PARK CITY GROUP INC
Form 10-Q
February 07, 2019

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

FORM 10-Q

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

For the quarterly period ended December 31, 2018

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

For the transition period from __________ to _________.

Commission File Number 001-34941

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

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

299 South Main Street, Suite 2225 Salt Lake City, UT 84111
(Address of principal executive offices)

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

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, $0.01 par value, 19,853,395 shares as of February 6, 2019.

PARK CITY GROUP, INC.

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PARK CITY GROUP, INC.
Consolidated Condensed Balance Sheets (Unaudited)

Assets	December 31, 2018	June 30, 2018
Current assets		
Cash	$16,682,282	$14,892,439
Receivables, net allowance for doubtful accounts of $346,204 and $153,220 at December 31, 2018 and June 30, 2018, respectively	4,588,663	4,222,348
Contract asset – unbilled current portion	2,727,921	3,502,287
Prepaid expense and other current assets	1,028,417	1,116,387
Total current assets	25,027,283	23,733,461
Property and equipment, net	1,725,221	1,896,348
Other assets:		
Deposits, and other assets	18,691	18,691
Contract asset – unbilled long-term portion	3,175,125	1,194,574
Investments	477,884	477,884
Customer relationships	854,100	919,800
Goodwill	20,883,886	20,883,886
Capitalized software costs, net	119,895	168,926
Total other assets	25,529,581	23,663,761
Total assets	$52,282,085	$49,293,570
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$838,151	$1,490,434
Accrued liabilities	1,336,526	745,694
Contract liability - deferred revenue	2,671,296	2,335,286
Lines of credit	4,660,000	3,230,000
Current portion of notes payable	36,768	188,478
Total current liabilities	9,542,741	7,989,892
Long-term liabilities		
Notes payable, less current portion	258,209	1,592,077
Other long-term liabilities	-	7,275
Total liabilities	9,800,950	9,589,244

Commitments and contingencies		
Stockholders’ equity:		
Preferred stock; $0.01 par value, 30,000,000 shares authorized;		
Series B Preferred, 700,000 shares authorized; 625,375 issued and outstanding at December 31, 2018 and June 30, 2018;	6,254	6,254
Series B-1 Preferred, 550,000 shares authorized; 212,402 shares issued and outstanding at December 31, 2018 and June 30, 2018.	2,124	2,124
Common stock, $0.01 par value, 50,000,000 shares authorized; 19,839,261 and 19,773,548 issued and outstanding at December 31, 2018 and June 30, 2018, respectively.	198,395	197,738
Additional paid-in capital	77,129,244	76,711,887
Accumulated deficit	(34,854,882)	(37,213,677)
Total stockholders’ equity	42,481,135	39,704,326
Total liabilities and stockholders’ equity	$52,282,085	$49,293,570

See accompanying notes to consolidated condensed financial statements.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Revenue	$5,565,237	$5,724,706	$11,507,231	$10,436,871
Operating expense:				
Cost of services and product support	1,270,659	1,426,351	2,999,185	2,844,364
Sales and marketing	1,139,855	1,621,149	3,047,879	3,207,089
General and administrative	1,326,735	1,140,085	2,470,046	2,275,855
Depreciation and amortization	144,030	163,825	289,405	322,628
Total operating expense	3,881,279	4,351,410	8,806,515	8,649,936
Income from operations	1,683,958	1,373,296	2,700,716	1,786,935
Other income (expense):				
Interest income	54,773	-	89,897	-
Interest expense	(5,623)	(7,696)	(16,096)	(29,887)
Income before income taxes	1,733,108	1,365,600	2,774,517	1,757,048
(Provision) for income taxes:	(47,500)	(15,116)	(122,500)	(75,714)
Net income	1,685,608	1,350,484	2,652,017	1,681,334
Dividends on preferred stock	(146,611)	(162,966)	(293,222)	(280,126)
Net income applicable to common shareholders	$1,538,997	$1,187,518	$2,358,795	$1,401,208
Weighted average shares, basic	19,822,000	19,487,000	19,804,000	19,455,000
Weighted average shares, diluted	20,375,000	20,338,000	20,474,000	20,340,000
Basic income per share	$0.08	$0.06	$0.12	$0.07
Diluted income per share	$0.08	$0.06	$0.12	$0.07

See accompanying notes to consolidated condensed financial statements.

