PARK CITY GROUP INC
Form 10-Q
May 07, 2015

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

FORM 10-Q

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

For the quarterly period ended March 31, 2015

[ ] 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 001-34941

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

Nevada	37-1454128
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

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

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

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

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

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

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

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

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, $0.01 par value, 17,996,618 shares as of May 6, 2015.

PARK CITY GROUP, INC.

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PARK CITY GROUP, INC.
Consolidated Condensed Balance Sheets

Assets		March 31, 2015 (unaudited)		June 30, 2014
Current assets:				
Cash	$	3,367,161	$	3,352,559
Receivables, net of allowance of $70,000 and $70,000 at March 31, 2015 and June 30, 2014, respectively		2,847,989		2,857,983
Prepaid expenses and other current assets		454,763		250,855
Total current assets		6,669,913		6,461,397
Property and equipment, net		854,779		740,753
Other assets:				
Deposits and other assets		14,866		14,866
Note receivable		4,272,103		2,996,664
Customer relationships		1,601,282		1,918,019
Goodwill		4,805,933		4,805,933
Total other assets		10,694,184		9,735,482
Total assets	$	18,218,876	$	16,937,632
Liabilities and Stockholders' Equity				
Current liabilities:				
Accounts payable	$	823,002	$	738,289
Accrued liabilities		1,711,450		1,801,355
Deferred revenue		1,596,420		1,840,811
Line of credit		1,200,000		1,200,000
Notes payable		224,904		226,900
Total current liabilities		5,555,776		5,807,355
Long-term liabilities:				
Notes payable, less current portion		406,912		422,248
Other long-term liabilities		80,338		88,948
Total liabilities		6,043,026		6,318,551
Commitments and contingencies				
Stockholders' equity:				
Preferred Stock, $0.01 par value, 30,000,000 shares authorized				
Series B Preferred, 625,375 and 411,927 shares issued and outstanding at March 31, 2015 and June 30, 2014, respectively.		6,254		4,119

Series B-1 Preferred, 59,138 and 0 shares issued and outstanding at March 31, 2015 and June 30, 2014, respectively.		591		-
Common Stock, $0.01 par value, 50,000,000 shares authorized; 17,397,390 and 16,928,025 shares issued and outstanding at March 31, 2015 and June 30, 2014, respectively		173,974		169,280
Additional paid-in capital		52,395,503		46,792,736
Accumulated deficit		(40,400,472)		(36,347,054)
Total stockholders' equity		12,175,850		10,619,081
Total liabilities and stockholders' equity	$	18,218,876	$	16,937,632

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, 2015	Three Months Ended March 31, 2014	Nine Months ended March 31, 2015	Nine Months ended March 31, 2014
Revenues:				
Subscription	$ 2,640,749	$ 2,489,772	$ 7,999,260	$ 6,968,606
Other Revenue	750,184	598,725	2,205,196	1,915,441
Total revenues	3,390,933	3,088,497	10,204,456	8,884,047
Operating expenses:				
Cost of services and product support	1,245,353	1,336,818	3,949,136	3,792,364
Sales and marketing	1,547,553	1,073,200	4,419,384	3,442,675
General and administrative	1,026,751	905,225	2,908,653	3,032,842
Depreciation and amortization	190,041	211,661	564,800	679,963
Total operating expenses	4,009,698	3,526,904	11,841,973	10,947,844
Loss from operations	(618,765)	(438,407)	(1,637,517)	(2,063,797)
Other expense:				
Interest income	68,911	31,987	170,724	59,927
Loss before income taxes	(549,854)	(406,420)	(1,466,793)	(2,003,870)
(Provision) benefit for income taxes:	-	-	-	-
Net loss	(549,854)	(406,420)	(1,466,793)	(2,003,870)
Dividends on preferred stock	(135,699)	(154,473)	(444,645)	(463,419)
Series B Restructure	(2,141,980)	-	(2,141,980)	-
Net loss applicable to common shareholders	$ (2,827,533)	$ (560,893)	$ (4,053,418)	$ (2,467,289)
Weighted average shares, basic and diluted	17,334,000	16,867,000	17,204,000	16,640,000
Basic and diluted loss per share	$ (0.16)	$ (0.03)	$ (0.24)	$ (0.15)

See accompanying notes to consolidated condensed financial statements.

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PARK CITY GROUP, INC.
Consolidated Condensed Statements of Cash Flows (Unaudited)

	Nine Months Ended March 31, 2015	Nine Months Ended March 31, 2014
Cash Flows From Operating Activities:		
Net loss	$ (1,466,793)	(2,003,870)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	564,800	679,963
Charitable non-cash donations	157,950	96,900
Stock compensation expense	1,796,386	1,323,984
Bad debt expense	124,982	171,692
(Increase) decrease in:		
Receivables	(114,988)	(807,176)
Prepaids and other assets	(419,887)	11,233
(Decrease) increase in:		
Accounts payable	84,713	83,843
Accrued liabilities	26,004	(33,801)
Deferred revenue	(244,391)	(234,794)
Net cash provided by (used in) operating activities	508,776	(712,026)
Cash Flows From Investing Activities:		
Cash from sales of property and equipment	-	6,505
Cash advanced on note receivable	(1,059,460)	(800,000)
Purchase of property and equipment	(362,089)	(439,339)
Net cash used in investing activities	(1,421,549)	(1,232,834)
Cash Flows From Financing Activities:		
Proceeds from issuance of stock	903,469	1,493,818
Proceeds from employee stock plans	203,211	153,874
Proceeds from issuance of notes payable	172,795	338,287
Proceeds from exercise of options and warrants	-	627,529
Series B preferred redemption	(7,500)	-
Dividends paid	(154,473)	(432,524)
Payments on notes payable	(190,127)	(441,528)
Net cash provided by financing activities	927,375	1,739,456
Net increase (decrease) in cash	14,602	(205,404)
Cash at beginning of period	3,352,559	3,616,585
Cash at end of period	$ 3,367,161	$ 3,411,181
Supplemental Disclosure of Cash Flow Information:		
Cash paid for income taxes	$ -	$ 6,634

Cash paid for interest	$	55,122	$	64,738
Supplemental Disclosure of Non-Cash Investing and Financing Activities:				
Preferred stock to pay accrued liabilities	$	300,000	$	-
Common stock to pay accrued liabilities	$	1,619,692	$	1,004,127
Dividends accrued on preferred stock	$	444,645	$	463,419
Dividends paid with preferred stock	$	291,385	$	-
Series B Restructure	$	2,141,980	$	-

See accompanying notes to consolidated condensed financial statements.

