

Edgar Filing: PARK CITY GROUP INC - Form 10QSB

PARK CITY GROUP INC  
Form 10QSB  
November 17, 2004

FORM 10-QSB

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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

For the Quarterly Period Ended September 30, 2004

Commission File Number 000-03718

PARK CITY GROUP, INC.

-----  
(Exact name of small business issuer as specified in its charter)

Nevada

37-1454128

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(IRS Employer Identification No.)

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

-----  
(Address of principal executive offices)

(435) 649-2221

-----  
(Registrant's telephone number)

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

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

Class	Outstanding as of November 12, 2004
----- Common Stock, \$.01 par value	----- 271,856,326 2,368 shareholders

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PARK CITY GROUP, INC.  
Consolidated Condensed Balance Sheet (Unaudited)  
September 30, 2004

### Assets

#### Current assets:

Cash  
Receivables, net of allowance for doubtful accounts  
Prepaid expenses and other current assets

Total current assets

Property and equipment, net of accumulated depreciation and amortization

#### Other assets:

Deposits and other assets  
Capitalized software costs, net of accumulated amortization

Total other assets

Total assets

### Liabilities and Stockholders' Deficit

#### Current liabilities:

Accounts payable  
Accrued liabilities

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Deferred revenue  
Current portion of long-term debt and capital lease obligations  
Related party lines of credit

Total current liabilities

### Long-term liabilities

Capital lease obligations, less current portion  
Long-term debt, net of discounts of \$139,583  
Long-term related party debt, net of discount of \$161,162

Total long-term liabilities

Total liabilities

### Commitments and contingencies

### Stockholders' deficit:

Preferred stock, \$0.01 par value, 30,000,000 shares authorized, none issued  
- Common stock, \$0.01 par value, 300,000,000 shares authorized;  
271,856,326 issued and outstanding  
Additional paid-in capital  
Accumulated deficit

Total Stockholders' deficit

See accompanying notes to consolidated condensed financial statements.

PARK CITY GROUP, INC.  
Consolidated Condensed Statements of Operations (Unaudited)  
For the Quarters Ended September 30, 2004 and 2003

	September 30, 2004
	-----
Revenues:	
Software licenses	\$ 162,163
Maintenance and support	635,094
Consulting and other	192,420
	-----
Total revenues	989,675
Cost of revenues	300,154
	-----
Gross margin	689,521

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Operating expenses:		
Research and development		256,081
Sales and marketing		293,394
General and administrative		310,109
		-----
Total operating expenses		859,584
		-----
(Loss) income from operations		(170,063)
		-----
Interest expense		(274,558)
		-----
Loss before income taxes		(444,621)
		-----
Income tax (expense) benefit		
Current		-
Deferred		-
		-----
Net loss		\$ (444,621)
		=====
Weighted average shares, basic and diluted		269,105,000
		=====
Basic and Diluted earnings (loss) per share		\$ (0.00)
		=====

See accompanying notes to consolidated condensed financial statements.

PARK CITY GROUP, INC.  
Consolidated Condensed Statements of Cash Flows (Unaudited)  
For the Quarters Ended September 30, 2004 and 2003

	September 30, 2004
	-----
Cash Flows From Operating Activities:	
Net loss	\$ (444,621)
Adjustments to reconcile net loss to net cash (used in) operating activities:	
Depreciation and amortization	84,321
Stock issued for services and expenses	211,516
Amortization of debt discounts	42,355
Decrease (increase) in:	
Trade receivables	(125,567)
Prepaid and other assets	(6,615)
Increase (decrease) in:	
Accounts payable	5,737
Accrued liabilities	(105,362)
Deferred revenue	(138,254)
Accrued interest, related party	115,886
	-----

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	Net cash (used in) operating activities	(427,936)
Cash Flows From Investing Activities:		
Purchase of property and equipment		(8,724)
Capitalization of software costs		-
Net cash used in investing activities		(8,724)
Cash Flows From Financing Activities:		
Net (decrease) increase in line of credit		200,000
Payments on notes payable and capital leases		(13,007)
Net cash provided by financing activities		186,993
Net decrease in cash and cash equivalents		(249,667)
Cash at beginning of period		312,817
Cash at end of period		\$ 63,150

See accompanying notes to consolidated condensed financial statements.