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

	Six Months Ended December 31,	
	2018	2017
Cash flows operating activities:		
Net income	$2,652,017	$1,681,334
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	289,405	322,628
Stock compensation expense	323,273	388,099
Bad debt expense	200,000	195,050
(Increase) decrease in:		
Accounts receivables	208,051	(2,046,797)
Long-term receivables, prepaids and other assets	(1,892,581)	621,015
(Decrease) increase in:		
Accounts payable	(652,283)	73,931
Accrued liabilities	366,966	74,383
Deferred revenue	335,734	58,970
Net cash provided by operating activities	1,830,582	1,368,613
Cash flows investing activities:		
Capitalization of software costs	-	(111,241)
Purchase of property and equipment	(3,547)	(177,643)
Net cash used in investing activities	(3,547)	(288,884)
Cash flows financing activities:		
Net increase in lines of credit	1,430,000	-
Proceeds from issuance of note payable	-	56,078
Proceeds from exercise of warrants	164,977	-
Proceeds from employee stock plan	-	119,790
Dividends paid	(146,611)	(325,931)
Payments on notes payable and capital leases	(1,485,578)	(165,164)
Net cash used in financing activities	(37,192)	(315,227)
Net increase in cash and cash equivalents	1,789,843	764,502
Cash and cash equivalents at beginning of period	14,892,439	14,054,006
Cash and cash equivalents at end of period	$16,682,282	$14,818,508
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$47,500	$75,714

Cash paid for interest	$5,622	$123,921
Supplemental disclosure of non-cash investing and financing activities:		
Common stock to pay accrued liabilities	$253,017	$734,350
Preferred stock to pay accrued liabilities	$-	$200,000
Dividends accrued on preferred stock	$293,222	$280,126

See accompanying notes to consolidated condensed financial statements.

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

NOTE 1. OVERVIEW OF OPERATIONS AND BASIS FOR PRESENTATION

Overview

Park City Group, Inc. (the "Company") is a Software-as-a-Service (SaaS) provider, and the parent company of ReposiTrak Inc., which operates a business-to-business ("B2B") e-commerce, compliance, and supply chain management platform that partners with retailers, wholesalers, and product suppliers to help them source, vet, and transact with their suppliers in order to accelerate sales, control risks, and improve supply chain efficiencies.

The Company's supply chain and MarketPlace services provide its customers with greater flexibility in sourcing products by enabling them to choose new suppliers and integrate them into their supply chain faster and more cost effectively, and it helps them to more efficiently manage these relationships, enhancing revenue while lowering working capital, labor costs and waste. The Company's food safety and compliance solutions help reduce a company's potential regulatory, legal, and criminal risk from its supply chain partners by providing a way for them to ensure these suppliers are compliant with food safety regulations, such as the Food Safety Modernization Act of 2011 ("FSMA").

The Company's services are grouped in three application suites: (i) ReposiTrak MarketPlace, encompassing the Company's supplier discovery and B2B e-commerce solutions, which helps the Company's customers find new suppliers, (ii) ReposiTrak Compliance and Food Safety solutions, which help the Company's customers vet suppliers to mitigate the risk of doing business with these suppliers, and (iii) ReposiTrak's Supply Chain solutions, which help the Company's customers to more efficiently manage their various transactions with their suppliers.

The Company's services are delivered though proprietary software products designed, developed, marketed and supported by the Company. These products provide visibility and facilitate improved business processes among all key constituents in the supply chain, starting with the retailer and moving backwards to suppliers and eventually to raw material providers. The Company provides cloud-based applications and services that address e-commerce, supply chain, food safety and compliance activities. The principal customers for the Company's products are household name multi-store food retail chains and their suppliers, branded food manufacturers, food wholesalers and distributors, and other food service businesses.

The Company has a hub and spoke business model. The Company is typically engaged by retailers and wholesalers ("Hubs"), which in turn require their suppliers ("Spokes") to utilize the Company's services.

