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PARK CITY GROUP INC  
Form SB-2  
August 02, 2006

As filed with the Securities and Exchange Commission on August 2, 2006  
Registration No. 333-\_\_\_\_\_

U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM SB-2  
REGISTRATION STATEMENT  
Under  
The Securities Act of 1933

PARK CITY GROUP, INC.

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(Exact name of Small Business Issuer as specified in charter)

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Nevada	(7374)	37-1454128
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(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

333 Main Street  
Park City, Utah 84060  
(435) 649-2221  
(Address and telephone number of principal executive office)

Randall K. Fields  
Chief Executive Officer  
333 Main Street  
Park City, Utah 84060  
(435) 649-2221

-----  
(Name, address and telephone number of agent for service)

with copies to:

A.O. Headman, Jr., Esq.  
Cohne, Rappaport & Segal  
257 East 200 South, Seventh Floor  
(801) 532-2666  
Salt Lake City, Utah 84111

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. [X]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act

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registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

### CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities Being Registered	Amount Being Registered (1)	Proposed Maximum Offering Price Per Unit (2)	Proposed Maximum Aggregate Offering Price
Common Stock, \$.01 par value (3)	157,143,764	\$.07	\$11,000,064
Common Stock Underlying Warrants (4)	40,841,935	\$.07	\$ 2,858,936
<b>Total</b>	<b>197,985,699</b>		<b>\$13,859,000</b>

- (1) Includes shares of our common stock, par value \$.01 per share which may be offered pursuant to this Registration Statement and shares issuable upon the exercise of warrants.
- (2) Estimated solely for purposes of calculating the registration fee in accordance with Rule 457(c) and Rule 457(g) under the Securities Act of 1933, using the average of the high and low price as reported on the Over-The-Counter Bulletin Board on June 20, 2006, which was \$.07 per share.
- (3) Includes 90,909,106 shares of common stock owned by selling stockholders acquired in a private offering transaction which closed in June 2006 and 66,234,658 shares owned by one other selling stockholder.
- (4) Includes shares of common stock issuable upon outstanding warrants. The warrants are exercisable at prices ranging from \$.04 to \$.07 with expiration dates ranging from August 16, 2007 to June 21, 2011.

In accordance with Rule 416 of the Securities Act, this Registration also covers such indeterminate amount of additional shares of common stock as may be issuable upon the exercise of the warrants to prevent dilution as a result of stock splits, dividends and anti-dilution provisions of the warrants.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. The selling security holders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and neither the selling security holders nor we are soliciting offers to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED AUGUST 2, 2006

PROSPECTUS

PARK CITY GROUP, INC.

197,985,699 SHARES OF COMMON STOCK

This prospectus relates to the sale by the selling stockholders of up to 197,985,699 shares of our common stock, \$.01 par value. The shares being registered consist of the following: up to 90,909,106 shares of common stock owned by selling stockholders who purchased such shares in a private offering that was completed in June 2006, 66,234,658 shares of common stock owned by Riverview Financial Corp, an affiliate of Randall K. Fields, our chief executive officer, and up to 40,841,935 shares of common stock underlying warrants to purchase common stock owned by selling shareholders. The warrants are exercisable at prices ranging from \$.04 to \$.07 with expiration dates ranging from August 16, 2007 to June 14, 2011.

The selling stockholders may sell common stock from time to time in the principal market on which the stock is traded at the prevailing market price or in negotiated transactions. The selling stockholders may be deemed underwriters of the shares of common stock, which they are offering. We will pay the expenses of registering these shares.

Our common stock is registered under Section 12(g) of the Securities Exchange Act of 1934 and is traded on the Over-The-Counter Bulletin Board under

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the symbol "PKCY". The last reported sales price per share of our common stock as reported by the Over-The-Counter Bulletin Board on August 1, 2006, was \$.07.

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INVESTING IN THESE SECURITIES INVOLVES SIGNIFICANT RISKS.  
SEE "RISK FACTORS" BEGINNING ON PAGE 4.  
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Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

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The date of this prospectus is \_\_\_\_\_, 2006

### PROSPECTUS SUMMARY

The following summary highlights selected information contained in this prospectus. This summary does not contain all the information you should consider before investing in the securities. Before making any investment decision, you should read the entire prospectus carefully, including the "risk factors" section, the financial statements, and the notes to the financial statements.

#### Overview

Park City Group, Inc. ("Park City Group", "We", "Us", or the "Company") develops and markets patented and other proprietary computer software and profit optimization consulting services for the retail industry. Our products and services are designed to help our retail customers reduce their inventory and labor costs, the two largest controllable expenses in the retail industry. The technology was the foundation of the success of Mrs. Fields Cookies, also co-founded by our CEO, Randall Fields. Park City Group is headquartered in Park City, Utah and maintains a website at <http://www.parkcitygroup.com>.

#### Principal Products

Our primary products include the following:

Fresh Market Manager ("FMM") is a suite of software applications primarily designed to manage perishable food department operations including bakery, deli, seafood, produce, dairy, frozen foods, meat, home meal replacement, and floral within supermarkets and convenience stores.

ActionManager(TM) is a suite of software applications that addresses the second most important cost element facing today's retailers - labor. ActionManager(TM) addresses labor issues by forecasting labor demand and scheduling the right staff resources with the appropriate skills at the right time. Additionally, ActionManager(TM) automates workflow and replaces costly paper-based and manual processes with systems that substantially reduce time spent on administrative tasks, non-productive (non-selling) labor costs, and excess headcount in the retailer's corporate office. ActionManager(TM) applications provide an automated method for managers to plan, schedule, and administer virtually every time-consuming task in the store.

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Supply Chain Profit Link. Supply Chain Profit Link is a software application and consulting service that is designed to facilitate collaboration between suppliers and their retail customers. Supply Chain Profit Link increases the visibility of out-of-stocks and shrink (waste) for both the supplier and retailer enabling better category management practices.

### Customers

We have sold our products and/or provided services to a variety of customers in the U.S. and abroad. Included in our customer base are The Home Depot, Anheuser Busch Entertainment, Perdue, Monterey Mushrooms, Pacific Sunwear, Wawa and Tesco Lotus.

### Common Stock

Common stock outstanding	446,561,686 shares
Common Stock underlying all outstanding Options and Warrants *	48,839,624 shares

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Shares registered for selling stockholders	197,985,699 shares
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We are contemplating a 1-for-50 reverse stock split which we believe will be effected within 120 days. If such reverse split is effected, the share numbers listed above will be reduced accordingly

### Common Stock Offered by Selling Stockholders

A total of 197,985,699 shares of our common stock are being registered pursuant to the registration statement on Form SB-2 of which this prospectus is a part. A total of 90,909,106 of these share were issued to investors in a private offering that was completed in June 2006 (the "June 2006 Private Offering"). A total of 66,234,658 of these shares are owned by Riverview Financial Corp, an affiliate of Randall K. Fields our Chief Executive Officer. A total of 40,841,935 of these shares are issuable upon the exercise of currently outstanding warrants (the "Warrants"), including 9,090,911 shares underlying warrants issued to Taglich Brothers, Inc., the placement agent in the June 2006 Private Offering.

### Use of Proceeds

We will not receive any proceeds from the sale of the common stock by the selling stockholders. We will receive proceeds from the exercise of the Warrants to the extent the Warrants are exercised. Provided however, all of the Warrants have cashless exercise provision which could result in the issuance of shares of our common stock upon the exercise of the Warrants with out our receipt of cash. Any cash proceeds from the exercise of warrants will be used by the Company for general corporate purposes.

### Over-the Counter Bulletin Board Symbol

Our common stock is traded in the over the counter market and is quoted on the Over-the-Counter Bulletin Board (OTCBB). Our trading symbol is PKCY. If we effect the anticipated reverse split, we expect that we will be assigned a new trading symbol.

### June 2006 Private Offering

In June 2006, we completed the sale of 90,909,106 shares of our common

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stock to 100 accredited investors (the "Investors"), all of whom are included in the selling stockholders group. In connection with our sale of common stock, we entered into a Securities Purchase Agreement with each investor. The Securities Purchase Agreement contained provision that requires us to register all of the shares sold in the June 2006 private Offering. The shares of common stock sold in the June 2006 private Offering were sold at a price of \$0.055 per share. We received a total of \$5,000,000 of gross proceeds in the offering. In connection with the June 2006 Private Offering, we hired Taglich Brothers, Inc. as our placement agent. We paid Taglich Brothers, Inc. a cash placement fee of 8% of the total offering proceeds or \$400,000. As additional compensation, we issued Taglich Brothers, Inc. a warrant to purchase 9,090,911 shares of our common stock (1 share for every 10 shares sold in the offering) at a price of \$.062 per share and registration rights provisions with each of the Investors. We have included all 90,909,106 shares of common stock issued to these investors in this registration as well as all 9,090,911 shares issuable upon the exercise of the Taglich Brothers warrant.

### Offices

Our principal place of business is 333 Main Street, Park City, Utah 84060, telephone (435)-649-2221, fax (435) 645-2110, or e-mail at randy@parkcitygroup.com. Our website is parkcitygroup.com. Park City Group and

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its officers, directors, and significant shareholders, file reports with the Securities and Exchange Commission under the Securities Exchange Act of 1934.

### RISK FACTORS

An investment in Park City Group has a high degree of risk. Before you invest you should carefully consider the risks and uncertainties described below and the other information in this prospectus. If any of the following risks actually occur, our business, operating results, and financial condition could be harmed and the value of our stock could go down. This means you could lose all or a part of your investment.