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PARK CITY GROUP, INC.  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
September 30, 2004

Note 1. Unaudited Financial Statements  
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The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for quarterly financial statements, and include all adjustments which in the opinion of management are necessary in order to make the financial statements not misleading. Although the Company believes that the disclosures in these unaudited financial statements are adequate to make the information presented for the interim periods not misleading, certain information and footnote information normally included in quarterly financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission, and these financial statements should be read in conjunction with the Company's audited annual financial statements included in the Company's June 30, 2004 Annual Report on Form 10-KSB. The results of operations and cash flow for the quarter ended September 30, 2004 are not necessarily indicative of the results of operations and cash flows for the fiscal year ended June 30, 2005.

Certain 2003 amounts have been reclassified to conform to 2004 classifications.

Note 2 - Stock-Based Compensation  
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At September 30, 2004 and 2003, the Company has issued stock options to certain

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of its employees. The Company accounts for these options under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation cost is reflected in net loss, as all options granted had an exercise price equal to or greater than the market value of the underlying common stock on the date of grant. Had compensation cost for the Company's stock option plans been determined based on fair value consistent with the provisions of SFAS No. 123, Accounting for Stock-Based Compensation, the Company's net loss and loss per share would have been increased to the pro forma amounts indicated below for the quarter ended September 30, 2004 and 2004:

	Quarter ended September 30, 2004 -----
Net loss available to common shareholders, as reported	\$ (444,621)
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	--
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(14,325) -----
Net loss - pro forma	\$ (458,946) -----
Loss per share:	
Basic and diluted - as reported	\$ (0.00) -----
Basic and diluted - pro forma	\$ (0.00) -----

### Note 3 - Liquidity -----

As shown in the consolidated financial statements, the Company incurred losses for the quarters ended September 30, 2004 and 2003 and had current liabilities in excess of current assets at September 30, 2004, although the Company generated positive cash from operations for the years ended June 30, 2004 and 2003.

The Company believes that cash flow from sales, as well as the ability and commitment of its majority shareholder to contribute funds necessary to continue to operate, will allow the Company to fund its currently anticipated working capital, capital spending and debt service requirements during the year ended June 30, 2005. The financial statements do not reflect any adjustments should the Company's anticipated operations not be achieved.

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### Note 4 - Related Party Transactions -----

The Company entered into a Securities Purchase Agreement dated as of August 26, 2004 with its President, James Horton. The Agreement calls for the purchase of 5,714,285 shares of common stock and a warrant to purchase up to 17,142,855

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shares of common stock at \$0.07 per share are immediately exercisable and expire August 2009. Payment for the purchase is in the form of a Promissory Note in the amount of \$400,000 with \$150,000 due December 15, 2004 and the balance due August 26, 2005, bearing interest at the rate of 7% per annum. The Company has not issued the shares of common stock as of September 30, 2004.

The Company's CEO has made loans to the Company to cover short term cash needs pursuant to a line of credit promissory note payable. Repayments are made as funds are available, with a due date of June 15, 2005 and interest is at 12%. The balance at September 30, 2004 is \$200,000.

### Note 5 - Supplemental Cash Flow Information

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In connection with the note payable funding from Whale Investment, Ltd. in December 2002 the Company issued warrants and issued shares of common stock as a finders fee. The value of the warrants was recorded as a discount on the note payable, of which \$22,464 and \$7,488 was amortized into interest expense during the quarters ended September 30, 2003 and 2004, respectively. The value of the shares issued for the finders fee was recorded as a prepaid expense, of which \$19,048 and \$6,499 was amortized into expense during the quarter ended September 30, 2003 and 2004, respectively. In June 2004 the note payable to Whale Investments, LTD was extended and ownership of the note payable was transferred to Whale Investment's sister company Triplenet Investments. As consideration for the extension the Company paid \$40,000 cash and issued 1,000,000 shares of common stock valued at \$80,000. The fair value of the cash and shares issued in connection with the extension was recorded as a discount to the note payable, of which \$20,000 was amortized to interest expense during the quarter ended September 30, 2004. Due to the extension the original warrant and finders fee have been adjusted to amortize over the remaining life of the note payable.

The fair value of shares issued in connection with the \$345,000 note payable funding from Riverview obtained in December 2002 as a condition of the Whale Investment, Ltd. funding was recorded as a discount on the note payable, of which \$2,143 and \$2,143 was amortized into interest expense during the quarter ended September 30, 2003 and 2004, respectively.