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

NOTE 1. DESCRIPTION OF BUSINESS

The Company is incorporated in the state of Nevada. The Company has two subsidiaries, PC Group, Inc. (formerly, Park City Group, Inc., a Delaware corporation), a Utah Corporation (98.76% owned), and Park City Group, Inc., (formerly, Prescient Applied Intelligence, Inc.), a wholly owned Delaware Corporation. All intercompany transactions and balances have been eliminated in consolidation.

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

Recent Developments

Consummation of Registered Direct Offering

On April 15, 2015, we consummated a registered direct offering of 572,500 shares of our common stock in a registered direct offering at a price of $12.50 per share. The Company received total net proceeds from the registered direct offering of approximately $6.7 million after deducting placement agent fees and other offering expenses. Proceeds will be used to provide additional working capital, and for general corporate purposes.

ReposiTrak Letter of Intent

On February 5, 2015, the Company entered into a Letter of Intent (the "LOI") with Leavitt Partners, LP and LP Special Asset 4, LLC (together, "Leavitt") to acquire 346,668 shares of capital stock of ReposiTrak, Inc. ("ReposiTrak") owned by Leavitt in consideration for the issuance to Leavitt of 537,439 restricted shares of the Company's common stock. In addition, the Company has entered into similar agreements with other stockholders of ReposiTrak to acquire the remaining outstanding shares of capital stock of ReposiTrak. In total, upon closing of the transactions contemplated by the LOI and the related agreements, the Company intends to issue 873,437 restricted shares of the Company's common stock in exchange for all of the outstanding shares of capital stock of ReposiTrak ("ReposiTrak Shares").

The LOI has certain binding and non-binding obligations, including the purchase price, which is not subject to adjustment. However, the transaction is subject to various conditions to closing, including the Company's satisfactory completion of due diligence, compliance with certain rules and regulations, and approval of definitive agreements.

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Series B Restructuring

On February 4, 2015, the holders of the Company’s Series B Convertible Preferred Stock (“Series B Preferred”), consisting of the Chief Executive Officer, his spouse, and a director (the “Holders”), entered into a restructuring agreement (the “Restructuring Agreement”), pursuant to which the Holders consented to the amendment (the “Series B Amendment”) to the Certificate of Designation of the Relative Rights, Powers and Preference of the Series B Preferred (the “Series B Certificate of Designation”), resulting in the following: (i) the rate at which the Series B Preferred accrues dividends was decreased from 15% per annum (which interest rate increases to 18% on July 1, 2015) to 7% per annum if paid by the Company in cash, or 9% if paid by the Company in PIK Shares (as defined below); (ii) the Company may now elect to pay accrued dividends on outstanding shares of Series B Preferred in either cash or by the issuance of additional shares of Series B Preferred (“PIK Shares”); (iii) the conversion feature of the Series B Preferred was eliminated; and (iv) the number of shares of the Company's preferred stock designated as Series B Preferred was increased from 600,000 to 900,000 shares to provide for the potential issuance of PIK Shares (the “Series B Restructuring”). In consideration for the Series B Restructuring, the Company proposed to issue to the Holders: (y) an aggregate of 214,198 additional shares of Series B Preferred, which shares had a stated value equal to the amount that, but for the Series B Restructuring, would have been paid to the Holders as dividends over the next five years (“Additional Shares”); and (z) five-year warrants to purchase an aggregate of 1,085,068 shares of common stock for $4.00 per share (“Series B Warrants”), an amount and per share purchase price equal to what the Holders would otherwise be entitled to receive upon conversion of their shares of Series B Preferred (“Warrant Shares”).

The terms of the Series B Restructuring were amended on March 31, 2015 as follows: (i) the Series B Certificate of Designation was further amended to (x) reduce the number of shares of the Company’s preferred stock designated thereunder from 900,000 to 600,000, which number was subsequently increased to 700,000 (see Note 10 below), (y) require that, should the Company pay dividends on the Series B Preferred in PIK Shares, shares of a newly created non-voting, non-convertible Series B-1 Preferred Stock (“Series B-1 Preferred”) will be issued, rather than shares of Series B Preferred, and (z) in the event any Holder elects to exercise a Series B Warrant, one share of Series B Preferred will be automatically converted into one share of Series B-1 Preferred for every 2.5 Warrant Shares received by such Holder; and (ii) the Restructuring Agreement was amended to substitute the Additional Shares for shares of Series B-1 Preferred (the “Second Series B Amendment”). The Second Series B Amendment and the Certificate of Designation of the Relative Rights, Powers and Preferences of the Series B-1 Preferred were filed with the Nevada Secretary of State on March 31, 2015. The terms of the Series B Restructuring were amended in order to avoid the increase in voting rights caused by the original Series B Restructuring.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The financial statements presented herein reflect the consolidated financial position of Park City Group, Inc. and subsidiaries. All inter-company transactions and balances have been eliminated in consolidation.

Use of Estimates

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 condensed 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 Securities and Exchange Commission 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.

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Receivables

The Company's accounts receivable are derived from sales of products and services primarily to customers operating multi-location retail and grocery stores. Amounts that have been invoiced are recorded in accounts receivable and in deferred revenue or revenue, depending on whether the revenue recognition criteria have been met.

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, 2015 and June 30, 2014, the allowance for doubtful accounts was $70,000.

Depreciation and Amortization

Depreciation and amortization of property and equipment is computed using the straight line method based on the following estimated useful lives:

	Years
Furniture and fixtures	5-7
Computer Equipment	3
Equipment under capital leases	3
Leasehold improvements	See below

Leasehold improvements are amortized over the shorter of the remaining lease term or the estimated useful life of the improvements.

Amortization of intangible assets are computed using the straight line method based on the following estimated useful lives:

	Years
Customer relationships	10
Acquired developed software	5
Developed software	3
Goodwill	See below

Goodwill and intangible assets deemed to have indefinite lives are subject to annual impairment tests. Other intangible assets are amortized over their useful lives.

