comparable quarter was primarily the result of (i) an increase of \$239,000 in marketing expense, and (ii) an increase in salary and sales consulting and related expense of \$92,000. These increases were partially offset by a decrease of \$5,000 in travel related expense. Management expects sales and marketing expenses to remain at current levels to support anticipated growth in subscription revenue, among other factors.

General and Administrative Expense

| | Fiscal Quarter Ended March 31, | | Variance | |
|----------------------------|-----------------------------------|------------|------------|---------|
| | 2014 | 2013 | Dollars | Percent |
| General and administrative | \$ 905,225 | \$ 692,548 | \$ 212,677 | 31% |
| Percent of total revenue | 29% | 23% | | |

General and administrative expense was \$905,225 and \$692,548 for the three months ended March 31, 2014 and 2013, respectively, a 31% increase in the three months ended March 31, 2014 compared with the three months ended March 31, 2013. This \$212,677 increase when comparing expenditures for the quarter ended March 31, 2014 with the same period ended March 31, 2013 is principally due to (i) an increase in stock compensation, bonus and salary expense of \$197,000, and (ii) a \$30,000 increase in bad debt expense. The increase in general and administrative expense during the quarter ended March 31, 2014 was partially offset by a decrease of \$8,000 in facility related costs and a decrease of \$7,000 in travel and other expense.

Depreciation and Amortization Expense

| Fiscal Quarter Ended | Variance |
|----------------------|----------|
|----------------------|----------|

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| | March 31, | | | |
|-------------------------------|------------|------------|-------------|---------|
| | 2014 | 2013 | Dollars | Percent |
| Depreciation and amortization | \$ 211,661 | \$ 222,602 | \$ (10,941) | -5% |
| Percent of total revenue | 7% | 7% | | |

Depreciation and amortization expense was \$211,661 and \$222,602 for the three months ended March 31, 2014 and 2013, respectively, a decrease of 5% in the three months ended March 31, 2014 compared with the three months ended March 31, 2013. This comparative decrease of \$10,941 is related to the completion of amortization of capitalized software costs partially offset by an increase in depreciation related to new hardware purchases during the quarter ended March 31, 2014.

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Other Income and Expense

| | Fiscal Quarter Ended March 31, | | Variance | |
|---------------------------|-----------------------------------|-------------|-----------|---------|
| | 2014 | 2013 | Dollars | Percent |
| Interest income (expense) | \$ 31,987 | \$ (33,781) | \$ 65,768 | 195% |
| Percent of total revenue | 1% | 1% | | |

Interest income (expense) was income of \$31,987 and expense of \$33,781 for the three months ended March 31, 2014 and 2013, respectively. This change of \$65,768 for the quarter ended March 31, 2014 when compared to the quarter ended March 31, 2013 is due to interest income on notes receivable of \$46,000 and a decrease in expense related to lower outstanding balances on notes payable.

Preferred Dividends

| | Fiscal Quarter Ended March 31, | | Variance | |
|--------------------------|-----------------------------------|------------|--------------|---------|
| | 2014 | 2013 | Dollars | Percent |
| Preferred dividends | \$ 154,473 | \$ 288,721 | \$ (134,248) | -46% |
| Percent of total revenue | 5% | 9% | | |

Dividends accrued on the Company's Series B Preferred was \$154,473 for the three months ended March 31, 2014, compared to dividends accrued on the Company's Series A Preferred and Series B Preferred of \$288,721 for the three months ended March 31, 2013.

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. 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 December 31, 2012 being less than \$3.00 per share (a "Dividend Adjustment"). Holders of Series B Preferred are entitled to a 15.00% annual dividend payable quarterly in cash, which rate increased from 12% in the prior year under the terms of the certificate of designation of the Series B Preferred.

Comparison of the Nine Months Ended March 31, 2014 to the Nine Months Ended March 31, 2013.

Revenue

| | Nine Months Ended March 31, | | Variance | |
|---------------|--------------------------------|--------------|--------------|---------|
| | 2014 | 2013 | Dollars | Percent |
| Subscription | \$ 6,968,606 | \$ 5,917,978 | \$ 1,050,628 | 18% |
| Other revenue | 1,915,441 | 2,500,739 | (585,298) | -23% |
| Total revenue | \$ 8,884,047 | \$ 8,418,717 | \$ 465,330 | 6% |

Total revenue was \$8,884,047 and \$8,418,717 for the nine months ended March 31, 2014 and 2013, respectively, a 6% increase. This \$465,330 increase in total revenue was principally due to an increase of \$1,050,628 in subscription

revenue, offset by a decrease of \$585,298 in other revenue, as more particularly described below.

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Subscription Revenue

Subscription revenue was \$6,968,606 and \$5,917,978 for the nine months ended March 31, 2014 and 2013, respectively, an 18% increase in the nine months ended March 31, 2014 when compared with the nine months ended March 31, 2013. The net increase of \$1,050,628 is principally due to (i) the growth of existing retailer and supplier subscriptions of \$1.1 million, and (ii) the addition of new customers contributing \$73,000. The increase in subscription revenue was partially offset by a decrease of approximately \$122,000 resulting from the non-renewal of existing clients. Subscription revenue recognized from the Company's relationship with ReposiTrak was \$1,203,597 and \$900,000 for the nine months ended March 31, 2014 and 2013, respectively. Of this amount for March 31, 2014, \$800,000 was paid by the issuance to the Company of promissory notes reflected on the Company's balance sheet as notes receivable, and \$403,597 is reflected as accounts receivable. 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.