For the quarters ended September 30, 2004 and 2003 the Company paid interest in cash of \$109,027 and \$105,013, respectively. No cash was paid for income taxes.

### Note 6 - Accrued liabilities

Accrued liabilities consists of the following as of September 30, 2004:

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Accrued interest	\$ 466,827
Payroll	223,459
Other	25,386
	-----
	\$ 715,672
	=====

### Note 7 - Net Loss Per Common Share

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

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that would have an anti-dilutive effect on net loss per common share. Options and warrants to purchase 74,645,203 and 99,993,725 shares of common stock as of September 30, 2003 and 2004, respectively, were not included in the computation of Diluted EPS. The inclusion of the options would have been anti-dilutive, thereby decreasing net loss per common share.

Item 2 - Management's Discussion and Analysis or Plan of Operation.  
Form 10-KSB for the year ended June 30, 2004 incorporated herein by reference.

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### Forward-Looking Statements

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This quarterly report on Form 10-QSB contains forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. 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" within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those projected in the forward looking statements as a result of a number of risks and uncertainties, including those risks factors contained in our Form 10-KSB annual report at June 30, 2004, incorporated herein by reference. Statements made herein are as of the date of the filing of this Form 10-QSB with

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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.

### Three Months Ended September 30, 2004 and 2003

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Total revenues were \$989,675 and \$1,200,630 for the quarters ended September 30, 2004 and 2003, respectively, a 18% decrease. Software license revenues were \$162,163 and \$534,388 for the quarters ended September 30, 2004 and 2003, respectively, a 70% decrease. This decrease in license revenue is substantially due to the change to licensing the software using the PAYGo (Pay-As-You-Go) option which is the hosted or ASP (Application Service Provider) subscription model rather than the one-time direct licensing model. The subscription model agreement is for a one to three year period where the customer pays on a monthly basis. The result of moving to the subscription model is a smaller license sale in the short term but over the duration of the agreement the revenues will be evenly distributed and recurring revenues will be increased. License sales in 2004 were attributed to two new and one existing customer. Additionally, the Company signed four (4) customers to the monthly subscription service. Revenues for these sales are recognized on a monthly basis similar to maintenance. Maintenance and support revenues were \$635,094 and \$528,478 for the quarters ended September 30, 2004 and 2003, respectively, a 20% increase. This increase is primarily attributable to maintenance contracts on Fresh Market Manager software and increased maintenance on additional locations for an existing customer as well as ASP services for the new PAYGo service. Consulting and other revenue was \$192,420 and \$137,764 for the quarters ended September 30, 2004 and 2003, respectively, a 40% increase. This increase is spread evening between increased Action Manager and FMM implementation services.



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Cost of revenues, as a percent of total revenues was 30% and 44% for the quarters ended September 30, 2004 and 2003, respectively. This decrease is primarily attributable to cost control measures and expense reductions implemented in October 2003, the streamlining of implementation and a lower than expected cost for maintenance revenue.

Research and development expenses were \$256,081 and \$389,751 for the quarters ended September 30, 2004 and 2003 respectively, a 34% decrease. This decreased expense reflects the fact that both software suites have had major releases completed and the streamlining of our development process.

Sales and marketing expenses were \$293,394 and \$238,120 for the quarters ended September 30, 2004 and 2003, respectively, a 23% increase. This increase reflects the managements focus on sales and attending target industry trade shows. The Company attended 3 trade shows in quarter ending September 30, 2004 as opposed to none in same quarter 2003.

General and administrative expenses were \$310,109 and \$332,319 for the quarters ended September 30, 2004 and 2003, respectively, a 7% decrease. This decrease is primarily attributable to cost control measures and expense reductions implemented in October 2003.

Interest expense was \$274,558 and \$427,473 for the quarters ended September 20, 2004 and 2003, respectively, a 36% decrease. This decrease is primarily attributable to fewer debt discounts amortized into interest expense in the current year as compared to the prior year.