Warranties

The Company offers a limited warranty against software defects. Customers who are not completely satisfied with their software purchase may attempt to be reimbursed for their purchases outside the warranty period. For the three and nine months ended March 31, 2015 and 2014, the Company did not incur any expense associated with warranty claims.

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

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

Premium support and maintenance service revenue is derived from services beyond the basic services provided in standard arrangements. We recognize 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 these services are paid in advance, deferred revenue is recognized and revenue is recorded ratably over the term as services are consumed.

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

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

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.

The Company completed amortization of its capitalized development costs during 2013. Capitalized development cost of $0 and $73,083 was amortized into expense during the nine months ended March 31, 2015 and 2014, respectively. The Company amortizes its developed and purchased software on a straight-line basis over three and five years, respectively.

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Earnings Per 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 nine months ended March 31, 2015 and 2014 warrants to purchase 1,426,178 and 320,154 shares of common stock, respectively, were not included in the computation of diluted EPS due to the anti-dilutive effect. Warrants to purchase shares of common stock were outstanding at prices ranging from $3.50 to $10.00 per share at March 31, 2015.

For the nine months ended March 31, 2014, 1,029,818 shares of common stock issuable upon conversion of the Company’s Series B Preferred were not included in the diluted EPS calculation as the effect would have been anti-dilutive.

Fair Value of Financial Instruments

The Company's financial instruments consist of cash, receivables, payables, accruals and notes payable. The carrying amount of cash, receivables, payables and accruals approximates fair value due to the short-term nature of these items. The notes payable also approximate fair value based on evaluations of market interest rates.

NOTE 3. 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 4. OUTSTANDING STOCK

The following tables summarize information about warrants outstanding and exercisable at March 31, 2015:

	Warrants Outstanding at March 31, 2015			Warrants Exercisable at March 31, 2015	
Range of exercise prices	Number outstanding at March 31, 2015	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at March 31, 2015	Weighted average exercise price
Warrants					
$ 3.50 – 3.60	240,629	2.96	$ 3.56	240,629	$ 3.56
$ 4.00	1,085,068	4.85	$ 4.00	1,085,068	$ 4.00
$ 6.45	76,744	3.41	$ 6.45	76,744	$ 6.45
$ 10.00	23,737	4.82	$ 10.00	23,737	$ 10.00

1,426,178	4.45	$	4.16	1,426,178	$	4.16

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NOTE 5. RELATED PARTY TRANSACTIONS

Services Agreement with Fields Management, Inc.

During the year ended June 30, 2014, the Company entered into to a five-year Service Agreement with Fields Management, Inc. ("FMI"), pursuant to which FMI provided certain executive management services to the Company, including designating Mr. Randall K. Fields to perform the functions of President and Chief Executive Officer for the Company. Randall K. Fields, FMI's designated executive who also serves as the Company's Chairman of the Board of Directors, controls FMI. Pursuant to this Services Agreement, FMI is paid an annual base fee of $500,000, subject to annual increases equal to 75% of the Company's percentage annual revenue growth beginning in the 2014 fiscal year. FMI may also be eligible for an annual incentive bonus, awarded at the discretion of the Company's Board of Directors.

The Company did not have any other related party transactions as of March 31, 2015. See Note 1 above, which describes transactions that occurred during the quarter ended March 31, 2015 that involved related parties.

NOTE 6. PROPERTY AND EQUIPMENT

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

	March 31, 2015 (unaudited)	June 30, 2014
Computer equipment	$ 3,261,956	$ 2,899,867
Furniture and fixtures	260,574	260,574
Leasehold improvements	231,782	231,782
	3,754,312	3,392,223
Less accumulated depreciation and amortization	(2,899,533)	(2,651,470)
	$ 854,779	$ 740,753

NOTE 7. ACCRUED LIABILITIES

Accrued liabilities consist of the following as of:

	March 31, 2015 (unaudited)	June 30, 2014
Accrued stock-based compensation	$ 998,885	$ 1,122,188
Accrued compensation	333,018	352,764
Accrued other liabilities	226,287	171,930
Accrued dividends	153,260	154,473
	$ 1,711,450	$ 1,801,355

NOTE 8. PREFERRED DIVIDENDS

The Company's Series B Preferred are held by affiliates of the Company, consisting of the Chief Executive Officer, his spouse, and a director. Prior to the Series B Restructuring described under Note 1, holders of Series B Preferred were entitled to a 15.00% annual dividend payable quarterly in cash, which annual dividend increased to 18.00% effective July 1, 2015.

In connection with the Series B Restructuring, the Company amended the Certificate of Designation of the Relative Rights, Powers and Preference of the Series B Preferred to decrease the rate at which the Series B Preferred accrues dividends to 7% per annum, if such dividends are paid by the Company in cash, and to 9% if the Company elects to pay such dividends in PIK Shares. As a result of the amendment to the Series B Restructuring consummated on March 31, 2015, in the event the Company elects to pay dividends in PIK Shares, shares of a newly created non-voting, non-convertible Series B-1 Preferred Stock will be issued, rather than shares of Series B Preferred.

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NOTE 9. 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 10. SUBSEQUENT EVENTS

Consummation of Registered Direct Offering

On April 15, 2015, we consummated a registered direct offering of 572,500 shares of our common stock in a registered direct offering at a price of $12.50 per share. The Company received total net proceeds from the registered direct offering of approximately $6.7 million after deducting placement agent fees and other offering expenses. Proceeds will be used to provide additional working capital, and for general corporate purposes.

Also subsequent to March 31, 2015, the Company issued 26,728 shares of common stock in connection with issuances under the Company's Employee Stock Purchase Plan and the vesting of employee stock grants.

We have evaluated subsequent events through the date of this filing in accordance with the Subsequent Events Topic of the FASB ASC 855, and have determined that, other than the events described above, no additional subsequent events are reasonably likely to impact the financial statements.

Amendment to Series B Certificate of Designation

On May 6, 2015, the Company amended the Series B Certificate of Designation in order to increase the number of shares of the Company’s preferred stock designated thereunder as Series B Preferred from 600,000 shares to 700,000 shares.