Other Revenue

Other revenue was \$1,915,441 and \$2,500,739 for the nine months ended March 31, 2014 and 2013, respectively, a decrease of 23% in the nine months ended March 31, 2014 compared with the nine months ended March 31, 2013. The net decrease of \$585,298 is principally due to (i) net decrease in maintenance revenue of \$362,000, (ii) a decrease in license sales to our legacy customer base, and (iii) a decrease in the professional services. Other revenue includes management fees from the Company's relationship with ReposiTrak which totaled \$522,008 and \$456,546 for the nine months ended March 31, 2014 and 2013, respectively. Of the amount for the period ended March 31, 2014, \$350,935 was paid in cash and \$171,073 is reflected on the Company's balance sheet as accounts receivable.

Cost of Services and Product Support

| | Nine Months Ended | | Variance | |
|--------------------------------------|-------------------|--------------|------------|---------|
| | 2014 | 2013 | Dollars | Percent |
| Cost of services and product support | \$ 3,792,364 | \$ 3,321,290 | \$ 471,074 | 14% |
| Percent of total revenue | 43% | 39% | | |

Cost of services and product support was \$3,792,364 and \$3,321,290 for the nine months ended March 31, 2014 and 2013, respectively, a 14% increase in the nine months ended March 31, 2014 compared with the nine months ended March 31, 2013. This increase of \$471,074 for the nine months ended March 31, 2014 when compared with the same period ended March 31, 2013 is principally due to (i) a \$391,000 increase in employee related expense, (ii) an \$64,000 increase in travel related expense, and (iii) a \$16,000 increase in other product support costs.

Sales and Marketing Expense

| | Nine Months Ended | | Variance | |
|--------------------------|-------------------|--------------|--------------|---------|
| | 2014 | 2013 | Dollars | Percent |
| Sales and marketing | \$ 3,442,675 | \$ 2,090,777 | \$ 1,351,898 | 65% |
| Percent of total revenue | 39% | 25% | | |

Sales and marketing expense was \$3,442,675 and \$2,090,777 for the nine months ended March 31, 2014 and 2013, respectively, a 65% increase. This \$1,351,898 increase over the comparable period was primarily the result of (i) an increase in salary and sales consulting and related expenses of \$679,000, (ii) an increase of \$562,000 in marketing expense, and (iii) an increase of \$111,000 in travel related expense. Management expects sales and marketing

expense to remain at current levels to support anticipated growth in subscription revenue, among other factors.

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General and Administrative Expense

| | Nine Months Ended March 31, | | Variance | |
|----------------------------|--------------------------------|--------------|--------------|---------|
| | 2014 | 2013 | Dollars | Percent |
| General and administrative | \$ 3,032,842 | \$ 1,862,049 | \$ 1,170,793 | 63% |
| Percent of total revenue | 34% | 22% | | |

General and administrative expense was \$3,032,842 and \$1,862,049 for the nine months ended March 31, 2014 and 2013, respectively, a 63% increase in the nine months ended March 31, 2014 compared with the nine months ended March 31, 2013. This \$1,170,793 increase when comparing expenditures for the nine months ended March 31, 2014 with the same period ended March 31, 2013 is principally due to (i) an increase in stock compensation, bonus and salary expense of \$1.05 million, (ii) \$90,000 in increase in bad debt expense, (iii) \$52,000 increase in estimated taxes, and (iv) an increase of \$26,000 in travel and other expense. The increase in general and administrative expense during the comparable period ended March 31, 2014 was partially offset by a decrease of \$50,000 in facility related costs.

Depreciation and Amortization Expense

| | Nine Months Ended March 31, | | Variance | |
|-------------------------------|--------------------------------|------------|------------|---------|
| | 2014 | 2013 | Dollars | Percent |
| Depreciation and amortization | \$ 679,963 | \$ 683,125 | \$ (3,162) | -0% |
| Percent of total revenue | 8% | 8% | | |

Depreciation and amortization expense was \$679,963 and \$683,125 for the nine months ended March 31, 2014 and 2013, respectively. Depreciation and amortization expenses have remained relatively flat with a decrease of \$3,162 for the nine months ended March 31, 2014 when compared to the nine months ended March 31, 2013 although we have completed the amortization of capitalized software costs. This decrease has been partially offset by an increase in depreciation related to new hardware purchases during the nine month period ended March 31, 2014.

Other Income and Expense

| | Nine Months Ended March 31, | | Variance | |
|---------------------------|--------------------------------|--------------|------------|---------|
| | 2014 | 2013 | Dollars | Percent |
| Interest income (expense) | \$ 59,927 | \$ (111,649) | \$ 171,576 | 154% |
| Percent of total revenue | 1% | 1% | | |

Interest income (expense) was income of \$59,927 and expense of \$111,649 for the nine months ended March 31, 2014 and 2013, respectively, a change of 154% in the nine months ended March 31, 2014 compared with the nine months ended March 31, 2013. This change of \$171,576 for the nine months ended March 31, 2014 when compared to the nine months ended March 31, 2013 is due to interest income on notes receivable of \$121,000 and a decrease in interest expense related to lower outstanding balances on notes payable.