#### Risks Related To the Company

We have incurred losses in the past and there can be no assurance that we will operate at a profit in the future. Continued losses could result in a reduction of operations and could have a detrimental effect on the long-term capital appreciation of our stock.

Our marketing strategy emphasizes sales activities for the Fresh Market Manager, ActionManager, and Supply Chain Profit Link applications to Supermarkets, Convenience Stores, Specialty Retail, Financial Services, and Food Manufacturers. If this marketing strategy fails, revenues and operations will be negatively affected. A reduction in revenues will result in increases in operational losses.

For the nine months ended March 31, 2006, we had a profit of \$1,424,261. For the years ended June 30, 2005 and June 30, 2004, we had net losses of \$3,408,037 and \$675,243 respectively. There can be no assurance that we will operate at a profit during future fiscal quarters or fiscal years. If we do not operate profitably in the future our current cash resources will be used to fund our operating losses. If this were to continue, in order to continue with our operations, we would need to raise additional capital. Continued losses would have an adverse effect on the long term value of our common stock and your investment in the Company. We cannot give any assurance that we will ever

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generate significant revenue or have sustainable profits.

Our liquidity and capital requirements will be difficult to predict, which may adversely affect our cash position in the future.

We have recently completed the sale of shares of our common stock from which we received gross offering proceeds of \$5,000,000. We anticipate that we will have adequate cash resources to fund our operations for at least the next 12 months. Thereafter, our liquidity and capital requirements will depend upon numerous other factors, including the following:

- o The extent to which our products and services gain market acceptance;
- o The progress and scope of product evaluations;
- o The timing and costs of acquisitions and product and services introductions;
- o The extent of our ongoing research and development programs; and
- o The costs of developing marketing and distribution capabilities.

If in the future we are required to seek additional financing in order to fund our operations and carry out our 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 our best interests.

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

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

- o Demand for and market acceptance of new products;
- o Introduction or enhancement of products and services by the Company or its competitors;
- o Capacity utilization;
- o Technical difficulties, system downtime;
- o Fluctuations in data communications and telecommunications costs;
- o Maintenance subscriber retention;
- o The timing and magnitude of capital expenditures and requirements;

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- o Costs relating to the expansion or upgrading of operations, facilities, and infrastructure;
- o Changes in pricing policies and those of competitors;
- o Changes in regulatory laws and policies, and;
- o General economic conditions, particularly those related to the information technology industry.

Because of the foregoing factors, future operating results may fluctuate. As a result of such fluctuations, it will be difficult to predict operating results. Period-to-period comparisons of operating results are not necessarily meaningful and should not be relied upon as an indicator of future performance. In addition, a relatively large portion of our 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 revenues because of these and other short-term fixed costs.

We will need to effectively manage our growth in order to achieve and sustain profitability. Our failure to manage growth effectively could reduce our sales growth and result in continued net losses.

To commence profitable operations on a fiscal year basis, we must have significant growth in our revenues from the sale of our products and services. If we are able to achieve significant growth in our future sales and to expand the scope of our operations, and our management, financial, and other capabilities, our existing procedures and controls could be strained. We cannot be certain that our existing or any additional capabilities, procedures, systems, or controls will be adequate to support our operations. We may not be able to design, implement, or improve our capabilities, procedures, systems, or controls in a timely and cost-effective manner. Failure to implement, improve and expand our capabilities, procedures, systems, and controls in an efficient and timely manner could reduce our sales growth and result in continued net losses.

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Our officers and directors have significant control over us that may lead to conflicts with other stockholders over corporate governance.

Our officers and directors, other than our Chief Executive Officer, control approximately 6.72% of our common stock. Our Chief Executive Officer, Randall K. Fields, individually, controls 48.51% of our common stock.

Consequently, Mr. Fields, individually, and our officers and directors, as stockholders acting together, will be able to significantly influence all matters requiring approval by our stockholders, including the election of directors and significant corporate transactions, such as mergers or other business combination transactions.

Our corporate charter contains authorized, unissued "blank check" preferred stock that can be issued without stockholder approval with the effect of diluting then current stockholder interests.

Our 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 our board of directors. Our 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



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of, or impair the voting power of, our common stockholders. The issuance of a series of preferred stock could be used as a method of discouraging, delaying, or preventing a change in control.

Because we have never paid dividends, you should exercise caution before making an investment in our common stock.

We have never paid dividends nor do we anticipate the declaration or payments of any dividends in the foreseeable future. We intend to retain earnings, if any, to finance the development and expansion of our business. Our Board of Directors will determine future dividend policy at their sole discretion and future dividends will be contingent upon future earnings, if any, our 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 us in the future. Therefore, there can be no assurance that dividends of any kind will ever be paid.

Our business is dependent upon the continued services of our founder and Chief Executive Officer, Randall K. Fields; should we lose the services of Mr. Fields, our operations will be negatively impacted.

Our business is dependent upon the expertise of our founder and Chief Executive Officer, Randall K. Fields. Mr. Fields is essential to our operations. Accordingly, you must rely on Mr. Fields' management decisions that will continue to control our business affairs after the offering. We currently maintain key man insurance on Mr. Fields' life in the amount of \$10,000,000; 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 our business.

If we are unable to attract and retain qualified personnel, we may be unable to develop, retain or expand the staff necessary to support our operational business needs.

Our current and future success depends on our 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 we may be unable to attract or retain such professionals. If we fail to attract and retain these professionals, our revenues and expansion plans will be negatively impacted.

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Our officers and directors have limited liability and indemnification rights under our organizational documents, which may impact our results.

Our officers and directors are required to exercise good faith and high integrity in the management of our affairs. Our 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, you may have a more limited right to action than you would have had if such a provision were not present. Our certificate of incorporation and bylaws also require us to indemnify our officers and directors against any losses or liabilities they may incur as a result of the manner in which they operate our business or conduct our internal affairs, provided that

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the officers and directors reasonably believe such actions to be in, or not opposed to, our best interests, and their conduct does not constitute gross negligence, misconduct or breach of fiduciary obligations.

### Business Operations Risks

If our marketing strategy fails, our revenues and operations will be negatively affected.

We plan to concentrate our future sales efforts towards marketing our applications and services. These applications are designed to be highly flexible so that they can work in multiple retail and supplier environments such as grocery stores, convenience stores, quick service restaurants, and route-based delivery environments. There is no assurance that the public will accept our applications and services in proportion to our increased marketing of this product line. We may face significant competition that may negatively affect demand for our applications and services, including the public's preference for our competitors' new product releases or updates over our releases or updates. If our applications and services marketing strategy fails, we will need to refocus our marketing strategy to our other product offerings, which could lead to increased marketing costs, delayed revenue streams, and otherwise negatively affect our operations.

Because we are changing the emphasis of our sales activities from an annual license fee structure to a monthly fee structure, our revenues may be negatively affected.

Historically, we offered our applications and related maintenance contracts to new customers on a one-time up front license strategy and provided an option for annually renewing their maintenance agreements. Because our one-time licensing fee approach was subject to inconsistent and unpredictable revenues, we now offer prospective customers an option for monthly licensing of these products. Our customers may now choose to acquire the software in an Application Solution Provider basis, resulting in monthly charges for use of our software products and maintenance fees. Our conversion from a one-time licensing strategy to monthly-based fees is subject to the following risks:

- o Our customers may prefer one-time fees rather than monthly fees;
- o Because public awareness pertaining to our Application Solution Provider services will be delayed until we begin our marketing campaign to promote those services, our revenues may decrease over the short term; and
- o There maybe 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 annual fee could occur.

We face competition from competing and emerging technologies that may affect our profitability. The markets for our type of software products and that of our competitors are characterized by:

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- o Development of new software, software solutions, or enhancements that are subject to constant change;
- o Rapidly evolving technological change; and

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- o Unanticipated changes in customer needs.

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

- o Whether or how we will respond to technological changes in a timely or cost-effective manner;
- o Whether the products or technologies developed by our competitors will render our products and services obsolete or shorten the life cycle of our products and services; and
- o Whether our products and services will achieve market acceptance.

If we are unable to adapt to our constantly changing markets and to continue to develop new products and technologies to meet our customers' needs, our revenues and profitability will be negatively affected.

Our future revenues are dependent upon the successful and timely development and licensing of new and enhanced versions of our products and potential product offerings suitable to our customer's needs. If we fail to successfully upgrade existing products and develop new products, and those new products do not achieve market acceptance, our revenues will be negatively impacted.

Our business is currently dependent upon a limited customer base; should we lose any of these customer accounts, our revenues will be negatively impacted.

We expect that existing customers will continue to account for a substantial portion of total revenues in future reporting periods. The ability to retain existing customers and to attract new customers will depend on a variety of factors, including the relative success of marketing strategies and the performance, quality, features, and price of current and future products. Accordingly, if customer accounts are lost or customer orders decrease, revenues and operating results will be negatively impacted. We have experienced the loss of long term maintenance customers because the product is so reliable they do not want to continue to pay for maintenance that they do not need or use, and in some cases, the customer has decided to replace Park City Group applications. We continue to focus on these long term clients by providing new functionality and applications to meet their business needs. We also expect to lose some maintenance revenue due to consolidation of industries or customer operational difficulties that lead to their reduction of size. In addition, future revenues will be negatively impacted if we fail to add new customers that will make additional purchases of our products and services.

We may be unable to expand our now limited customer base.

We must increase our customer base to expand our operations and increase our revenues. Our future customer base is dependent upon the Company generating sufficient new customer accounts. If we fail to generate sufficient new customer accounts, our revenues will not expand and may decline, which will negatively impact our operations and financial condition. Additionally, the retail industry may be facing consolidation which could lead to a reduced prospective customer base from which to transact business.