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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, 2014 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, 2014 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 though 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 $9.4 million for fiscal year 2014. During that same period our revenue has transitioned from 6% subscription revenue and 94% license and other revenue basis to 79% subscription revenue and 21% license and other revenue basis.

The Company is incorporated in the state of Nevada. The Company has two subsidiaries, PC Group, Inc. (formerly, Park City Group, Inc., a Delaware corporation), a Utah Corporation (98.76% owned), and Park City Group, Inc., (formerly, Prescient Applied Intelligence, Inc.), a wholly owned Delaware corporation. All intercompany transactions and balances have been eliminated in consolidation. 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.

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

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Recent Developments

Consummation of Registered Direct Offering

On April 15, 2015, we consummated a registered direct offering of 572,500 shares of our common stock in a registered direct offering at a price of $12.50 per share. The Company received total net proceeds from the registered direct offering of approximately $6.7 million after deducting placement agent fees and other offering expenses. Proceeds will be used to provide additional working capital, and for general corporate purposes.

ReposiTrak Letter of Intent

On February 5, 2015, the Company entered into a Letter of Intent (the "LOI") with Leavitt Partners, LP and LP Special Asset 4, LLC (together, "Leavitt") to acquire 346,668 shares of capital stock of ReposiTrak, Inc. ("ReposiTrak") owned by Leavitt in consideration for the issuance to Leavitt of 537,439 restricted shares of the Company's common stock. In addition, the Company has entered into similar agreements with other stockholders of ReposiTrak to acquire the remaining outstanding shares of capital stock of ReposiTrak. In total, upon closing of the transactions contemplated by the LOI and the related agreements, the Company intends to issue 873,437 restricted shares of the Company's common stock in exchange for all of the outstanding shares of capital stock of ReposiTrak (“ReposiTrak Shares”).

The LOI has certain binding and non-binding obligations, including the purchase price, which is not subject to adjustment. However, the transaction is subject to various conditions to closing, including the Company's satisfactory completion of due diligence, compliance with certain rules and regulations, and approval of definitive agreements.

Series B Restructuring

On February 4, 2015, the holders of the Company’s Series B Convertible Preferred Stock (“Series B Preferred”), consisting of the Chief Executive Officer, his spouse, and a director (the “Holders”), entered into a restructuring agreement (the “Restructuring Agreement”), pursuant to which the Holders consented to the amendment (the “Series B Amendment”) to the Certificate of Designation of the Relative Rights, Powers and Preference of the Series B Preferred (the “Series B Certificate of Designation”), resulting in the following: (i) the rate at which the Series B Preferred accrues dividends was decreased from 15% per annum (which interest rate increases to 18% on July 1, 2015) to 7% per annum if paid by the Company in cash, or 9% if paid by the Company in PIK Shares (as defined below); (ii) the Company may now elect to pay accrued dividends on outstanding shares of Series B Preferred in either cash or by the issuance of additional shares of Series B Preferred (“PIK Shares”); (iii) the conversion feature of the Series B Preferred was eliminated; and (iv) the number of shares of the Company's preferred stock designated as Series B Preferred was increased from 600,000 to 900,000 shares to provide for the potential issuance of PIK Shares (the “Series B Restructuring”). In consideration for the Series B Restructuring, the Company proposed to issue to the Holders: (y) an aggregate of 214,198 additional shares of Series B Preferred, which shares had a stated value equal to the amount that, but for the Series B Restructuring, would have been paid to the Holders as dividends over the next five years (“Additional Shares”); and (z) five-year warrants to purchase an aggregate of 1,085,068 shares of common stock for $4.00 per share (“Series B Warrants”), an amount and per share purchase price equal to what the Holders would otherwise be entitled to receive upon conversion of their shares of Series B Preferred (“Warrant Shares”).

The terms of the Series B Restructuring were amended on March 31, 2015 as follows: (i) the Series B Certificate of Designation was further amended to (x) reduce the number of shares of the Company’s preferred stock designated thereunder from 900,000 to 600,000, which number was subsequently increased to 700,000, (y) require that, should the Company pay dividends on the Series B Preferred in PIK Shares, shares of a newly created non-voting, non-convertible Series B-1 Preferred Stock (“Series B-1 Preferred”) will be issued, rather than shares of Series B

Preferred, and (z) in the event any Holder elects to exercise a Series B Warrant, one share of Series B Preferred will be automatically converted into one share of Series B-1 Preferred for every 2.5 Warrant Shares received by such Holder; and (ii) the Restructuring Agreement was amended to substitute the Additional Shares for shares of Series B-1 Preferred (the "Second Series B Amendment"). The Second Series B Amendment and the Certificate of Designation of the Relative Rights, Powers and Preferences of the Series B-1 Preferred were filed with the Nevada Secretary of State on March 31, 2015. The terms of the Series B Restructuring were amended in order to avoid the increase in voting rights caused by the original Series B Restructuring.

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Results of Operations

Comparison of the Three Months Ended March 31, 2015 to the Three Months Ended March 31, 2014.

Revenue

	Fiscal Quarter Ended March 31,		Variance	
	2015	2014	Dollars	Percent
Subscription	$ 2,640,749	$ 2,489,772	$ 150,977	6%
Other revenue	750,184	598,725	151,459	25%
Total revenue	$ 3,390,933	$ 3,088,497	$ 302,436	10%

Total revenue was $3,390,933 and $3,088,497 for the three months ended March 31, 2015 and 2014, respectively, a 10% increase. This $302,436 increase in total revenue was principally due to an increase of $150,977 in subscription revenue, also contributing to the increase was an increase of $151,459 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 will continue to result in increased revenue during the fiscal year ending June 30, 2015, and in subsequent periods. In addition, management believes that revenue in subsequent periods will increase as a result of the receipt of subscription payments from ReposiTrak™ resulting from the license of the Company's technology necessary to power 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 $2,640,749 and $2,489,772 for the three months ended March 31, 2015 and 2014, respectively, a 6% increase in the three months ended March 31, 2015 when compared with the three months ended March 31, 2014. The net increase of $150,977 is principally due to subscription growth from existing customers, and the addition of new customers. Of the $2,640,749 received as subscription revenue during the three months ended March 31, 2015, approximately $400,000 was received from ReposiTrak or 15% of our total subscription revenue.