Preferred Dividends

| | Nine Months Ended March 31, | Variance |
|--|--------------------------------|----------|
|--|--------------------------------|----------|

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| | 2014 | 2013 | Dollars | Percent |
|--------------------------|------------|------------|--------------|---------|
| Preferred dividends | \$ 463,419 | \$ 788,002 | \$ (324,583) | -41% |
| Percent of total revenue | 5% | 9% | | |

Dividends accrued on the Company's Series B Preferred was \$463,419 for the nine months ended March 31, 2014, compared to dividends accrued on the Company's Series A Preferred and Series B Preferred of \$788,002 for the nine months ended March 31, 2013.

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Financial Position, Liquidity and Capital Resources

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

| | As of March 31, | | Variance | |
|------|-----------------|--------------|--------------|---------|
| | 2014 | 2013 | Dollars | Percent |
| Cash | \$ 3,411,181 | \$ 4,395,904 | \$ (984,723) | -22% |

We have historically funded our operations with cash from operations, equity financings and debt borrowings. Cash and cash equivalents was \$3,411,181 and \$4,395,904 at March 31, 2014 and 2013, respectively. This \$984,723 decrease from March 31, 2013 to March 31, 2014 was principally the result of the use of cash in operations, offset by the receipt of approximately \$4.1 million received from the Private Offering and Director Investment in March 2013, as well as an additional \$1.5 million raised in the second Director Investment consummated in August 2013. This cash was intended to finance the Series A Redemption; however, approximately 99% of the holders of shares of Series A Preferred elected to convert their shares of Series A Preferred into shares of common stock.

Net Cash Flows from Operating Activities

| | Nine Months Ended March 31, | | Variance | |
|---|--------------------------------|------------|--------------|---------|
| | 2014 | 2013 | Dollars | Percent |
| Cash (used in) provided by operating activities | \$ (712,026) | \$ 260,479 | \$ (972,505) | -373% |

Net cash provided by operating activities is summarized as follows:

| | Nine Months Ended March 31, | |
|---|--------------------------------|-------------|
| | 2014 | 2013 |
| Net (loss) income | \$ (2,003,870) | \$ 349,827 |
| Noncash expense and income, net | 2,272,539 | 1,426,848 |
| Net changes in operating assets and liabilities | (980,695) | (1,516,196) |
| | \$ (712,026) | \$ 260,479 |

Noncash expense increased by \$846,000 in the nine months ended March 31, 2014 compared to March 31, 2013. Noncash expense increased as a result of a \$662,000 increase in stock compensation expense, \$97,000 in stock issued as a charitable contribution, and \$90,000 in bad debt expense.

Net Cash Flows from Investing Activities

| | Nine Months Ended March 31, | | Variance | |
|-----------------------------------|--------------------------------|--------------|------------|---------|
| | 2014 | 2013 | Dollars | Percent |
| Cash used in investing activities | \$ (1,232,834) | \$ (345,375) | \$ 887,459 | 257% |

Net cash used in investing activities for the nine months ended March 31, 2014 was \$1,232,834 compared to net cash used in investing activities of \$345,375 for the nine months ended March 31, 2013. This \$887,459 increase in cash used in investing activities for the nine months ended March 31, 2014 when compared to the same period in 2013 was the result of additional cash spent on property plant and equipment and funds loaned under notes receivable.

Net Cash Flows from Financing Activities

| | Nine Months Ended | | Variance | |
|---------------------------------------|-------------------|-------------------|----------------|---------|
| | March 31, 2014 | March 31, 2013 | Dollars | Percent |
| Cash provided by financing activities | \$ 1,739,456 | \$ 3,374,624 | \$ (1,635,168) | -48% |

Net cash provided by financing activities totaled \$1,739,456 for the nine months ended March 31, 2014 as compared to cash flows provided by financing activities of \$3,374,624 for the nine months ended March 31, 2013. The change in net cash provided by financing activities is primarily attributable to the decrease in stock issued for cash, partially offset by proceeds from the exercise of warrants of \$628,000, proceeds from a note payable of \$161,000, and a decrease in cash paid to notes payable and capital leases.