We face risks associated with proprietary protection of our software.

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Our success depends on our ability to develop and protect existing and new proprietary technology and intellectual property rights. We seek to protect our 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 we have attempted to safeguard and maintain our proprietary rights, there are no assurances there we will be successful in doing so. Our competitors may independently develop or patent technologies that are substantially equivalent or superior to ours.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or obtain and use information that we regard as proprietary. In some types of situations, we 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 our products is difficult. While we are unable to determine the extent to which piracy of our 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. We can offer no assurance that our means of protecting our proprietary rights will be adequate or that our competitors will not reverse engineer or independently develop similar technology.

We incorporate a number of third party software providers' licensed technologies into our products, the loss of which could prevent sales of our products or increase our costs due to more costly substitute products.

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

We may discover software errors in our products that may result in a loss of revenues or injury to our reputation.

Non-conformities or bugs ("errors") may be found from time to time in our existing, new or enhanced products after commencement of commercial shipments, resulting in loss of revenues or injury to our reputation. In the past, we have discovered errors in our products and as a result, have experienced delays in the shipment of products. Errors in our products may be caused by defects in third-party software incorporated into our products. If so, we 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, we may not receive the rapid cooperation that may be required. We may not have the contractual right to access the source code of third-party software and, even if we do have access to the source code, we may not be able to fix the defect. Since our customers use our products for critical business applications, any errors, defects or other performance problems could result in damage to our customers' business. These customers could seek significant compensation from us for their losses. Even if unsuccessful, a product liability claim brought against us would likely be time consuming and costly.

Some competitors are larger and have greater financial and operational resources that may give them an advantage in the market.

Many of our 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 revenues. In addition, the competitors may have the ability to devote more financial and operational resources to the development of new technologies that provide improved operating functionality and features to their product and service offerings. If successful, their development efforts could render our product and service offerings less desirable to customers, again resulting in the loss of customers or a reduction in the price we can demand for our offerings.

#### Risks Relating To Our Common Stock

If we fail to remain current on our reporting requirements, we could be removed from the OTC Bulletin Board, which would limit the ability of broker-dealers to sell our securities and the ability of stockholders to sell their securities in the secondary market.

Companies trading on the OTC Bulletin Board, like us, must be reporting issuers under Section 12 of the Securities Exchange Act of 1934, as amended, and must be current in our reports under Section 13 to maintain price quotation privileges on the OTC Bulletin Board. If we fail to remain current on our reporting requirements, we could be removed from the OTC Bulletin Board. As a result, the market liquidity for our securities could be severely and adversely affected by limiting the ability of broker-dealers to sell our securities and the ability of stockholders to sell their securities in the secondary market.

Our common stock is subject to the "penny stock" rules of the SEC and the trading market in our securities is limited, which makes transactions in our stock cumbersome and may reduce the value of an investment in our stock.

The Securities and Exchange Commission has adopted Rule 15g-9, which establishes the definition of a "penny stock," for the purposes relevant to us, as any equity security that has a market price of less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require:

- o that a broker or dealer approve a person's account for transactions in penny stocks; and
- o the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the broker or dealer must:

- o obtain financial information and investment experience objectives of the person; and
- o make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the Commission relating to the

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penny stock market, which, in highlight form:

- o sets forth the basis on which the broker or dealer made the suitability determination; and
- o that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

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Generally, brokers may be less willing to execute transactions in securities subject to the "penny stock" rules. This may make it more difficult for investors to dispose of our common stock and cause a decline in the market value of our stock.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities, and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

The limited public market for our securities may adversely affect your ability to liquidate your investment

Although our common stock is currently quoted on the OTC Bulletin Board (OTCBB), there is limited trading activity. We can give no assurance that an active market will develop, or if developed, that it will be sustained. If you acquire shares of our common stock, you may not be able to liquidate your investment in such shares should you need or desire to do so.

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

The shares may be substantially diluted due to the following:

- o 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
- o 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 we issue 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 shares may prevent a change in control or management.

Our upcoming stock split may reduce our overall market capitalization. We anticipate that we will take action to affect a 1-for-50 reverse stock split in the near future. At that time the reverse split will occur. The reverse split may have the effect of reducing the overall market capitalization of the Company.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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This prospectus and any prospectus supplement contain forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. In some cases, you can identify forward-looking statements by words such as "may," "should," "expect," "plan," "could," "anticipate," "intend," "believe," "estimate," "predict," "potential," "goal," "continue," or similar terminology.

In addition, these forward-looking statements include, but are not limited to, statements regarding:

- o implementing our business strategy;

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- o marketing and commercialization of our products;
- o pricing for our products;
- o plans for future products and services and for enhancements of existing products and services;
- o our intellectual property;
- o our estimates of future revenue and profitability;
- o our estimates or expectations of continued losses;
- o our expectations regarding future expenses, including research and development, sales and marketing, and general and administrative expenses;
- o our analysis of the market, market opportunities, and customer demand;
- o difficulty or inability to raise additional financing, if needed, on terms acceptable to us;
- o our estimates regarding our capital requirements and our needs for additional financing;
- o attracting and retaining customers and employees;
- o rapid technological changes in our industry and relevant markets;
- o sources of revenue and anticipated revenue;
- o plans for future acquisitions; and
- o competition in our market.

These statements are only predictions. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are not required to, and do not intend to, update any of the forward-looking statements after the date of this prospectus or to conform these statements to actual results. In light of these risks, uncertainties, and assumptions, the forward-looking events discussed in this prospectus might not occur. Actual results, levels of activity, performance, achievements, and events may vary significantly from those implied by the forward-looking statements. A

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description of risks that could cause our results to vary appears under the heading "Risk Factors" in the annual and quarterly reports incorporated by reference into this prospectus, and elsewhere in this prospectus.

In this prospectus, we refer to information regarding our potential markets and other industry data. We believe that we have obtained this information from reliable sources that customarily are relied upon by companies in our industry, but we have not independently verified any of this information.

Unless we are required to do so under either U.S. federal securities or other applicable laws, we do not intend to update or revise any forward-looking statements.

### USE OF PROCEEDS

This prospectus relates to shares of our common stock that may be offered and sold from time to time by the selling stockholders. We will not receive any proceeds from the sale of shares of common stock in this offering. However, we will receive the sale price of any common stock we sell to the selling stockholder upon exercise of the warrants. In addition, the holder's warrants to purchase 25,322,453 shares of common stock at a weighted average exercise price of \$0.04 are also entitled to exercise their warrants on a cashless basis. In the event that any investor exercises its warrants on a cashless basis, then we will not receive any proceeds from the exercise of those warrants. We expect to use the proceeds received from the exercise of the warrants, if any, for general working capital purposes.

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### DILUTION

We are not selling any common stock in this offering. As such, there is no dilution resulting from the Common Stock to be sold in this offering.

### MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is quoted on the OTC "Bulletin Board" under the symbol "PKCY." During the last two years, there has been only limited trading in our common stock. The prices reported below reflect inter-dealer prices and are without adjustments for retail markups, markdowns, or commissions, and may not necessarily represent actual transactions.

	High Bid	Low Bid
	-----	-----
Calendar Year Ended December 31, 2004		
First Quarter	\$0.20	\$0.03
Second Quarter	0.17	0.07
Third Quarter	0.09	0.05
Fourth Quarter	0.09	0.04
Calendar Year Ended December 31, 2005		
First Quarter	\$0.08	\$0.04
Second Quarter	0.06	0.02
Third Quarter	0.06	0.03
Fourth Quarter	0.11	0.04
Calendar Year Ended December 31, 2006		
First Quarter	\$0.08	\$0.04



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Second Quarter	0.11	0.04
Third Quarter through August 1, 2006	0.07	0.06

### Holders of Common Equity

Our Common Stock is issued in registered form and the following information is taken from the records of our transfer agent, Liberty Transfer Co. located in Huntington, NY. As of June 30, 2006, we had 2,463 shareholders of record and 446,561,686 shares of common stock outstanding. This number of shareholders of record does not include an unknown number of persons who hold shares through brokers and dealers in street name and who are not listed on our shareholder records.

### Dividends

We have not declared any dividends on any class of our equity securities since incorporation and we do not anticipate that we will declare any dividends in the foreseeable future. Our present policy is to retain future earnings (if any) for use in our operations and the expansion of our business.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion of our financial condition and results of operations should be read in conjunction with our Financial Statements and Notes thereto, and the other financial information included elsewhere in this prospectus. This Management's Discussion and Analysis of Financial Condition and Results of Operations contain descriptions of our expectations regarding future trends affecting our business. These forward-looking statements, and other forward-looking statements made elsewhere in this document, are made in reliance upon safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The following discussion sets forth certain factors that we believe could cause actual results to differ materially from those contemplated by the forward-looking statements.

### Overview

Park City Group develops and markets patented computer software and profit optimization consulting services that help its retail customers to reduce their inventory and labor costs; the two largest controllable expenses in the retail industry, while increasing the customer's sales and gross margin. Our products, Fresh Market Manager, ActionManager(TM) and Supply Chain Profit Link are designed to address the needs of retailers in store operations management, manufacturing and both durable goods and perishable product management. Because the product concepts originated in the environment of actual multi-unit retail chain ownership, the products are strongly oriented to an operation's bottom line results. The products use a contemporary technology platform that is capable of supporting existing offerings and can also be expanded to support related products.

We have experienced recent significant developments that we expect to have a positive impact on our company, although there is no assurance that the expected positive impact will take place. Recent developments include the following:

- o In March the Company signed new ActionManager license agreements with Kwik Trip, an existing customer, and RaceTrac Petroleum, Inc.
- o In March the Company signed an agreement to allow Oracle to

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use one of the company's patents.