While no assurances can be given, management currently anticipates that revenue from subscription-based services will continue to increase on a year-over-year basis. Management's belief is based on, in addition to the anticipated growth in its core subscription-based revenue, the anticipated recognition of revenue attributable to ReposiTrak that, while relatively flat in the current quarter compared to the preceding quarter and the quarter ended March 31, 2014, is expected to accelerate in subsequent quarters.

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 $750,184 and $598,725 for the three months ended March 31, 2015 and 2014, respectively, an increase of 25% in the three months ended March 31, 2015 compared with the three months ended March 31, 2014. The net increase of $151,459 is principally due to an increase in professional service fees, partially offset by a decrease in maintenance fees. Other revenue includes management fees from the relationship with ReposiTrak which totaled $334,000 and $171,000 for the three months ended March 31, 2015 and 2014, respectively.

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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	
	2015	2014	Dollars	Percent
Cost of services and product support	$ 1,245,353	$ 1,336,818	$ (91,465)	-7%
Percent of total revenue	37%	43%		

Cost of services and product support was $1,245,353 and $1,336,818 for the three months ended March 31, 2015 and 2014, respectively, a 7% decrease in the three months ended March 31, 2015 compared with the three months ended March 31, 2014. This period over period decrease of $91,465 is principally due to (i) a $56,000 decrease in employee related expense and (ii) a decrease of $42,000 in travel related expense. These decreases were partially offset by an increase of (i) $7,000 in other product support costs.

Sales and Marketing Expense

	Fiscal Quarter Ended March 31,		Variance	
	2015	2014	Dollars	Percent
Sales and marketing	$ 1,547,553	$ 1,073,200	$ 474,353	44%
Percent of total revenue	46%	35%		

Sales and marketing expense was $1,547,553 and $1,073,200 for the three months ended March 31, 2015 and 2014, respectively, a 44% increase. This $474,353 increase over the comparable quarter was primarily the result of (i) an increase of approximately $308,000 in marketing expense, (ii) an increase in salary and sales consulting and related expenses of $150,000, and (iii) an increase of $16,000 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	
	2015	2014	Dollars	Percent
General and administrative	$ 1,026,751	$ 905,225	$ 121,526	13%
Percent of total revenue	30%	29%		

General and administrative expense was $1,026,751 and $905,225 for the three months ended March 31, 2015 and 2014, respectively, a 13% increase in the three months ended March 31, 2015 compared with the three months ended March 31, 2014. This period over period increase of $121,526 is principally due to (i) a $128,000 increase in employee related expenses and (ii) increased travel, and facility related expense of $73,000. These increases were partially offset by a decrease of $79,000 in bad debt expense. Management expects general and administrative expenses to remain relatively at current levels for the remainder of the fiscal year.

Depreciation and Amortization Expense

	Fiscal Quarter Ended March 31,		Variance	
	2015	2014	Dollars	Percent
Depreciation and amortization	$ 190,041	$ 211,661	$ (21,620)	-10%
Percent of total revenue	6%	7%		

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Depreciation and amortization expense was $190,041 and $211,661 for the three months ended March 31, 2015 and 2014, respectively, a decrease of 10% in the three months ended March 31, 2015 compared with the three months ended March 31, 2014. This comparative decrease of $21,620 is related to the amortization of capitalized software costs completed in the prior year.

Other Income and Expense

	Fiscal Quarter Ended March 31,		Variance	
	2015	2014	Dollars	Percent
Net interest income	$ 68,911	$ 31,987	$ 36,924	115%
Percent of total revenue	2%	1%		

Net interest income was $68,911 and $31,987 for the three months ended March 31, 2015 and 2014, respectively. This change of $36,924 was due to interest income on notes receivable, as well as a period over period decrease in interest expense related to lower outstanding balances on notes payable.

Preferred Dividends

	Fiscal Quarter Ended March 31,		Variance	
	2015	2014	Dollars	Percent
Preferred dividends	$ 135,699	$ 154,473	$ (18,774)	-12%
Percent of total revenue	4%	5%		

Dividends accrued on the Company's Series B Preferred was $135,699 and $154,473 for the three months ended March 31, 2015, and March 31, 2014, respectively. Prior to the Series B restructure holders of Series B Preferred were entitled to a 15.00% annual dividend payable quarterly in cash, which rate increased from 12.00% in the prior year under the terms of the certificate of designation of the Series B Preferred.

In connection with the Series B Restructuring described under Note 1 in our financial statements included herein, the Company amended the Certificate of Designation of the Relative Rights, Powers and Preference of the Series B Preferred to decrease the rate at which the Series B Preferred accrues dividends to 7% per annum, if such dividends are paid by the Company in cash, and to 9% if the Company elects to pay such dividends in PIK Shares. As a result of the amendment to the Series B Restructuring consummated on March 31, 2015, in the event the Company elects to pay dividends in PIK Shares, shares of a newly created non-voting, non-convertible Series B-1 Preferred Stock will be issued, rather than shares of Series B Preferred.

Comparison of the Nine months ended March 31, 2015 to the Nine months ended March 31, 2014.

Revenue

	Nine Months Ended March 31,		Variance	
	2015	2014	Dollars	Percent
Subscription	$ 7,999,260	$ 6,968,606	$ 1,030,654	15%
Other revenue	2,205,196	1,915,441	289,755	15%
Total revenue	$ 10,204,456	$ 8,884,047	$ 1,320,409	15%

Total revenue was $10,204,456 and $8,884,047 for the nine months ended March 31, 2015 and 2014, respectively, a 15% increase. This $1,320,409 increase in total revenue was principally due to an increase of $1,030,654 in subscription revenue, also contributing to the increase was an increase of $289,755 in other revenue, as more particularly described below.

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Management believes that the Company’s strategy of pursuing contracts with suppliers (“spokes”) to connect to retail customers (“hubs”) that have been added in the most recently completed fiscal year will continue to result in increased revenue during the fiscal year ending June 30, 2015, and in subsequent periods. In addition, management believes that revenue in subsequent periods will increase as a result of the receipt of subscription payments from ReposiTrak resulting from the license of the Company’s technology necessary to power 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 $7,999,260 and $6,968,606 for the nine months ended March 31, 2015 and 2014, respectively, a 15% increase in the nine months ended March 31, 2015 when compared with the nine months ended March 31, 2014. The net increase of $1,030,654 is principally due to continued subscription growth from existing customers, including ReposiTrak, and the addition of new customers. While no assurances can be given, management currently anticipates that revenue from subscription-based services will continue to increase on a year-over-year basis. Management's belief is based on, in addition to the anticipated growth in its core subscription-based revenue.