Working Capital

At March 31, 2014, the Company had positive working capital of \$1,573,650 when compared with positive working capital of \$1,124,476 at June 30, 2013. This \$449,174 increase in working capital is principally due to (i) a \$635,000 increase in accounts receivable (ii) a decrease in deferred revenue of \$235,000, and current notes payable of \$305,000. These were partially offset by decreases in cash of \$205,000 and prepaid expenses of \$132,000 and an increase in accrued liabilities of \$305,000 and accounts payable of \$84,000. 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.

| | As of | As of | Variance | |
|----------------|-------------------|------------------|------------|---------|
| | March 31, 2014 | June 30, 2013 | Dollars | Percent |
| Current assets | \$ 6,702,164 | \$ 6,403,860 | \$ 298,304 | 5% |

Current assets as of March 31, 2014 totaled \$6,702,164, an increase of \$298,304 when compared to \$6,403,860 as of June 30, 2013. This 5% increase in current assets is due to an increase in accounts receivable partially offset by a decrease in prepaid expenses and cash.

| | As of | As of | Variance | |
|---------------------|-------------------|------------------|--------------|---------|
| | March 31, 2014 | June 30, 2013 | Dollars | Percent |
| Current liabilities | \$ 5,128,514 | \$ 5,279,384 | \$ (150,870) | 3% |

Current liabilities totaled \$5,128,514 as of March 31, 2014 as compared to \$5,279,384 as of June 30, 2013. The \$150,870 comparative decrease in current liabilities is principally due to decreases in deferred revenue and current notes payable partially offset by an increase in accounts payable and accrued liabilities.

While no assurances can be given, management currently intends to continue to reduce its indebtedness in subsequent periods utilizing existing cash resources and projected cash flow from operations. In addition, management may also continue to pay down, pay off or refinance certain of the Company's indebtedness. Management believes that these initiatives will enable us to address our debt service requirements during the next twelve months without negatively impacting our working capital, as well as fund our currently anticipated operations and capital spending requirements.

Off-Balance Sheet Arrangements

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

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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.

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.

Critical Accounting Policies

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

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

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

Income Taxes

In determining the carrying value of the Company's net deferred income tax assets, the Company must assess the likelihood of sufficient future taxable income in certain tax jurisdictions, based on estimates and assumptions, to realize the benefit of these assets. If these estimates and assumptions change in the future, the Company may record a reduction in the valuation allowance, resulting in an income tax benefit in the Company's statements of operations. Management evaluates whether or not to realize the deferred income tax assets and assesses the valuation allowance quarterly.

Revenue Recognition

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

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

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

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

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

We also sell software licenses. For software license sales, we recognize revenue when all of the following conditions are satisfied: (i) there is persuasive evidence of an arrangement, (ii) the service has been provided to the customer, (iii) the collection of our fees is probable and (iv) the amount of fees to be paid by the customer is fixed or determinable. Licenses generally include multiple elements that are delivered up front or over time. Vendor specific objective evidence of fair value of the hosting and support elements is based on the price charged at renewal when sold separately, and the license element is recognized into revenue upon delivery. The hosting and support elements are recognized ratably over the contractual term.

Stock-Based Compensation

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

Capitalization of Software Development Costs

The Company accounts for research costs of computer software to be sold, leased or otherwise marketed as expense until technological feasibility has been established for the product. Once technological feasibility is established, all software costs are capitalized until the product is available for general release to customers. Judgment is required in determining when technological feasibility of a product is established. We have determined that technological

feasibility for our software products is reached shortly after a working prototype is complete and meets or exceeds design specifications including functions, features, and technical performance requirements. Costs incurred after technological feasibility is established have been and will continue to be capitalized until such time as when the product or enhancement is available for general release to customers.

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Goodwill and Long-lived Assets

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

Our exposure to interest rate changes related to borrowing has been limited by the use of fixed rate borrowings on the majority of our outstanding debt, and we believe the effect, if any, or reasonably possible near-term changes in interest rates on our financial position, results of operations and cash flows should not be material. At March 31, 2014, the debt portfolio was composed of approximately 75% variable-rate debt and 25% fixed-rate debt.

| | March 31, 2014 (unaudited) | Percent of Total Debt |
|--------------------|----------------------------------|--------------------------|
| Fixed rate debt | \$ 480,532 | 25% |
| Variable rate debt | 1,478,290 | 75% |
| Total debt | \$ 1,958,822 | 100% |

The table that follows presents fair values of principal amounts and weighted average interest rates for our investment portfolio as of March 31, 2014:

| | Aggregate Fair Value | Weighted Average Interest Rate |
|-------------------------|-------------------------|---|
| Cash: | | |
| Cash | \$ 2,411,181 | N/A |
| Certificates of Deposit | \$ 1,000,000 | 1.5% |

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our Management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operations of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of March 31, 2014. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports submitted under the Securities and Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, including to ensure that information required to be disclosed by the Company is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in internal controls over financial reporting.

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

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

An investment in our common stock is subject to many risks. You should carefully consider the risks described below, together with all of the other information included in this Quarterly Report on Form 10-Q, including the financial statements and the related notes, before you decide whether to invest in our common stock. Our business, operating results and financial condition could be harmed by any of the following risks. The trading price of our common stock could decline due to any of these risks, and you could lose all or part of your investment.

Risks Related to the Company

The Company has incurred losses in the past and there can be no assurance that the Company will operate profitably in the future.

The Company's marketing strategy emphasizes sales to clients acquired as a result of the Company's acquisition of Prescient Applied Intelligence, Inc. ("Prescient"). Sales of subscription based services, instead of annual licenses, and contracting with suppliers ("spokes") to connect to former Prescient clients ("hubs") has built a base of hubs to which suppliers can be "connected", thereby accelerating future growth. If, however, this marketing strategy fails, revenue and operations will be negatively affected.