### Liquidity and Capital Resources

At March 31, 2006

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

For the quarter ended March 31, 2006, we had a net loss of \$385,791 compared to a net loss of \$832,982 for the quarter ending March 31, 2005.

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

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As of Year Ended June 30, 2005

The Company had \$209,670 in cash at June 30, 2005 compared with \$312,817 at June 30, 2004, a decrease of \$103,147. Working capital deficit at June 30, 2005 increased to \$4,994,269, compared to \$587,977 at June 30, 2004. The increase in the working capital deficit was principally attributable to the upcoming maturity dates on the notes payable to Whale Investments, as well as an increase in the related party line of credit with Riverview. Subsequent to June 30, 2005, the Company was able to pay off the entire Whale Investment note of \$2,000,000, and \$350,000 of the Riverview operating line of credit.

During the year ended June 30, 2005 the operations of the Company used \$794,318 of cash, compared to operations providing \$62,264 of cash in 2004.

The company focused on developing several strategic sales channels in FY2005. The primary focuses are, Large Grocery Chains, Medium Grocery Chains, Large C-Store Chains, Medium C-Store Chain, Specialty Retailers through Alliance Partners, Financial Services and Call Center operations, and Perishable and Non Perishable Product Manufacturers. Each of these channels has a Senior Executive responsible for the development of the channel. In addition the Company has entered into agreements with the Alliance Partners and independent commissioned sales personnel as needed to facilitate introductions and relationships within the channel.

In addition to our channel focus, the Company subsequent to June 30, 2005, entered into a license agreement with Cannon Solutions as disclosed in our Form 8-K filed on August 11, 2005. Although there is no certainty, the Company believes that this working relationship with the Cannon Solutions and their operating companies have significant potential for revenue generation. Joint management operating meetings are being conducted to discuss future business opportunities.

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We expect that these channels will take 12 to 18 months to initiate and we started seeing results in Q2FY2006. The company has started a total of 10 new engagements from these channels during the first 9 months of our channel focus implementation. We also currently have over 40 active prospects in our pipeline, although no assurance of positive results from these strategic sales channels can be given. Our working capital and other capital requirements for the foreseeable future will vary based upon a number of factors, including: (i) changes in the software industry and environment which may require additional modifications to our software and platforms; (ii) the pace at which our products are accepted by and sold into the market and the related sales and marketing effort and support requirements, and (iii) changes in existing financing arrangements. The Company is pursuing opportunities to sell its ActionManager(TM) and Fresh Market Manager products through alliances with other software vendors (CRS Retail Systems) and companies (Kurt Salmon Associates) selling to the retail industry. This selling strategy is dependent on successfully maintaining these alliances and the efforts of the other companies.

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 has been constrained by not having a desirable level of working capital. Although the Company anticipates that it will meet its working capital requirements primarily through increased revenue, while controlling costs and expenses, no assurances can be given that the Company will be able to meet its working capital requirements. Should the Company desire to raise additional equity or debt financing, there are no assurances that the Company could do so on acceptable terms.

### Results of Operations

Three and Nine Month Period Ended March 31, 2006 Compared to the Three and Nine Month Period Ended March 31, 2005

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Three Months Ended March 31, 2006 and 2005

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

Cost of revenues, as a percent of total revenues was 29% and 49% for the quarters ended March 31, 2006 and 2005, respectively. This decrease came from the additional revenues during the quarter ended March 31, 2006 as compared to the quarter ended March 31, 2005.

Research and development expenses were \$225,180 and \$256,309 for the quarters ended March 31, 2006 and 2005 respectively, a 12% decrease. This decreased expense reflects the fact that both ActionManager and FMM software suites have had major releases completed in addition to the streamlining of our

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development process. The Company has also started to utilize off-shore development resources.

Sales and marketing expenses were \$395,055 and \$310,081 for the quarters ended March 31, 2006 and 2005, respectively, a 27% increase over the previous year. The Company continues to deploy a commissioned based sales force which allows them to maintain a lower fixed level of costs to generate sales however, additional sales did increase costs slightly due to the travel required to create these sales. The Company also hired one additional full time sales person during the quarter ended March 31, 2006. General and administrative expenses were \$418,777 and \$377,748 for the quarters ended March 31, 2006 and 2005 respectively, an 11% increase. The addition of new employees and salary increases during this quarter accounted for this change.

Nine Months Ended March 31, 2006 and 2005

Total revenues were \$6,182,209 and \$2,736,604 for the nine months ended March 31, 2006 and 2005, respectively, a 126% increase in 2006 over the comparable period for 2005. Software license revenues were \$3,434,927 and \$453,615 for the nine months ended March 31, 2006 and 2005, respectively, a 657% increase. License sales in 2005 include the Cannon Equipment license sale as referenced in the Company's Form 8-K filed August 11, 2005. Maintenance and support revenues were \$1,750,068 and \$1,793,215 for the nine months ended March 31, 2006 and 2005, respectively, a 2% decrease. This decrease is primarily attributable to two existing ActionManager customers reducing their maintenance fees due to store closures. ASP revenues were \$147,675 and \$61,100 for the nine months March 31, 2006 and 2005, respectively, a 142% increase in 2006 over the comparable period for 2005. This increase is driven by the companies' success selling Supply Chain Profit Link to perishable manufacturers. Consulting and other revenue was \$849,539 and \$428,674 for the nine months ended March 31, 2006 and 2005, respectively, a 98% increase. This increase is driven by the Cannon Equipment agreement and increased ActionManager consulting during the quarter ended September 30, 2005.

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Cost of revenues for the nine months were 20% and 38% of total revenues for the nine months ending March 31, 2006 and 2005 respectively. This decrease is attributable to the increase in revenues in the two compared periods.

Research and development expenses were \$684,776 and \$763,159 for the nine months ended March 31, 2006 and 2005 respectively, a 10% decrease. This decrease represents the general stabilization of both the Fresh Market Manager and ActionManager 4X software and the company's use of off-shore resources.

Sales and marketing expenses were \$988,688 and \$985,804 for the nine months ended March 31, 2006 and 2005, respectively. Sales and marketing expenses are did not change significantly for the nine months ended March 31, 2006 as compared to the same period in the prior year.

General and administrative expenses were \$1,048,370 and \$1,356,678 for the nine months ended March 31, 2006 and 2005, respectively, a 23% decrease. The 2005 expenses include a \$165,200 expense for the settlement of a legal case.

Year Ended June 30, 2005, as Compared to Year Ended June 30, 2004

During the year ended June 30, 2005, the Company had total revenues of \$3,631,812 compared to \$6,029,823 in 2004, a 40% decrease. Software license sales were \$479,615 and \$3,245,557 for 2005 and 2004, respectively, an 85% decrease. This decrease was primarily attributable to the postponement of large sales for Fresh Market Manager at fiscal year end. One customer did sign an

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agreement in July 2005 for \$3,000,000 in licenses as well as \$500,000 in consulting services and \$75,000 for one year exclusivity rights for the Point of Purchase Display manufacturing industry, and \$100,000 for the first right of refusal on stock offers through December 2005, and then six months of First Right of Offer for company offered stock sales. Maintenance and Support revenues increased by 6% over 2004, primarily from the increase in ASP sales agreements. Consulting revenue increased by 44% to \$735,522 for 2005, compared to \$509,928 for 2004. This increase is primarily attributable to ongoing operational consulting services for Fresh Market Manager customers and the successful launch of our new financial services operational consulting services products. The Company expects maintenance and support revenue for the year ending June 30, 2006 to increase over 2005, although there is no assurance that it will increase. Some customers may discontinue maintenance agreements, but maintenance agreements with new customers should replace discontinuing customers, and may result in a similar growth in maintenance revenue.

Deferred revenue was \$883,425 and \$1,111,915 at June 30, 2005 and 2004, respectively, a decrease of 21%.

Research and development expenses were \$1,019,411 and \$1,176,222 for 2005 and 2004, respectively, a 13% decrease. This decrease is primarily because both the Fresh Market Manager and ActionManager(TM) products have reached a mature development state. Research and development costs continue for both products for enhancements and upgrades as well as the development of Supply Chain Profit Link.

Sales and marketing expenses were \$1,337,318 and \$1,158,411 for 2005 and 2004, respectively, an increase of 15%. This increase is primarily attributable to employment of additional personnel during 2005.

General and administrative expenses were \$2,055,940 and \$1,672,650 for 2005 and 2004, respectively, a 23% increase. This increase was driven primarily from the increase of reserves for bad debt including the write off of \$307,500 for one customer for non payment.

Interest expense was \$1,178,454 and \$1,540,417 for 2005 and 2004, respectively, a 24% decrease. This decrease was primarily attributed to the conversion of a bridge loan from directors.

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The gain on forgiveness of debt in 2004 is attributable to certain bridge note holders, including an officer and directors, agreeing to cancel certain amounts payable to them pursuant to the terms of the Bridge Note C agreements. The gain on settlement of payable in 2004 is attributable to lease negotiations.

### Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that are material to investors.

### Critical Accounting Policies

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

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We commenced operations in the software development and professional services business during 1990. The preparation of our financial statements requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and assumptions, including those related to inventory, deferred income tax assets, revenue recognition and restructuring initiatives. We anticipate that management will base its estimates and judgments on historical experience of the operations we may acquire 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.

**Deferred Income Tax Assets.** 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 the realizability of the deferred income tax assets and assesses the valuation allowance quarterly.