Subscription revenue recognized from the Company's relationship with ReposiTrak was approximately $1.2 million for each of the nine months ended March 31, 2015 and 2014. 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 $2,205,196 and $1,915,441 for the nine months ended March 31, 2015 and 2014, respectively, an increase of 15% in the nine months ended March 31, 2015 compared with the nine months ended March 31, 2014. The net increase of $289,755 is principally due to an increase in professional service fees, partially offset by a decrease in maintenance fees. Other revenue includes management fees from the Company’s relationship with ReposiTrak which totaled $877,000 and $522,000 for the nine months ended March 31, 2015 and 2014, 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

	Nine Months Ended March 31,		Variance	
	2015	2014	Dollars	Percent
Cost of services and product support	$ 3,949,136	$ 3,792,364	$ 156,772	4%
Percent of total revenue	39%	43%		

Cost of services and product support was $3,949,136 and $3,792,364 for the nine months ended March 31, 2015 and 2014, respectively, a 4% increase in the nine months ended March 31, 2015 compared with the nine months ended March 31, 2014. This increase of $156,772 for the nine months ended March 31, 2015 when compared with the same period ended March 31, 2014 is principally due to a $229,000 increase in employee related expense. This increase was partially offset by a decrease of (i) $57,000 in travel related expense and (ii) $15,000 in other product support costs.

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Sales and Marketing Expense

	Nine Months Ended March 31,		Variance	
	2015	2014	Dollars	Percent
Sales and marketing	$ 4,419,384	$ 3,442,675	$ 976,709	28%
Percent of total revenue	43%	39%		

Sales and marketing expense was $4,419,384 and $3,442,675 for the nine months ended March 31, 2015 and 2014, respectively, a 28% increase. This $976,709 increase over the comparable period was primarily the result of (i) an increase of approximately $804,000 in marketing expense and (ii) an increase in salary and sales consulting and related expenses of $202,000. This increase was partially offset by a decrease of $29,000 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

	Nine Months Ended March 31,		Variance	
	2015	2014	Dollars	Percent
General and administrative	$ 2,908,653	$ 3,032,842	$ (124,189)	-4%
Percent of total revenue	29%	34%		

General and administrative expense was $2,908,653 and $3,032,842 for the nine months ended March 31, 2015 and 2014, respectively, a 4% decrease in the nine months ended March 31, 2015 compared with the nine months ended March 31, 2014. This $124,189 decrease when comparing expenditures for the nine months ended March 31, 2015 with the same period ended March 31, 2014 is principally due to (i) a decrease in stock compensation, bonus and salary expense of approximately $132,000, (ii) a $69,000 in decrease in estimated taxes, and (iii) a decrease of $47,000 in bad debt. These decreases were partially offset by (i) an increase in travel expenses of $86,000 and (ii) an increase of $38,000 in other administrative expenses.

Depreciation and Amortization Expense

	Nine Months Ended March 31,		Variance	
	2015	2014	Dollars	Percent
Depreciation and amortization	$ 564,800	$ 679,963	$ (115,163)	-17%
Percent of total revenue	6%	8%		

Depreciation and amortization expense was $564,800 and $679,963 for the nine months ended March 31, 2015 and 2014, respectively, a decrease of 17% in the nine months ended March 31, 2015 compared with the nine months ended March 31, 2014. This comparative decrease of $115,163 is related to the amortization of capitalized software costs completed in the prior year.

Other Income and Expense

	Nine Months Ended March 31,		Variance	
	2015	2014	Dollars	Percent

Net interest income	$	170,724	$	59,927	$	110,797	185%
Percent of total revenue		2%		1%			

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Net interest income was $170,724 and $59,927 for the nine months ended March 31, 2015 and 2014, respectively, a change of 185% in the nine months ended March 31, 2015 compared with the nine months ended March 31, 2014. This change of $110,797 is due to interest income on notes receivable, as well as a period over period decrease in interest expense related to lower outstanding balances on notes payable.

Preferred Dividends

	Nine Months Ended March 31,		Variance	
	2015	2014	Dollars	Percent
Preferred dividends	$ 444,645	$ 463,419	$ (18,774)	-4%
Percent of total revenue	4%	5%		

Dividends accrued on the Company's Series B Preferred was $444,645 for the nine months ended March 31, 2015, compared to dividends accrued on the Company's Series B Preferred of $463,419 for the nine months ended March 31, 2014.

In connection with the Series B Restructuring described under Note 1 above, the Company amended the Certificate of Designation of the Relative Rights, Powers and Preference of the Series B Preferred to decrease the rate at which the Series B Preferred accrues dividends to 7% per annum, if such dividends are paid by the Company in cash, and to 9% if the Company elects to pay such dividends in PIK Shares. As a result of the amendment to the Series B Restructuring consummated on March 31, 2015, in the event the Company elects to pay dividends in PIK Shares, shares of a newly created non-voting, non-convertible Series B-1 Preferred Stock will be issued, rather than shares of Series B Preferred.

Financial Position, Liquidity and Capital Resources

We believe our existing cash and short-term investments, together with funds generated from operations and the receipt of approximately $6.7 million in net proceeds from the recent consummation of the registered direct offering, 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	
	2015	2014	Dollars	Percent
Cash	$ 3,367,161	$ 3,411,181	$ (44,020)	-1%

We have historically funded our operations with cash from operations, equity financings and debt borrowings. Cash was $3,367,161 and $3,411,181 at March 31, 2015 and 2014, respectively. This $44,020 decrease from March 31, 2014 to March 31, 2015 was principally the result of the use of cash in financing activities, primarily due to the purchase of additional notes receivable during the period. We expect the decrease in cash during 2014 period will be offset, in part, by the $900,000 in gross proceeds received from the sale of shares of common stock and warrants during the private placement we completed during the second fiscal quarter of 2015.