The Company had a net loss of \$406,420 for the quarter ended March 31, 2014 compared to a net income of \$209,294 for the quarter ended March 31, 2013. There can be no assurance that the Company will return to profitability, or reliably or consistently operate profitably in future periods. If the Company does not operate profitably in the future, the Company's current cash resources will be used to fund the Company's operating losses. Continued losses would have an adverse effect on the long-term value of the Company's common stock and any investment in the Company. The Company cannot give any assurance that the Company will continue to generate revenue or have sustainable profits.

Although the Company's cash resources are currently sufficient, the Company's long-term liquidity and capital requirements may be difficult to predict, which may adversely affect the Company's long-term cash position.

Historically, the Company has been successful in raising capital when necessary, including stock issuances and securing loans from its officers and directors, including its Chief Executive Officer and majority stockholder, in order to pay its indebtedness and fund its operations, in addition to cash flow from operations. The Company anticipates that it will have adequate cash resources to fund its operations and satisfy its debt obligations for at least the next 12 months, if not longer.

If the Company is required to seek additional financing in the future in order to fund its operations, retire its indebtedness and otherwise carry out its business plan, there can be no assurance that such financing will be available on acceptable terms, or at all, and there can be no assurance that any such arrangement, if required or otherwise sought, would be available on terms deemed to be commercially acceptable and in the Company's best interests.

The Company faces risks associated with new product introductions, and because of its contractual obligation to provide management services to ReposiTrak, Inc., the Company faces risks associated with ReposiTrak™.

The first installations of ReposiTrak™ began in August 2012 and market and product data related to these implementations is still being analyzed. The Company also continually receives and analyzes market and product data on other products, and the Company may endeavor to develop and commercialize new product offerings based on this data. The following risks apply to ReposiTrak™ and other potential new product offerings:

it may be difficult for the Company to predict the amount of service and technological resources that will be needed by customers of ReposiTrak™ or other new offerings, and if the Company underestimates the necessary resources, the quality of its service will be negatively impacted thereby undermining the value of the product to the customer;

the Company lacks experience with ReposiTrak™ and the market acceptance to accurately predict if it will be a profitable product;

technological issues between the Company and the customer may be experienced in capturing data, and these technological issues may result in unforeseen conflicts or technological setbacks when implementing additional installations of ReposiTrak™. This may result in material delays and even result in a termination of the engagement with the customer;

the customer's experience with ReposiTrak™ and other new offerings, if negative, may prevent the Company from having an opportunity to sell additional products and services to that customer;

if the customer does not use ReposiTrak™ as the Company recommends and fails to implement any needed corrective action(s), it is unlikely that the customer will experience the business benefits from the software and may therefore be hesitant to continue the engagement as well as acquire any additional software products from the Company; and

delays in proceeding with the implementation of ReposiTrak™ or other new products for a new customer will negatively affect the Company's cash flow and its ability to

predict cash flow.

ReposiTrak owes certain fees to the Company under its agreements with ReposiTrak, resulting in ReposiTrak issuing the Company promissory notes in order to make required payments.

Under the terms of the Omnibus Agreement and in consideration for a warrant to acquire the majority interest in ReposiTrak, effective June 30, 2013, the Company accepted from ReposiTrak a promissory note in the principal amount of \$1.62 million, representing annual fees due and owing the Company under the terms of the Original Agreements. In addition, ReposiTrak may make future payments to the Company for annual and other fees due the Company under the terms of the Omnibus Agreement in the form of additional promissory notes. The Company was issued an additional note for \$400,000 during the quarter ended March 31, 2014, and the current amount of the outstanding notes including interest accrued on the notes is approximately \$---2.5 million. In the event of a default under such notes, the Company's financial results, including its financial condition, may be materially and adversely affected.

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Quarterly and annual operating results may fluctuate, which makes it difficult to predict future performance.

Management expects a significant portion of the Company's revenue stream to come from the sale of subscriptions, and to a lesser extent, license sales, maintenance and services charged to new customers. These amounts will fluctuate because predicting future sales is difficult and involves speculation. 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:

our ability to retain and increase sales to existing customers, attract new customers and satisfy our customers' requirements;

the renewal rates for our service;

the amount and timing of operating costs and capital expenditures related to the operations and expansion of our business;

changes in our pricing policies whether initiated by us or as a result of competition;

the cost, timing and management effort for the introduction of new features to our service;

the rate of expansion and productivity of our sales force;

new product and service introductions by our competitors;

variations in the revenue mix of editions or versions of our service;

technical difficulties or interruptions in our service;

general economic conditions that may adversely affect either our customers' ability or willingness to purchase additional subscriptions or upgrade their service, or delay a prospective customers' purchasing decision, or reduce the value of new subscription contracts or affect renewal rates;

timing of additional investments in our enterprise cloud computing application and platform services and in our consulting service;

regulatory compliance costs;

the timing of customer payments and payment defaults by customers;

extraordinary expenses such as litigation or other dispute-related settlement payments;

the impact of new accounting pronouncements; and

the timing of stock awards to employees and the related financial statement impact.

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

The Company will need to effectively manage its growth in order to achieve and sustain profitability. The Company's failure to manage growth effectively could reduce its sales growth and result in continued net losses.