**Goodwill and Other Long-Lived Asset Valuations.** In June 2001, the FASB issued SFAS 141, "Business Combinations", and SFAS 142, "Goodwill and Other Intangible Assets", effective for fiscal years beginning after December 15, 2001 with early adoption permitted for companies with fiscal years beginning after March 15, 2001. We adopted the new rules on accounting for goodwill and other intangible assets during the fiscal year beginning July 1, 2002. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the statements. Other intangible assets will continue to be amortized over their useful lives.

**Revenue Recognition.** The Company's revenues are derived from the licensing of software, maintenance of software, professional consulting services and software hosting services. Revenue from the licensing of software is recognized at the time the software is shipped to the customer. The company also defers a portion of the software license fee equal to the cost of maintenance

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for the warranty period on all license sales that are either to a new customer or are a new product being sold to an existing customer. Customers who purchase additional licenses for software which they already have and for which they are paying maintenance, waive the warranty period. Revenue from maintenance of software, professional consulting services and software hosting services is recognized during the month the services are performed.

**Stock-Based Compensation.** The Company accounts for its employee stock-based compensation plans using the intrinsic value method, as prescribed by APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Accordingly, the Company records deferred compensation costs related to its employee stock options when the current market price of the underlying stock exceeds the exercise price of each stock option on the

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measurement date (usually the date of grant). The Company records and measures deferred compensation for stock options granted to non-employees, other than members of the Company's Board of Directors, using the fair value based method. Deferred compensation is expensed on a straight-line basis over the vesting period of the related stock option. During 2005 and 2004, the Company did not grant any stock options to employees or members of the Company's Board of Directors with exercise prices below the market price on the measurement date.

An alternative method to the intrinsic value method of accounting for stock-based compensation is the fair value based method prescribed by Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." If the Company used the fair value based method, the Company would be required to record deferred compensation based on the fair value of the stock option at the date of grant as computed using an option-pricing model, such as the Black-Scholes option pricing model. The deferred compensation calculated under the fair value based method would then be amortized over the vesting period of the stock option.

### Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123R (revised 2004) "Share-Based Payment." SFAS No. 123R requires employee stock-based compensation to be measured based on the grant-date fair value of the awards and the cost to be recognized over the period during which an employee is required to provide service in exchange for the award. The Statement eliminates the alternative use of Accounting Principles Board (APB) No. 25's intrinsic value method of accounting for awards, which is the company's accounting policy for stock options. See Note 1 to the Consolidated Financial Statements for the pro forma impact of compensation expense from stock options on net earnings and earnings per share. SFAS No. 123R is effective for the Company's fiscal year beginning July 1, 2006. The company will adopt the provisions of SFAS No. 123R on a prospective basis. The financial statement impact will be dependent on future stock-based awards and any unvested stock options outstanding at the date of adoption.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Correction - a replacement of APB No. 20 and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements." SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions.

In March 2005, the FASB issued FASB Interpretation No. 47 (FIN 47) "Accounting for Conditional Asset Retirement Obligations, an Interpretation of FASB Statement No. 143." This Interpretation clarifies that a conditional retirement obligation refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Accordingly, an entity is required to recognize a liability for the fair value

of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The liability should be recognized when incurred, generally upon acquisition, construction or development of the asset. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. The Company is in the process of evaluating the impact of FIN 47 but does not

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expect the adoption to have a material impact on the financial statements.

### Interest Rate Risk

We currently have notes payable that accrue interest at a fixed rate. We do not anticipate that a substantial amount of our future debt and the associated interest expense will be subject to changes in the level of interest rates. Increases in interest rates would result in incremental interest expense.

### Inflation

We do not believe that inflation will negatively impact our business plans.

## BUSINESS OF PARK CITY GROUP, INC.

### General

Park City Group develops and markets patented computer software and profit optimization consulting services that are intended to help its retail customers to reduce their inventory and labor costs; the two largest controllable expenses in the retail industry.. The technology has its genesis in the operations of Mrs. Fields Cookies co-founded by Randall K. Fields, CEO of Park City Group, Inc. Industry leading customers such as The Home Depot, Anheuser Busch Entertainment, Perdue, Monterey Mushrooms, Pacific Sunwear, Wawa and Tesco Lotus benefit from the Company's software. Because the product concepts originated in the environment of actual multi-unit retail chain ownership, the products are strongly oriented to an operations' bottom line results.

The Company was incorporated in the State of Delaware on December 8, 1964 as Infotec, Inc. From June 20, 1999 to approximately June 12, 2001, it was known as Amerinet Group.com, Inc. In 2001, the name was changed from Amerinet Group.com to Fields Technologies, Inc. On June 13, 2001, the Company entered into a "Reorganization Agreement" with Randall K. Fields and Riverview Financial Corporation whereby it acquired substantially all of the outstanding stock of Park City Group, Inc., a Delaware corporation, which became a 98.67% owned subsidiary. Operations are conducted through this subsidiary which was incorporated in the State of Delaware in May 1990. The Company develops and licenses its software applications identified as "Fresh Market Manager", "Supply Chain Profit Link", and "ActionManager(TM)". The Company also provides implementation and profit optimization consulting services for its application products.

On August 7, 2002, Fields Technologies, Inc., (OTCBB:FLDT) changed its name from Fields Technologies, Inc., to Park City Group, Inc., and reincorporated in Nevada. Therefore, both the parent-holding company (Nevada) and its operating subsidiary (Delaware) are named Park City Group, Inc. Park City Group, Inc. (Nevada) has no other business operations other than in connection with its subsidiary. In this Registration Statement when the terms "we", "Company" or "Park City Group" are used, it is referring to the Park City Group, Inc., a Delaware corporation, as well as to Fields Technologies, Inc., the Delaware corporation, which was reincorporated in Nevada under the name of the Park City Group, Inc. The stock trades under the symbol PKCY.

The principal executive offices are located at 333 Main Street, P.O. Box 5000, Park City, Utah 84060. The telephone number is (435) 649-2221. The



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website address is <http://www.parkcitygroup.com>.

### Supermarket Segment

The Supermarket industry is under increased competitive pressure from Value Retailers such as Wal-Mart, Costco, Target, and others. One of the strategies that traditional supermarkets are implementing is to increase the quantity and quality of their perishable offerings. Perishable departments, such as bakery, meat and seafood, dairy, and deli have historically been loosely managed but now have been forced to become a focus for profitability improvement. The Company's software and consulting are designed to address this specific business problem; increasing the profitability of perishable products.

### Convenience Store Segment

For Convenience Stores, recent trends of contracting gasoline margins and declining tobacco sales increases the need for improved cost controls and better decision support. To magnify their issues, other industry segments such as value retailers and grocery stores are now cutting into the convenience store stronghold by offering gasoline. To offset declining gasoline profits, the C-Store industry is pushing into Fresh Food as an avenue of increased sales and profitability. Only the most progressive convenience store operations have automated systems to help store managers, leaving the majority of the operators without any technology to ease their administrative and operations burdens.

### Supplier Segment

As stated above, Supermarkets and Convenience Stores are increasingly dependent upon perishable departments for increased profitability. Suppliers are increasingly being pressured by retailers to provide economic incentives or assistance. Park City Group has developed Supply Chain Profit link to enable suppliers to provide that assistance.

### Specialty Retail Segment

Specialty Retailers are faced with a shrinking labor force and strong competition for qualified managers and staff. Managers are time-constrained due to increased labor and inventory demands, margins are increasingly tight, due to higher labor and lease expenses, and customer satisfaction demands are higher than ever before. Park City Group has developed a range of applications that enable managers in specialty retail to improve their labor scheduling efficiency and reduce their total paperwork and administrative workload.

### Fresh Market Manager

Addressing the inventory issues that plague today's retailers, Fresh Market Manager is a suite of software product applications designed to help manage perishable food departments including bakery, deli, seafood, produce, meat, home meal replacement, dairy, frozen food, and floral. Although the supermarket and convenience store industries have invested substantial sums on Point-of-Sale, scanning systems, etc., those systems are, almost without exception, limited to proving price look-up functions rather than decision support functions. These industries are a classic representation of "data rich" and "information poor". Park City Group is capitalizing on that environment to bring together information from disparate legacy applications and databases to provide an end-to-end integrated merchandising, production planning, demand forecasting and perpetual inventory system to address the industry's perishable department needs.

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Fresh Market Manager helps identify true cost of goods and provides accurate and actionable profitability data on a corporate, regional, store-by-store, and/or item-by-item basis. Fresh Market Manager also can produce hour-by-hour forecasts, production plans, perpetual inventory, and places/receives orders. Fresh Market Manager automates the majority of the planning, forecasting, ordering, and administrative functions associated with fresh merchandise or products.

### ActionManager(TM)

The second most important cost element typically facing today's retailers is labor. ActionManager addresses labor needs by providing a suite of solutions that forecast labor demand, schedules staff resources, and provides store managers with the necessary tools to keep labor costs under control while improving customer service, satisfaction and sales. Daily availability of this information can help a retailer to address issues more quickly.

ActionManager applications provide an automated method for managers to plan, schedule, and administer many of the administrative tasks including new hire paperwork and time and attendance. In addition to automating most administrative processes, ActionManager provides the local manager with a "dashboard" view of the business. ActionManager also has extensive reporting capabilities for corporate, field, and store-level management to enable improved decision support.

### Supply Chain Profit Link

Supply Chain Profit Link (SCPL) allows suppliers an opportunity to work with their retail partners on optimizing profits, while reducing stock outs and minimizing shrink (or waste). SCPL is capable of providing daily or weekly store-by-store item level information to a supplier to facilitate decision support. SCPL allows suppliers opportunities to customize assortment plans, promotions, and pricing strategies on a store-by-store level.