### Liquidity and Capital Resources

-----

The Company had a working capital deficit at September 30, 2004 and incurred an operating loss for the quarter then ended

The Company was able to decrease the loss for the quarter ending September 30, 2004 as compared to the same quarter in 2003 by approximately \$80,000 despite reduced sales due to the sales strategy shift to the PAYGo subscription model. In addition the Company had an interest expense of \$274,558 and \$427,473 for the quarters ending September 30, 2004 and 2003 respectively, a decrease of 36%. The Company may be impacted in current liquidity due to the fact that the Company has approximately \$412,000 of accounts receivable that are not due until May 1, 2005. To date, the Company has financed its operations through operating revenues, loans from directors, officers and stockholders, loans from the CEO and majority shareholder, and private placements of equity securities. The Company may be unable to raise additional equity capital until it achieves profitable operations and refinances its debt. Because essentially all of the Company's assets are pledged to secure existing debt, additional debt financing may be unavailable. The Company anticipates that it will meet its working capital requirements primarily through increased revenue, while controlling and reducing costs and expenses. However, no assurances can be given that the Company will be able to meet its working capital requirements.

### Item 3 - Controls and Procedures

#### (a) Evaluation of disclosure controls and procedures.

Randall K. Fields who serves as Park City Group's chief executive officer and William D. Dunlavy who serves as Park City Group's chief financial officer, after evaluating the effectiveness of Park City Group's disclosure controls and procedures (as defined in Exchange Act Rules 13a-14(c) and 15d-14(c) as of September 30, 2004 (the "Evaluation Date") concluded that as of the Evaluation Date, Park City Group's disclosure controls and procedures were adequate and

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effective to ensure that material information relating to Park City Group and its consolidated subsidiaries would be made known to them by others within those entities, particularly during the period in which this quarterly report was being prepared.

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### (b) Changes in internal controls.

There were no significant changes in Park City Group's internal controls or in other factors that could significantly affect Park City Group's disclosure controls and procedures subsequent to the Evaluation Date, nor any significant deficiencies or material weaknesses in such disclosure controls and procedures requiring corrective actions. As a result, no corrective actions were taken.

## Part II - OTHER INFORMATION

### Item 1 - Legal Proceedings

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In August 2002, the Company filed legal action against The Yankee Companies, Inc. et al. The defendants were entities and individuals involved in the reorganization of Amerinet and its acquisition of control of Park City Group (Delaware). These causes of actions include: violation of Florida's Securities and investor Protection Act, Fraud, negligent misrepresentation, violation of Federal Securities Acts 1933 and 1934 and breach of promissory note. This action has been filed in the State of Utah.

Approximately two weeks following the filing of the complaint against The Yankee Companies, the Company was served with a complaint by Yankee Companies and others, alleging sales of unregistered securities, securities fraud, registration violations, fraud negligent misrepresentation, and breach of loan agreement. On or about February 5, 2003 the case was dismissed based on the fact that the Utah case filed by the Company was filed first and all issues can be argued in that case. That case is still in the discovery stage with a trial date of April 18, 2005. Settlement efforts are on-going.

### Item 2 - Changes in Securities

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- o In July 2004 the Company issued 1,000,000 share of common stock as consideration for extension of payment on the Note Payable to Whale Investments.
- o In August 2004 536,267 shares of common stock were issued to employees in lieu of cash compensation.
- o In September 2004 2,438,985 shares of common stock were issued to board members in lieu of cash compensation.

### Item 5 - Other Information

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Material contract - employment agreement of James Horton, President and COO included in this document as Exhibit 10.

### Item 6 - Exhibits and Reports on Form 8K (for the period 7/1/04 through 9/30/04)

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On July 15, 2004 the company filed a Current Report on Form 8K dated July 15, 2004 under Item 9 announcing its preliminary financial results for the year ending June 30, 2004.

On August 26, 2004 the company filled a Current Report on Form 8K dated August 24, 2004 under Item 7.01 announcing the sudden death of the current Chief Financial Officer, Peter Jensen and the interim appointment of Will Dunlavy as Interim Chief Financial Officer.

On September 27, 2004 the company filed a Current Report on Form 8K dated September 1, 2004 under Item 7.01 announcing the appointment of William Dunlavy as the new Chief Financial Officer and James Horton as the President and Chief Operating Officer.

Exhibit 10.1	Material Contract - Employment Agreement of James Horton, President and COO
Exhibit 31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbannes-Oxley Act of 2002.
Exhibit 31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbannes-Oxley Act of 2002.
Exhibit 32.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbannes-Oxley Act of 2002.
Exhibit 32.2	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbannes-Oxley Act of 2002.

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### SIGNATURES

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

Date: November 16, 2004

PARK CITY GROUP, INC

By /s/ Randall K. Fields

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Randall K. Fields, Chairman and  
Chief Executive Officer

Date: November 16, 2004

By /s/ William Dunlavy

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William Dunlavy  
Chief Financial Officer

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