To achieve continual and consistent profitable operations on a fiscal year on-going basis, the Company must have significant growth in its revenue from its products and services, specifically subscription-based services. If the Company is able to achieve significant growth in future subscription sales, and expands the scope of its operations, the Company's management, financial condition, operational capabilities, and procedures and controls could be strained. The Company cannot be certain that its existing or any additional capabilities, procedures, systems, or controls will be adequate to support the Company's operations. The Company may not be able to design, implement or improve its capabilities, procedures, systems or controls in a timely and cost-effective manner. Failure to implement, improve and expand the Company's capabilities, procedures, systems or controls in an efficient and timely manner could reduce the Company's sales growth and result in a reduction of profitability or increase of net losses.

The Company's officers and directors have significant control over it, which may lead to conflicts with other stockholders over corporate governance.

The Company's officers and directors, including the Chief Executive Officer, control approximately 37.2% of the Company's common stock. The Company's Chief Executive Officer, Randall K. Fields, individually, controls 28.8% of the Company's common stock. Consequently, Mr. Fields individually, and the Company's officers and directors, as stockholders acting together, are able to significantly influence all matters requiring approval by the Company's stockholders, including the election of directors and significant corporate transactions, such as mergers or other business combination transactions.

The Company's corporate charter contains authorized, unissued "blank check" preferred stock issuable without stockholder approval with the effect of diluting then current stockholder interests.

The Company's certificate of incorporation currently authorizes the issuance of up to 30,000,000 shares of 'blank check' preferred stock with designations, rights, and preferences as may be determined from time to time by the Company's Board of Directors. As of March 31, 2014, a total of 411,927 shares of Series B Convertible Preferred Stock ("Series B Preferred") were issued and outstanding. The Company's board of directors is empowered, without stockholder approval, to issue one or more additional series of preferred stock with dividend, liquidation, conversion, voting, or other rights that could dilute the interest of, or impair the voting power of, the Company's common stockholders. The issuance of an additional series of preferred stock could be used as a method of discouraging, delaying or preventing a change in control.

Because the Company has never paid dividends on its common stock, investors should exercise caution before making an investment in the Company.

The Company has never paid dividends on its common stock and does not anticipate the declaration of any dividends pertaining to its common stock in the foreseeable future. The Company intends to retain earnings, if any, to finance the development and expansion of the Company's business. The Company's board of directors will determine future dividend policy at their sole discretion and future dividends will be contingent upon future earnings, if any, obligations of the stock issued, the Company's financial condition, capital requirements, general business conditions and other factors. Future dividends may also be affected by covenants contained in loan or other financing documents, which may be executed by the Company in the future. Therefore, there can be no assurance that dividends will ever be paid on its common stock.

The Company's business is dependent upon the continued services of the Company's founder and Chief Executive Officer, Randall K. Fields; should the Company lose the services of Mr. Fields, the Company's operations will be

negatively impacted.

The Company's business is dependent upon the expertise of its founder and Chief Executive Officer, Randall K. Fields. Mr. Fields is essential to the Company's operations. Accordingly, an investor must rely on Mr. Fields' management decisions that will continue to control the Company's business affairs. The Company currently maintains key man insurance on Mr. Fields' life in the amount of \$5,000,000; however, that coverage would be inadequate to compensate for the loss of his services. The loss of the services of Mr. Fields would have a materially adverse effect upon the Company's business.

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If the Company is unable to attract and retain qualified personnel, the Company may be unable to develop, retain or expand the staff necessary to support its operational business needs.

The Company's current and future success depends on its ability to identify, attract, hire, train, retain and motivate various employees, including skilled software development, technical, managerial, sales, marketing and customer service personnel. Competition for such employees is intense and the Company may be unable to attract or retain such professionals. If the Company fails to attract and retain these professionals, the Company's revenue and expansion plans may be negatively impacted.

The Company's officers and directors have limited liability and indemnification rights under the Company's organizational documents, which may impact its results.

The Company's officers and directors are required to exercise good faith and high integrity in the management of the Company's affairs. The Company's certificate of incorporation and bylaws, however, provide, that the officers and directors shall have no liability to the stockholders for losses sustained or liabilities incurred which arise from any transaction in their respective managerial capacities unless they violated their duty of loyalty, did not act in good faith, engaged in intentional misconduct or knowingly violated the law, approved an improper dividend or stock repurchase or derived an improper benefit from the transaction. As a result, an investor may have a more limited right to action than he would have had if such a provision were not present. The Company's certificate of incorporation and bylaws also require it to indemnify the Company's officers and directors against any losses or liabilities they may incur as a result of the manner in which they operate the Company's business or conduct the Company's internal affairs, provided that the officers and directors reasonably believe such actions to be in, or not opposed to, the Company's best interests, and their conduct does not constitute gross negligence, misconduct or breach of fiduciary obligations.

Business Operations Risks

If the Company's marketing strategy fails, its revenue and operations will be negatively affected.