### Professional Services

Park City Group's Professional Services offering include project management, technical implementation, and end-user training. In addition, Park City Group offers a variety of traditional consulting services configured to meet specific customer needs. Beyond these traditional services, Park City Group provides consulting, including merchandising and store operations, that is focused on the primary objective of helping customers to improve their profitability through the full use of the Company's products.

### Sales and Marketing

Through a focused and dedicated sales effort designed to address the requirements of each of its business segments, Park City Group believes its sales force is positioned to understand its customers' businesses, trends in the marketplace, competitive products and opportunities for new product development. The Company's deep industry knowledge enables it to take a consultative approach in working with its prospects and customers. Park City Group's sales personnel focus on selling its technology solutions to major customers, both domestically and internationally.

To date, Park City Group's primary marketing objectives have been to increase awareness of Park City Group's technology solutions and generate sales leads. To this end, Park City Group attends industry trade shows, conducts direct marketing programs, publishes industry trade articles and white papers, participates in interviews, and selectively advertises in industry publications.

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### Customers

Our customers include some of the most notable names in retailing, including: Schnuck's, Tesco-Lotus, Circle K Midwest, Home Depot, Wawa, Sheetz, Williams-Sonoma, and others.

### Competition

The market for Park City Group's products and services is very competitive. Park City Group believes the principal competitive factors include product quality, reliability, performance, price, vendor and product reputation, financial stability, features and functions, ease of use, quality of support and degree of integration effort required with other systems. While our competitors are often larger companies with larger sales forces and marketing budgets, we believe that our deep industry knowledge and the breadth and depth of our offerings give us a competitive advantage. Park City Group's ability to continually improve its products, processes and services, as well as its ability to develop new products, enables the Company to meet evolving customer requirements. Park City Group competes with companies such as Workbrain, Radient Systems, Kronos, Tomax, Capgemini, Electronic Data Systems, and others.

### Product Development

The products sold by the Company are subject to rapid and continual technological change. Products available from the Company, as well as from its competitors, have increasingly offered a wider range of features and capabilities. The Company believes that in order to compete effectively in its selected markets, it must provide compatible systems incorporating new technologies at competitive prices. In order to achieve this, the Company has made a substantial ongoing commitment to research and development.

Park City Group's product development strategy is focused on creating common technology elements that can be leveraged in applications across its core markets. The Company's software architecture is based on open platforms and is modular, thereby allowing it to be phased into a customer's operations. In order to remain competitive, Park City Group is currently designing, coding and testing a number of new products and developing expanded functionality of its current products.

### Patents and Proprietary Rights

The Company owns and controls 8 U.S. patents, 4 patents pending, 8 U.S. trademarks and 37 U.S. copyrights relating to its software technology. The Company has 14 international patents and patent applications pending. The patents referred to above are continuously reviewed and renewed as their expiration dates come due.

Company policy is to seek patent protection for all developments, inventions and improvements that are patentable and have potential value to the Company and to protect its trade secrets other confidential and proprietary information. The Company intends to vigorously defend its intellectual property rights to the extent its resources permit.

Future success may depend upon the strength of the Company's intellectual property. Although management believes that the scope of patents/patent applications are sufficiently broad to prevent competitors from introducing devices of similar novelty and design to compete with the Company's current products and that such patents and patent applications are or will be valid and enforceable, there are no assurances that if such patents are challenged, this belief will prove correct. The Company has, however,

successfully defended one of these patents in two separate instances and as such, has some level of confidence in the Company's ability to maintain its patents. In addition, patent applications filed in foreign countries and patents granted in such countries are subject to laws, rules and procedures, which differ from those in the U.S. Patent protection in such countries may be different from patent protection provided by U.S. Laws and may not be as favorable.

The Company is not aware of any patent infringement claims against it; however, there are no assurances that litigation to enforce patents issued to the Company, to protect proprietary information, or to defend against the Company's alleged infringement of the rights of others will not occur. Should any such litigation occur, the Company may incur significant litigation costs, the Company's resources may be diverted from other planned activities, and result in a materially adverse effect on the Company's operations and financial condition.

The Company relies on a combination of patent, copyright, trademark, and other laws to protect its proprietary rights. There are no assurances that the Company's attempted compliance with patent, copyrights, trademark or other laws will adequately protect its proprietary rights or that there will be adequate remedies for any breach of our trade secrets. In addition, should the Company fail to adequately comply with laws pertaining to its proprietary protection, the Company may incur additional regulatory compliance costs.

#### Government Regulation and Approval

Like all businesses, the Company is subject to numerous federal, state and local laws and regulations, including regulations relating to patent, copyright, and trademark law matters.

#### Cost of Compliance with Environmental Laws

The Company currently has no costs associated with compliance with environmental regulations, and does not anticipate any future costs associated with environmental compliance; however, there can be no assurance that it will not incur such costs in the future.

#### Research and Development

Total research and development expenditures were \$1,019,411 and \$1,176,222 for the years ended June 30, 2005 and 2004, respectively; a 13% decrease. We estimate that research and development activities will experience limited growth as the Company continues to improve their new C-Store and Supply Chain Profit Link products in the next fiscal year.

#### Reports to Security Holders

The Company is subject to the informational requirements of the Securities Exchange Act of 1934. Accordingly, it files annual, quarterly and other reports and information with the Securities and Exchange Commission. You may read and copy these reports and other information at the Securities and Exchange Commission's public reference rooms in Washington, D.C. and Chicago, Illinois. The Company's filings are also available to the public from commercial document retrieval services and the Internet world wide website maintained by the Securities and Exchange Commission at [www.sec.gov](http://www.sec.gov).

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### Employees

As of June 30, 2006, the Company had 31 employees, including 10 software developers and programmers, 6 sales, marketing and account management employees, 10 software service and support employees and 5 accounting and administrative employees. During 2006 the Company hired 3 programmers and one Business Analyst in India. The company is planning to expand their Indian workforce to support their sales in Asia and to provide additional programming resources. All of these employees work for the Company on a full time basis. The employees are not represented by any labor union.

### DESCRIPTION OF PROPERTY

The principal place of business operations is 333 Main Street, Park City, Utah. The Company leases approximately 9,500 square feet at this location, consisting primarily of office and storage areas.

### LEGAL PROCEEDINGS

The Company has filed a lawsuit against Workbrain Corporation titled Park City Group, Inc. vs. Workbrain Corporation Case No. 2:06 cv 289, which is pending in the Federal District Court for the District of Utah. The Company claims that Workbrain Corporation is infringing upon its patent #5,111,391. The Company will vigorously pursue this matter.

### MANAGEMENT

The following table sets forth the name, address, age and position of each officer and director of the Company:

Name	Age	Position - Committee
Randall K. Fields	59	Chief Executive Officer Chairman of the Board and Director
William Dunlavy	50	Chief Financial Officer/Secretary
Thomas W. Wilson	74	Director
Edward C. Dmytryk	60	Director

Randall K. Fields has been the Chief Executive Officer, and Chairman of the Board of Directors since June, 2001. Mr. Fields founded Park City Group, Inc., a software development company based in Park City, Utah, in 1990 and has been its President, Chief Executive Officer, and Chairman of the Board since its inception in 1990. Mr. Fields has been responsible for the strategic direction of Park City Group, Inc. since its inception. Mr. Fields co-founded Mrs. Fields Cookies with his then wife, Debbi Fields. He served as Chairman of the Board of Mrs. Fields Cookies from 1978 to 1990. In the early 1970's Mr. Fields established a financial and economic consulting firm called Fields Investment Group. Mr. Fields received a Bachelor of Arts degree in 1968 and a Masters of Arts degree in 1970 from Stanford University, where he was Phi Beta Kappa, Danforth Fellow and National Science Foundation Fellow.

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William Dunlavy has been appointed CFO and Secretary as of August, 2004. Mr. Dunlavy joined Fresh Market Manager LLC in 1999 as its Chief Operating Officer and continued in the same capacity with the acquisition of Fresh Market Manager LLC in 2001. He has been responsible for the design of the business functionality in the Fresh Market Manager product in addition to his business operations activities for Park City Group. He was formerly the Chief Operating Officer at Mrs. Fields Cookies, Director of Operations at Golden Corral Family Restaurants, head of Fresh Foods at Harris Teeter, Inc. and head of Fresh Foods at Raley's and Bel Air Supermarkets. He has also served as a board member of the International Deli, Dairy, Bakery Association.

Thomas W. Wilson, Jr. has been a director since August, 2001. From 1995 to 1999, Mr. Wilson was the Chairman of the Board Information Resources, Inc., a Chicago, Illinois-based provider of point-of-sale information based business solutions to the consumer packaged goods industry. From 1998 to 1999, Mr. Wilson was the Interim Chief Executive Officer of Information Resources, Inc. From 1966 to 1990, Mr. Wilson was employed in various capacities with McKinsey & Co., a management consulting company. In 1968, Mr. Wilson was elected a Partner of McKinsey and Co., and in 1972 he was elected a Senior Partner. Mr. Wilson received a Bachelor of Arts Degree from Dartmouth College and a Masters of Business Administration Degree from the Wharton School of the University of Pennsylvania.