Net Cash Flows from Operating Activities

	Nine Months Ended March 30	Variance

	2015	2014	Dollars	Percent
Cash provided by (used in) operating activities	$ 508,776	$ (712,026)	$ 1,220,802	171%

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Net cash provided by (used in) operating activities is summarized as follows:

	Nine Months Ended March 30,	
	2015	2014
Net loss	$ (1,466,793)	$ (2,003,870)
Noncash expense and income, net	2,644,118	2,272,539
Net changes in operating assets and liabilities	(668,549)	(980,695)
	$ 508,776	$ (712,026)

Noncash expense increased by $371,579 in the nine months ended March 31, 2015 compared to March 31, 2014. Noncash expense increased as a result of a $472,000 increase in stock compensation expense and $61,000 in stock issued as a charitable contribution. These increases were partially offset by decreases of $115,000 in amortization expense and $47,000 in bad debt expense.

Net Cash Flows from Investing Activities

	Nine Months Ended March 30		Variance	
	2015	2014	Dollars	Percent
Cash used in investing activities	$ 1,421,549	$ 1,232,834	$ 188,715	15%

Net cash used in investing activities for the nine months ended March 31, 2015 was $1,421,549 compared to net cash used in investing activities of $1,232,834 for the nine months ended March 31, 2014. This $188,715 increase in cash used in investing activities for the nine months ended March 31, 2015 when compared to the same period in 2014 was the result of funds loaned to ReposiTrak, which loans are reflected as notes receivable in the Company's financial statements, partially offset by a reduction in cash spent on property plant and equipment.

Net Cash Flows from Financing Activities

	Nine Months Ended March 30		Variance	
	2015	2014	Dollars	Percent
Cash provided by financing activities	$ 927,375	$ 1,739,456	$ (812,081)	-47%

Net cash provided by financing activities totaled $927,375 for the nine months ended March 31, 2015 as compared to cash flows provided by financing activities of $1,739,456 for the nine months ended March 31, 2014. The change in net cash related to financing activities is primarily attributable to the decreases in (i) stock issued for cash of $590,000, (ii) cash from the exercise of options and warrants of $628,000, and (iii) proceeds for the issuance of notes payable of $165,000. These items were partially offset by a decrease in cash paid for dividends, a decrease in payments on notes payable, and an increased cash from employee stock plans.

Working Capital

At March 31, 2015, the Company had working capital of $1,114,137 when compared with working capital of $654,042 at June 30, 2014. This $460,095 increase in working capital is principally due to increases in prepaid expenses and decreases in deferred revenue and accrued liabilities. The decreases were partially offset by an increase in accounts payable. As a result of the consummation of the registered direct offering on April 15, 2015, and the receipt of approximately $6.7 million in net proceeds, the Company has substantially increased its working capital position, and therefore anticipates that it will have adequate cash resources to fund its operations and satisfy its debt obligations for at least the next 12 months.

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	As of March 31, 2015	As of June 30, 2014	Variance Dollars	Variance Percent
Current assets	$ 6,669,913	$ 6,461,397	$ 208,516	3%

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Current assets as of March 31, 2015 totaled $6,669,913, an increase of $208,516 when compared to $6,461,397 as of June 30, 2014. This 3% increase in current assets is due an increase in prepaid expenses and cash, partially offset by a decrease in accounts receivable.

	As of March 31, 2015	As of June 30, 2014	Variance Dollars	Variance Percent
Current liabilities	$ 5,555,776	$ 5,807,355	$ 251,579	4%

Current liabilities totaled $5,561,415 as of March 31, 2015 as compared to $5,807,355 as of June 30, 2014. The $251,579 comparative decrease in current liabilities is principally due to increases in accounts payable. This increase was partially offset by a decrease in deferred revenue 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.

Note Receivable from ReposiTrak

In connection with the Company's contractual relationship with ReposiTrak, the Company has loaned ReposiTrak approximately $4.3 million at March 31, 2015. ReposiTrak may make future payments to the Company for annual and other fees due the Company in the form of promissory notes, which may affect the Company's financial condition. In the event of a default under any such notes, the Company's results from operations, including its financial condition, may be adversely affected.

Off-Balance Sheet Arrangements

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

Recent Accounting Pronouncements

In June 2014, the FASB issued ASU 2014-12, Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. This Update clarifies the accounting for equity awards in which the performance target (i.e. an initial public offering) could be achieved after the requisite service period. The guidance require a performance target that affects vesting and that could be achieved after the service period be treated as a performance condition and not be reflected in the fair value of the award. Therefore, the compensation costs will begin to be recognized when it becomes probable that the performance target will be achieved. If the requisite service period is complete, the entire amount of compensation costs should be recognized at that time. This Update is effective for reporting periods beginning after December 15, 2015. The Company currently does not have any stock-based awards meeting the criteria noted so the Company doesn't expect this Update to have a significant impact on its financials However, it will evaluate new grants and ensure the guidance is followed if these types of grants are made.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customer (Topic 606). This Update provides new revenue recognition guidance that will be applicable for all industries and develops a common revenue standard for GAAP and IFRS. The main purpose of the new guidance is to remove inconsistencies, provide a more robust framework, improve comparability among industries, improve disclosure requirements and reduce the number of requirements to which an entity must refer. The guidance outlines the following five steps that should be followed in recognizing revenue:

1. Identify contract with customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when the performance obligation is satisfied.

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The update also provides disclosure requirements requiring entities to provide sufficient information to enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. This Update is effective for public entities for reporting periods beginning after December 15, 2016 and for all other entities, it is effective for periods beginning after December 15, 2017. Due to the extensive nature of this Update, the Company is evaluating the impact this new guidance will have on its financials.

Critical Accounting Policies

This Management's Discussion and Analysis of Financial Condition and Results of Operations discusses 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, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue 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.

We recognize subscription revenue ratably over the length of the agreement beginning on the commencement dates of each agreement or when revenue recognition conditions are satisfied. 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 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 subscription revenue ratably over the length of the agreement and professional services are recognized 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 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.

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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 contact 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.

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.

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.

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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, 2015, the debt portfolio was composed of approximately 66% variable-rate debt and 34% fixed-rate debt.