The Company plans to concentrate its future sales efforts towards marketing the Company's applications and services, and specifically to contract with suppliers ("spokes") to connect to our existing retail customers ("hubs") previously signed up by the Company. These applications and services are designed to be highly flexible so that they can work in multiple retail and supplier environments such as grocery stores, convenience stores, specialty retail and route-based delivery environments. There is no assurance that the public will accept the Company's applications and services in proportion to the Company's increased marketing of this product line, or that the Company will be able to successfully leverage its hubs to increase revenue by connecting suppliers. The Company may face significant competition that may negatively affect demand for its applications and services, including the public's preference for the Company's competitors' new product releases or updates over the Company's releases or updates. If the Company's applications and services marketing strategies fail, the Company will need to refocus its marketing strategy toward other product offerings, which could lead to increased development and marketing costs, delayed revenue streams, and otherwise negatively affect the Company's operations.

Because the Company's emphasis is on the sale of subscription based services, rather than annual license fees, the Company's revenue may be negatively affected.

Historically, the Company offered applications and related maintenance contracts to new customers for a one-time, non-recurring up front license fee and provided an option for annually renewing their maintenance agreements. The Company is now principally offering prospective customers monthly subscription based licensing of its products. The Company's customers may now choose to acquire a license to use the software on an Application Solution Provider basis (also referred to as ASP) resulting in monthly charges for use of the Company's software products and

maintenance fees. The Company's conversion from a strategy of one-time, non-recurring licensing based model to a monthly recurring fees based approach is subject to the following risks:

the Company's customers may prefer one-time fees rather than monthly fees; and

there may be a threshold level (number of locations) at which the monthly based fee structure may not be economical to the customer, and a request to convert from monthly fees to an annual fee could occur.

The Company faces threats from competing and emerging technologies that may affect its profitability.

Markets for the Company's type of software products and that of its competitors are characterized by:

development of new software, software solutions or enhancements that are subject to constant change;

rapidly evolving technological change; and

unanticipated changes in customer needs.

Because these markets are subject to such rapid change, the life cycle of the Company's products is difficult to predict. As a result, the Company is subject to the following risks:

whether or how the Company will respond to technological changes in a timely or cost-effective manner;

whether the products or technologies developed by the Company's competitors will render the Company's products and services obsolete or shorten the life cycle of the Company's products and services; and

whether the Company's products and services will achieve market acceptance.

Interruptions or delays in service from our third-party data center hosting facility could impair the delivery of our service and harm our business.

We currently serve our customers from a third-party data center hosting facility located in the United States. Any damage to, or failure of, our systems generally could result in interruptions in our service. As we continue to add capacity, we may move or transfer our data and our customers' data. Despite precautions taken during this process, any unsuccessful data transfers may impair the delivery of our service. Further, any damage to, or failure of, our systems generally could result in interruptions in our service. Interruptions in our service may reduce our revenue, cause us to issue credits or pay penalties, cause customers to terminate their subscriptions and adversely affect our renewal rates and our ability to attract new customers. Our business will also be harmed if our customers and potential customers believe our service is unreliable.

As part of our current disaster recovery arrangements, our production environment and all of our customers' data is currently replicated in near real-time in a separate facility physically located in a different geographic region of the United States. Companies and products added through acquisition may be temporarily served through an alternate facility. We do not control the operation of these facilities, and they are vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunications failures and similar events. They may also be subject to break-ins, sabotage, intentional acts of vandalism and similar misconduct. Despite precautions taken at these facilities, the occurrence of a natural disaster or an act of terrorism, a decision to close the facilities without adequate notice or other unanticipated problems at these facilities could result in lengthy interruptions in our service. Even with the disaster recovery arrangements, our service could be interrupted.

If our security measures are breached and unauthorized access is obtained to a customer's data, our data or our information technology systems, our service may be perceived as not being secure, customers may curtail or stop using our service and we may incur significant legal and financial exposure and liabilities.

Our service involves the storage and transmission of customers' proprietary information, and security breaches could expose us to a risk of loss of this information, litigation and possible liability. These security measures may be breached as a result of third-party action, including intentional misconduct by computer hackers, employee error, malfeasance or otherwise during transfer of data to additional data centers or at any time, and result in someone obtaining unauthorized access to our customers' data or our data, including our intellectual property and other confidential business information, or our information technology systems. Additionally, third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as user names, passwords or other information in order to gain access to our customers' data or our data, including our intellectual property and other confidential business information, or our information technology systems. Because the techniques used to obtain unauthorized access, or to sabotage systems, change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any security breach could result in a loss of confidence in the security of our service, damage our reputation, disrupt our business, lead to legal liability and negatively impact our future sales.

We cannot accurately predict subscription renewal or upgrade rates and the impact these rates may have on our future revenue and operating results.

Our customers have no obligation to renew their subscriptions for our service after the expiration of their initial subscription period. Our renewal rates may decline or fluctuate as a result of a number of factors, including customer dissatisfaction with our service, customers' ability to continue their operations and spending levels, and deteriorating general economic conditions. If our customers do not renew their subscriptions for our service or reduce the level of service at the time of renewal, our revenue will decline and our business will suffer.

Our future success also depends in part on our ability to sell additional features and services, more subscriptions or enhanced editions of our service to our current customers. This may also require increasingly sophisticated and costly sales efforts that are targeted at senior management. Similarly, the rate at which our customers purchase new or enhanced services depends on a number of factors, including general economic conditions. If our efforts to upsell to our customers are not successful, our business may suffer.