Edward C. Dmytryk has been a director since June, 2000. In October 2002, Mr. Dmytryk took on additional responsibilities as acting Chief Financial Officer and as such resigned from the Audit Committee. He served in this capacity until June 2003. Later in 2003, Mr. Dmytryk became the Chief Executive Officer of Safescript Pharmacies, Inc (SAFS) due to a request by the Safescript Pharmacies, Inc. Board of Directors to restructure the company during a liquidity crisis and a SEC investigation. He restructured the company and helped arranged the sale of assets to a group of interested investors. He remains the CEO due to the complications of the sale and the damage caused by hurricane Katrina in New Orleans where 3 operating pharmacies were located. Currently, Mr. Dmytryk is the CEO of RxPert, Inc., a Pharmacy company located in Ponte Vedra, Florida. Mr. Dmytryk graduated Summa Cum Laude from the Citadel, the Military College of South Carolina in 1968 with a Bachelor of Science Degree and was an Instructor Pilot in the United States Air Force.

Our Executive Officers are elected by the Board on an annual basis and serve at the discretion of the Board.

### Compliance with Section 16(a)

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors and executive officers, and persons who beneficially own more than 10% of a registered class of the Company's equity securities, to file reports of beneficial ownership and changes in beneficial ownership of the Company's securities with the SEC on Forms 3 (Initial Statement of Beneficial Ownership), 4 (Statement of Changes of Beneficial Ownership of Securities) and 5 (Annual Statement of Beneficial Ownership of Securities). Directors, executive officers and beneficial owners of more than 10% of the Company's Common Stock are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms that they file. The Company believes that, during the year ended December 31, 2004, the Reporting Persons met all applicable Section 16(a) filing requirements

### Code of Ethics

The company adopted their code of ethics by unanimous board of

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directors vote in our October 2005 Board Meeting and is included by reference herein in Item 27, Exhibits.

### Committees of the Board of Directors

Our board of directors has an audit committee, a compensation committee and a nominating and corporate governance committee, each of which has the composition and responsibilities described below:

**Audit Committee.** The audit committee provides assistance to the board of directors in fulfilling its legal and fiduciary obligations in matters involving our accounting, auditing, financial reporting, internal control and legal compliance functions by approving the services performed by our independent accountants and reviewing their reports regarding our accounting practices and systems of internal accounting controls. The audit committee also oversees the audit efforts of our independent accountants and takes those actions as it deems necessary to satisfy itself that the accountants are independent of management. The audit committee currently consists of Edward C. Dmytryk (Chairman) and Thomas W. Wilson Jr., each of whom is a non-management member of our board of directors. Edward C. Dmytryk is also our audit committee financial expert as currently defined under Securities and Exchange Commission rules. We believe that the composition of our audit committee meets the criteria for independence under, and the functioning of our audit committee complies with the applicable requirements of, the Sarbanes-Oxley Act of 2002, the current rules of the Over-the-Counter Bulletin Board Stock Market and Securities and Exchange Commission rules and regulations. We intend to comply with future audit committee requirements as they become applicable to us.

**Compensation Committee.** The compensation committee determines our general compensation policies and the compensation provided to our directors and officers. The compensation committee also reviews and determines bonuses for our officers and other employees. In addition, the compensation committee reviews and determines equity-based compensation for our directors, officers, employees and consultants and administers our stock option plans and employee stock purchase plan. The current member of the compensation committee is Thomas W. Wilson Jr. (Chairman), and Edward C. Dmytryk, each of whom is a non-management member of our board of directors. We believe that the composition of our compensation committee meets the criteria for independence under, and the functioning of our compensation committee complies with the applicable requirements of, the Sarbanes-Oxley Act of 2002, the current rules of the Over-the-Counter Bulletin Board Stock Market and Securities and Exchange Commission rules and regulations. We intend to comply with future compensation committee requirements as they become applicable to us.

**Nominating and Corporate Governance Committee.** The nominating and corporate governance committee is responsible for making recommendations to the board of directors regarding candidates for directorships and the size and composition of the board. In addition, the nominating and corporate governance committee is responsible for overseeing our corporate governance guidelines and reporting and making recommendations to the board concerning corporate governance matters. The current members of the nominating and governance committee are Randall K Fields (Chairman), and Edward C. Dmytryk. We believe that the composition of our nominating and governance committee meets the criteria for independence under, and the functioning of our nominating and corporate governance committee complies with the applicable requirements of, the Sarbanes-Oxley Act of 2002, the current rules of the Over-the-Counter Bulletin Board Stock Market and Securities and Exchange Commission rules and regulations. We intend to comply with future nominating and corporate governance committee requirements as they become applicable to us.

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## MANAGEMENT COMPENSATION

The following table sets forth the aggregate cash compensation paid by the Company for services rendered during the last three years to the Company's Chief Executive Officer and to the Company's most highly compensated executive officers other than the CEO, whose annual salary and bonus exceeded \$100,000:

### SUMMARY COMPENSATION TABLE

Name and Principal Position	Year/ Period	Annual Compensation			Restricted Stock Awards (\$)
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	
Randall K. Fields Chairman and CEO	2006	279,167*	-	71,126 (1)	45,800
	2005	317,500*	-	61,037 (1)	50,000
	2004	317,500*	4,377	46,760 (1)	50,000
James Horton President and COO	2006	243,750**	-	-	
	2005	270,833**	-	-	
William Dunlavy CFO	2006	197,625	-	-	22,500
	2005	198,958	-	-	
	2004	100,000	4,377	-	50,000
Shaun Broadhead Director of Research & Development	2006	116,167	-	-	30,800
	2005	100,000	-	-	50,000
	2004	100,000	4,377	-	50,000
Carolyn Doll Vice President of Marketing	2006	116,167	-	-	30,800
	2005	100,000	-	-	50,000
	2004	100,000	4,377	-	50,000
Aaron Prevo Vice-President of Professional Services	2006	121,244***	-	-	25,000
	2005	29,583***	-	-	
Williams Ruby Vice-President	2006	68,115****	-	-	

\* A significant part of Mr. Fields salary is paid to a management company wholly owned by Mr. Fields.

\*\* Mr. Horton joined the company in September 2004 and resigned March 2006.

\*\*\* Mr. Prevo joined the company in April 2005 and resigned June 2006.

\*\*\*\* Mr. Ruby joined the company in December 2005

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(1) These amounts include premiums paid on Life Insurance policies of \$52,958, \$46,622 and \$27,614 for 2006, 2005 and 2004, respectively, Company car related expenses of \$15,347, \$13,003 and \$14,880 for 2006, 2005 and 2004, respectively; and medical premiums of \$2,821 and \$1,412 for 2006 and 2005, respectively.

Stock Options and Warrants Granted in the Last Fiscal Year



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The following table sets forth information on grants of options to purchase shares of our common stock in fiscal year 2006 to our officers and directors.

Name	Individual Grants		
	Number of Securities Underlying Options and Warrants Granted	% of Total Options and Warrants Granted to Employees in Fiscal Year	Exercise Price (\$/Sh) (1)
William Dunlavy	4,000,000	100%	\$.065

(1) The exercise price was equal to 100% of the fair market value on the date of grant.

### Aggregated Option and Warrant Exercises in Last Fiscal Year and Fiscal Year-end Option and Warrant Values

Name	Shares Acquired on Value June 30, 2006		Securities Underlying Unexercised Options and Warrant at June 30, 2006	
	Exercise (#)	Realized (\$)	Exercisable	Unexercisable
Aaron Prevo	-	N/A	65,588	-
Carolyn Doll	-	N/A	200,000	-
James Horton	-	N/A	6,428,571	-
Riverview Financial(1)	-	N/A	8,761,614	-
Shaun Broadhead	-	N/A	350,000	-
William Dunlavy	-	N/A	500,000	-
William Dunlavy	-	N/A	338,601	-
William Dunlavy	-	N/A	4,000,000	-

(1) Riverview Financial is an affiliate of Mr. Fields.

### Employment Agreement

Park City Group has an employment agreement with its chief executive officer, Randall K. Fields, dated effective January 1, 2001, and revised effective July 1, 2003. The compensation for Mr. Fields, under the terms of the revision, provides for a portion of the compensation to be provided pursuant to an employment agreement and the balance to be provided pursuant to the terms of a services agreement between the Company and Fields Management, Inc., an executive management services provider, a company wholly owned by Mr. Fields. The term of the two agreements is five years ending June 30, 2008, with automatic one-year renewals. The combined agreements provide for:

- o An annual base compensation of \$350,000;
- o Use of a company vehicle;
- o Employee benefits that are generally provided to Park City Group, Inc. employees; and

- o A bonus to be determined annually by the Compensation

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Committee of the Board of Directors.

Effective October 1, 2002, Mr. Fields agreed to have a portion of his base compensation payable in stock.

Park City Group has an employment agreement with its Executive Vice President and chief financial officer, William Dunlavy, dated effective September 1, 2004. This agreement provides Mr. Dunlavy with the following compensation:

An annual base compensation of \$225,000;

- o Participation in the Management Bonus Plan which provides that the bonus will be 30% of salary if company revenue and net income meets the budget. If the Company meets 95% of its budgeted amounts, the bonus is 20%, if the Company meets 90% of its budgeted amounts, the bonus is 10% with no bonus if the results are less than 90% of the budget. Likewise, if the budget is exceeded to a level of 110% the bonus is 40% and 45% if the budget is exceed to a level of 120% or more.
- o Employee benefits that are generally provided to Park City Group, Inc. employees;
- o Stock options equal to 3 to 1 for each share of stock purchased at a cost of \$.07 or the current market price, which ever is higher, through September 30, 2005 with an exercise price of \$.07 or the current market price, which ever is higher; and
- o Stock options equal to 2 to 1 for each share of stock purchased at a cost of \$.07 or the current market price, which ever is higher, \$.07 or the current market price, which ever is higher, there after.

### Director Compensation

The continuing outside directors, Edward C. Dmytryk and Thomas W. Wilson, Jr. receive the following compensation:

Annual cash compensation of \$10,000 payable at the rate of \$2,500 per quarter. The Company has the right to pay this amount in the form of shares of Company Stock.