	March 31, 2015 (unaudited)	Percent of Total Debt
Fixed rate debt	$ 631,816	34%
Variable rate debt	1,200,000	66%
Total debt	$ 1,831,816	100 %

The table that follows presents fair values of principal amounts and weighted average interest rates for our investment portfolio as of March 31, 2015:

Cash:	Aggregate Fair Value	Weighted Average Interest Rate
Cash	$ 3,367,161	N/A

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, 2015. 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 Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission 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. Historically, the outcome of all such legal proceedings has not, in the aggregate, had a material adverse effect on our business, financial condition, results of operations or liquidity. There are no pending or threatened 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 of subscription-based services, instead of annual licenses, and contracting with suppliers ("spokes") to connect to our clients ("hubs"). This strategy has resulted in the development of a foundation 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 $549,854 for the quarter ended March 31, 2015, compared to a net loss of $406,420 for the same period ended March 31, 2014. 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. As a result of the consummation of the registered direct offering on April 15, 2015, resulting in net proceeds of approximately $6.7 million, 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 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.

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We face certain risks in acquiring the capital stock of ReposiTrak, the failure of which may adversely affect our future operating results.

We have executed letters of intent to acquire 100% of the capital stock of ReposiTrak, subject to various conditions to closing, including the Company¹s satisfactory completion of due diligence, compliance with certain rules and regulations, approval of definitive agreements, among others. In the event we fail to acquire the capital stock of ReposiTrak, and otherwise determine not to exercise our option to acquire ReposiTrak, our future operating results may be materially and adversely affected, including the market price of our common stock.

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 customers 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 ReposiTrak™ engagement;

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 customers do not use ReposiTrak™ as the Company recommends and fails to implement any needed corrective action(s), it is unlikely that customers 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 the current contractual relationship between the Company and ReposiTrak, resulting in ReposiTrak issuing the Company promissory notes in order to make required payments, totaling approximately $4.3million at March 31, 2015.

Under the terms of the Omnibus Subscription, Management and Option Agreement by and between the Company, ReposiTrak and Levitt (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 approximately $1.62 million, representing annual fees due and owing the Company at June 30, 2013 under the terms of the initial Subscription Agreement and Management and Operating Agreement between the Company and ReposiTrak, dated April 1, 2012. The Company purchased additional notes from ReposiTrak in the aggregate principal amounts of approximately $1.2 million and $1.1 million during the year ended June 30, 2014 and nine months ended March 31, 2015, respectively. The current amount of the outstanding notes from ReposiTrak, including interest accrued on the notes, is approximately $4.3 million. 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. In the event of a default under any such notes, the Company's financial results, including its financial condition, may be adversely and materially affected.

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Approximately 15% of our subscription revenue and 44% of our other revenue during the quarter ended March 31, 2015 was attributable to ReposiTrak. In the event the market for ReposiTrak's services fails to develop as anticipated, or ReposiTrak is otherwise unable to execute its business plan, our financial condition and results of operations may be materially and adversely affected.

The Company recognized approximately $400,000 in subscription fees from ReposiTrak during the quarter ended March 31, 2015 which was 15% of total subscription revenue. During the same period in 2014 the amount was approximately $400,000 or 16% of subscription revenue. Management fees, consisting of reimbursement of expenses incurred on behalf of ReposiTrak, totaled $334,000 and $171,000 during the quarter ended March 31, 2015 and 2014, respectively. Received approximately $502,000 in fees paid to us during the quarter by ReposiTrak. In the event the market for ReposiTrak's services fails to develop as anticipated, or ReposiTrak is otherwise unable to execute its business plan, the Company's financial results, including its financial condition, may be adversely affected.

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.

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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 our Chief Executive Officer, Randall K. Fields, control approximately 35% of the Company's common stock. Mr. Fields, individually, controls 26% 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 May 5, 2015, a total of 626,124 shares of 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.

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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.

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.

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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.

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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 Company recently issued 572,500 shares of common stock under a registration statement on Form S-3 declared effective on April 6, 2015. The Company has the ability to issue additional shares of registered common stock at any time that may result in further dilution in the value of the Company's common stock. In addition, 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.

The price of our common stock may be volatile.

Our common stock is traded on the Nasdaq Capital Market ("NASDAQ"). The trading price of our common stock may fluctuate substantially. Among the factors that may cause the market price of our common stock to fluctuate are the risks described in this "Risk Factors" section and other factors, including:

- price and volume fluctuations in the overall stock market from time to time;
- fluctuations in stock market prices and trading volumes of similar companies;
- actions of investors that affect the market price;
- actual or anticipated changes in our earnings or fluctuations in our operating results or in the expectations of securities analysts;
- general economic conditions and trends;
- the announcement of results of operations relating to ReposiTrak;
- sales of large blocks of our stock;
- departures of key personnel;
- announcements of new “hub”, “spokes” or other client acquisitions; and
- regulatory developments in the United States and other countries.

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The limited public market for our common stock 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.

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

4.1	Second Amended and Restated Certificate of Designation of the Relative Rights, Powers and Preference of the Series B Preferred Stock, dated March 31, 2015 (1)
4.2	Certificate of Designation of the Relative Rights, Powers and Preferences of the Series B-1 Preferred Stock, dated March 31, 2015 (1)
4.3	Third Amended and Restated Certificate of Designation of the Relative Rights, Powers and Preference of the Series B Preferred Stock, dated May 6, 2015
10.1	Form of Amendment No. 1 to Restructuring Agreement, dated March 31, 2015 (1)
10.2	Form of Subscription Agreement, dated April 10, 2015 (2)
10.3	Placement Agency Agreement, by and between Park City Group, Inc. and Brean Capital, LLC, dated April 10, 2015 (2)
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
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.
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

(1) Incorporated by reference from our Form 8-K dated April 2, 2015.
(2) Incorporated by reference from our Form 8-K dated April 16, 2015.

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SIGNATURES

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

Date: May 7, 2015	PARK CITY GROUP, INC.
	By: /s/ Randall K. Fields Randall K. Fields Chief Executive Officer, Chairman and Director (Principal Executive Officer)
Date: May 7, 2015	By: /s/ Edward L. Clissold Edward L. Clissold Chief Financial Officer (Principal Financial Officer & Principal Accounting Officer)