Weakened global economic conditions may adversely affect our industry, business and results of operations.

Our overall performance depends in part on worldwide economic conditions. The United States and other key international economies have experienced in the past a downturn in which economic activity was impacted by falling demand for a variety of goods and services, restricted credit, poor liquidity, reduced corporate profitability, volatility in credit, equity and foreign exchange markets, bankruptcies and overall uncertainty with respect to the economy. These conditions affect the rate of information technology spending and could adversely affect our customers' ability or willingness to purchase our enterprise cloud computing services, delay prospective customers' purchasing decisions, reduce the value or duration of their subscription contracts or affect renewal rates, all of which could adversely affect our operating results.

If the Company is unable to adapt to constantly changing markets and to continue to develop new products and technologies to meet the customers' needs, the Company's revenue and profitability will be negatively affected.

The Company's future revenue is dependent upon the successful and timely development and licensing of new and enhanced versions of its products and potential product offerings suitable to the customer's needs. If the Company

fails to successfully upgrade existing products and develop new products, and those new products do not achieve market acceptance, the Company's revenue will be negatively impacted.

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The Company faces risks associated with the loss of maintenance and other revenue.

The Company has historically experienced the loss of long-term maintenance customers as a result of the reliability of some of its products. Some customers may not see the value in continuing to pay for maintenance that they do not need or use, and in some cases, customers have decided to replace the Company's applications or maintain the system on their own. The Company continues to focus on these maintenance clients by providing new functionality and enhancements to meet their business needs. The Company also may lose some maintenance revenue due to consolidation of industries, macroeconomic conditions or customer operational difficulties that lead to their reduction of size. In addition, future revenue will be negatively impacted if the Company fails to add new maintenance customers that will make additional purchases of the Company's products and services.

The Company faces risks associated with proprietary protection of the Company's software.

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

Despite the Company's efforts to protect its proprietary rights, unauthorized parties may attempt to copy aspects of the Company's products or obtain and use information that the Company regards as proprietary. In some types of situations, the Company may rely in part on 'shrink wrap' or 'point and click' licenses that are not signed by the end user and, therefore, may be unenforceable under the laws of certain jurisdictions. Policing unauthorized use of the Company's products is difficult. While the Company is unable to determine the extent to which piracy of the Company's 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 the Company's means of protecting its proprietary rights will be adequate or that the Company's competitors will not reverse engineer or independently develop similar technology.

The Company may discover software errors in its products that may result in a loss of revenue, injury to the Company's reputation or subject us to substantial liability.

Non-conformities or bugs ("errors") may be found from time to time in the Company's existing, new or enhanced products after commencement of commercial shipments, resulting in loss of revenue 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 the Company's products may be caused by defects in third-party software incorporated into the Company's products. If so, the Company may not be able to fix these defects without the cooperation of these software providers. Since these defects may not be as significant to the software provider as they are to us, the Company 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 the Company does have access to the code, the Company may not be able to fix the defect. In addition, our customers may use our service in unanticipated ways that may cause a disruption in service for other customers attempting to access their data. Since the Company's customers use the Company's products for critical business applications, any errors, defects or other performance problems could hurt the Company's reputation and may result in damage to the Company's customers' business. If that occurs, customers could elect not to renew, delay or withhold payment to us, we could lose future sales or customers may make warranty or other claims against us, which could result in an increase in our provision for doubtful accounts, an increase in collection cycles for accounts receivable or the expense and risk of litigation. These potential

scenarios, successful or otherwise, would likely be time consuming and costly.

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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 us to lower prices. Any of these actions could have a significant effect on revenue. 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 the Company's offerings.

Risks Relating to the Company's Common Stock

The limited public market for the Company's securities may adversely affect an investor's ability to liquidate an investment in the Company.

Although the Company's common stock is currently quoted on the NASDAQ Capital Market, there is limited trading activity. The Company can give no assurance that an active market will develop, or if developed, that it will be sustained. If an investor acquires shares of the Company's common stock, the investor may not be able to liquidate the Company's shares should there be a need or desire to do so.

Future issuances of the Company's shares may lead to future dilution in the value of the Company's common stock, will lead to a reduction in shareholder voting power and may prevent a change in Company control.

The shares may be substantially diluted due to the following:

- issuance of common stock in connection with funding agreements with third parties and future issuances of common and preferred stock by the Board of Directors; and

- the Board of Directors has the power to issue additional shares of common stock and preferred stock and the right to determine the voting, dividend, conversion, liquidation, preferences and other conditions of the shares without shareholder approval.

Stock issuances may result in reduction of the book value or market price of outstanding shares of common stock. If the Company issues any additional shares of common or preferred stock, proportionate ownership of common stock and voting power will be reduced. Further, any new issuance of common or preferred stock may prevent a change in control or management.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

| | |
|--------------|--|
| Exhibit 31.1 | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 31.2 | Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 32.1 | Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 32.2 | Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase |

SIGNATURES

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

Date: May 12, 2014

PARK CITY GROUP, INC.

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

Date: May 12, 2014

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