Annual options to purchase \$20,000 of the Company restricted common stock at the market value of the shares on the date of the grant, which is to be the first day the stock market is open in January of each year.

### 401(k) Retirement Plan.

The Company offers an employee benefit plan under Benefit Plan Section 401(k) of the Internal Revenue Code. Employees who have attained the age of 21 are immediately eligible to participate. The Company, at its discretion, matches 50% of the first 4% of each employee's contributions. No matching contribution has been made after September 30, 2002.

### Indemnification for Securities Act Liabilities

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Nevada law authorizes, and the Company's Bylaws and Indemnity Agreements provide for, indemnification of the Company's directors and officers against claims, liabilities, amounts paid in settlement and expenses in a variety of circumstances. Indemnification for liabilities arising under the Act may be permitted for directors, officers and controlling persons of the Company pursuant to the foregoing or otherwise. However, the Company has been advised that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

### Stock Options and Warrants

The Company has stock option plans that enable it to issue to officers, directors, consultants and employees nonqualified and incentive options to purchase common stock. At June 30, 2006, a total of 3,997,689 of such options were outstanding with exercise prices ranging from \$0.03 to \$0.14 per share.

At June 30, 2006 a total of 44,841,935 warrants to purchase shares of common stock were outstanding. Of those warrants, 25,322,453 were issued in connection with certain debt financings; 6,428,571 were issued in connection with an equity investment by an officer; 9,090,911 were issued as a commission for placement of equity securities; and 4,000,000 were issued to an officer in satisfaction of employment agreement obligations. These warrants have exercise prices ranging from \$0.04 to \$0.07 per share and expire between August 16, 2007 and June 30, 2011.

### Compensation Committee Interlocks and Insider Participation

No executive officers of the Company serve on the Compensation Committee (or in a like capacity) for the Company or any other entity.

### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding shares of our common stock beneficially owned as of June 26, 2006 by: (i) each of our officers and directors; (ii) all officers and directors as a group; and (iii) each person known by us to beneficially own five percent or more of the outstanding shares of our common stock.

Name	Common Stock	Common Stock Options Exercisable Within 60 Days	Common Stock Purchase Warrant Exercisable Within 60 days	Total Stock and Stock Based Holdings (1)
Randall K. Fields (1)	24,360,278	-	-	24,360,278
Riverview Financial, Corp.	183,495,362	-	8,761,614	192,256,976
William Dunlavy	1,777,076	838,601	4,000,000	6,615,677
Shaun Broadhead	2,950,783	350,000	-	3,300,783
Carolyn Doll	2,950,783	200,000	-	3,150,783
James Horton	2,281,798	-	6,428,571	8,710,369
Edward C. Dmytryk	1,398,627	875,000	-	2,273,627
Thomas W. Wilson	10,010,210	875,000	3,792,362	14,677,572

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\* Less than 1%

(1) Includes 183,495,362 shares and 8,761,614 warrants beneficially owned by

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Riverview Financial Corp., an affiliate of Mr. Fields.

- (2) For purposes of this table "beneficial ownership" is determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934, pursuant to which a person or group of persons is deemed to have "beneficial ownership" of any common shares that such person or group has the right to acquire within 60 days after August 1, 2006. For purposes of computing the percentage of outstanding common shares held by each person or group of persons named above, any shares that such person or group has the right to acquire within 60 days after August 1, 2006, are deemed outstanding but are not deemed to be outstanding for purposes of computing the percentage ownership of any other person or group. As of August 1, 2006, there were 446,561,686 shares of our common stock issued and outstanding. There were also outstanding options, and warrants entitling the holders to purchase 26,121,148 shares of our common stock owned by officers and/or directors of Park City Group.
- (3) These are the officers and directors of Park City Group.

### DESCRIPTION OF SECURITIES

We are authorized to issue up to 500,000,000 shares of common stock, \$.01 par value and 30,000,000 shares of preferred stock, \$.01 Par value. As of June 30, 2006, there were 446,561,686 shares of our common stock issued and outstanding and no shares of preferred stock issued or outstanding. We anticipate that we will take action to effect a 1-for-50 reverse stock split in the near future. At that time the reverse split will occur. The following is a summary of the material rights and privileges of our common stock and preferred stock.

#### Common Stock

Subject to the rights of the holders of any preferred stock that may be outstanding, each holder of common stock on the applicable record date is entitled to receive such dividends as may be declared by the Board of Directors out of funds legally available therefore, and in the event of liquidation, to share pro rata in any distribution of our assets after payment, or providing for the payment, of liabilities and the liquidation preference of any outstanding preferred stock. Each holder of common stock is entitled to one vote for each share held of record on the applicable record date on all matters presented to a vote of stockholders, including the election of directors. Holders of common stock have no cumulative voting rights or preemptive rights to purchase or subscribe for any stock or other securities. Except as disclosed herein, there are no conversion rights or redemption or sinking fund provisions with respect to the common stock. All outstanding shares of common stock are, and the shares of common stock offered hereby will be, when issued, fully paid and nonassessable.

#### Preferred Stock

Our Board of Directors is empowered, without approval of the stockholders, to cause shares of preferred stock to be issued in one or more series, with the numbers of shares of each series to be determined by the Board. The Board of Directors is also authorized to fix and determine variations in the designations, preferences, and special rights (including, without limitation, special voting rights, preferential rights to receive dividends or assets upon liquidation, rights of conversion into common stock or other securities, redemption provisions and sinking fund provisions) between the preferred stock or any series thereof and the common stock. The shares of preferred stock or any series thereof may have full or limited voting powers or be without voting powers.

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Although we have no present intent to issue shares of preferred stock, the issuance of shares of preferred stock, or the issuance of rights to purchase such shares, could be used to discourage an unsolicited acquisition proposal. For instance, the issuance of a series of preferred stock might impede a business combination by including class voting rights that would enable the holders to block such a transaction, or such issuance might facilitate a business combination by including voting rights that would provide a required percentage vote of the stockholders. In addition, under certain circumstances, the issuance of preferred stock could adversely affect the voting power of the holders of the common stock. Although the Board of Directors is required to make any determination to issue such stock based on its judgment as to the best interests of our stockholders, the Board of Directors could act in a manner that would discourage an acquisition attempt or other transaction that some or a majority of the stockholders might believe to be in their best interests or in which stockholders might receive a premium for their stock over the then market price of such stock.

### Transfer Agent

Our transfer agent is Liberty Transfer Co telephone (631) 385-1616.

### Warrants

We are registering 40,841,935 shares of common stock underlying warrants as part of this Prospectus. The warrants vary in exercise price from \$0.04 to \$0.07 and have terms expiring from August 16, 2007 to June 21, 2011. The number of shares and price at which the warrants are exercisable is subject to adjustment in certain events, such as mergers, reorganizations or stock splits, to prevent dilution. If one of these events occurs, the number of shares into which the warrants may be converted and the exercise price will be adjusted as needed to ensure that the warrant holder continues to have the right to receive a comparable number of shares or cash consideration as the holder would have received had the holder already exercised its warrant prior to the event. The warrants have no price protection features, and may not be redeemed by the Company.

### COMMISSION'S POSITION ON INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

We are a Nevada corporation. Our Certificate of Incorporation will provide to the fullest extent permitted under Section 78.138 of the Nevada Revised Statutes, that our directors or officers shall not be personally liable to us or our shareholders for damages for breach of such director's or officer's fiduciary duty. The effect of this provision of our Articles of Incorporation, as amended and restated, is to eliminate our rights and our shareholders' rights (through shareholders' derivative suits on behalf of our company) to recover damages against a director or officer for breach of the fiduciary duty of care as a director or officer (including breaches resulting from negligent or grossly negligent behavior), except under certain situations defined by statute. We believe that the indemnification provisions in our Articles of Incorporation, as amended, are necessary to attract and retain qualified persons as directors and officers.

Our Bylaws also provide that the Board of Directors may also authorize us to indemnify our employees or agents, and to advance the reasonable expenses of such persons, to the same extent, following the same determinations, and upon the same conditions as are required for the indemnification of, and advancement of, expenses to our directors and officers. As of the date of this Registration Statement, the Board of Directors has not extended indemnification rights to persons other than directors and officers.

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Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling us pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable.

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### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company had a note payable to Riverview Financial Corporation (Riverview), in the principal amount of \$3,296,406 at June 30, 2005 with accrued interest of \$841,995. The chief executive of Riverview is also the chief executive of the Company. In June 2004, the Company issued 2,480,000 shares of common stock to Riverview to subordinate to the extended Whale Investments note. In March 2006 the note payable and accrued interest of \$294,334 were converted to 66,234,658 shares of common stock. The remaining \$981,149 of accrued interest was paid with cash proceeds from the note payable funding from US Bank.

Riverview has loaned the Company \$345,000 under a note payable bearing interest at 18%. Payments are made monthly for interest only, with the principal due in December 2005. Riverview was issued 857,143 shares of common stock as an inducement to make the loan. The note was extended in June 2004 to December 2005. The loan was retired with cash proceeds from the note payable funding from US Bank in March 2006.

The Company's CEO has made loans to the Company through Riverview Financial Corp. a wholly owned entity, to cover short term cash needs pursuant to a line of credit promissory note payable. Repayments are made as funds are available, with an extended due date of June 15, 2006 and interest is at 12%. In December 2005, the line of credit the company has with Riverview was cancelled and reissued in the amount of \$800,000. The reissued line of credit carries an interest rate of 12% with a fee for draws on the line. All other terms remained the same. There was no balance due under the line of