The Company is incorporated in the state of Nevada and has three principal subsidiaries: PC Group, Inc., a Utah corporation (98.76% owned); Park City Group, Inc., a Delaware corporation (100% owned); and ReposiTrak, Inc., a Utah corporation (100% owned). All intercompany transactions and balances have been eliminated in the Company's consolidated financial statements, which contain the operating results of the operations of Park City Group, Inc. (Delaware) and ReposiTrak, Inc. Park City Group, Inc. (Nevada) has no business operations separate from the operations conducted through its subsidiaries.

The Company's principal executive offices are located at 299 South Main Street, Suite 2225, Salt Lake City, Utah 84111. Its telephone number is (435) 645-2000. Its website address is http://www.parkcitygroup.com, and

ReposiTrak's website address is http://repositrak.com.

Basis of Financial Statement Presentation

The interim financial information of the Company as of December 31, 2018 and for the three and six months ended December 31, 2018 is unaudited, and the balance sheet as of June 30, 2018 is derived from audited financial statements. The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial statements. Accordingly, they omit or condense notes and certain other information normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles. The accounting policies followed for quarterly financial reporting conform with the accounting policies disclosed in the Notes to Financial Statements included in our Annual Report on Form 10-K for the year ended June 30, 2018. In the opinion of management, all adjustments necessary for a fair presentation of the financial information for the interim periods reported have been made. All such adjustments are of a normal recurring nature. The results of operations for the three and six months ended December 31, 2018 are not necessarily indicative of the results that can be expected for the fiscal year ending June 30, 2019. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended June 30, 2018.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that materially affect the amounts reported in the consolidated financial statements. Actual results could differ from these estimates. The methods, estimates, and judgments the Company uses in applying its most critical accounting policies have a significant impact on the results it reports in its financial statements. The Securities and Exchange Commission has defined the most critical accounting policies as those that are most important to the portrayal of the Company's financial condition and results and require the Company to make its most difficult and subjective judgments, often because of the need to make estimates of matters that are inherently uncertain. Based on this definition, the Company's most critical accounting policies include: revenue recognition, goodwill, other long-lived asset valuations, income taxes, stock-based compensation, and capitalization of software development costs.

Adoption of ASC Topic 606, "Revenue from Contracts with Customers"

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, "Revenue from Contracts with Customers" ("ASC 606"). ASC 606 clarifies the accounting for revenue arising from contracts with customers and specifies the disclosures that an entity should include in its financial statements. During 2016, the FASB issued certain amendments to the standard relating to the principal versus agent guidance, accounting for licenses of intellectual property identifying performance obligations as well as the guidance on transition, collectability, noncash consideration and the presentation of sales and other similar taxes. We adopted ASC 606 using the modified retrospective method on July 1, 2018.

The effect of applying ASC 606 did not result in an opening balance adjustment to retained earnings or any other balance sheet accounts because the Company: (1) identified similar performance obligations under ASC 606 as compared with deliverables and separate units of account previously identified; (2) determined the transaction price to be consistent; and (3) concluded that revenue is recorded at the same point in time, upon performance under both ASC 605 and ASC 606. The adoption of ASC 606 did not require significant changes in our internal controls and procedures over financial reporting and disclosures. However, we made enhancements to existing internal controls and procedures to ensure compliance with the new guidance.

Revenue Recognition

We recognize revenue as we transfer control of deliverables (products, solutions and services) to our customers in an amount reflecting the consideration to which we expect to be entitled. To recognize revenue, we apply the following five step approach: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when a performance obligation is satisfied. We account for a contract based on the terms and conditions the parties agree to, the contract has commercial substance and collectability of consideration is probable. The Company applies judgment in determining the customer's ability and intention to pay, which is based on a variety of factors including the customer's historical payment experience.

We may enter into arrangements that consist of multiple performance obligations. Such arrangements may include any combination of our deliverables. To the extent a contract includes multiple promised deliverables, we apply judgment to determine whether promised deliverables are capable of being distinct and are distinct in the context of the contract. If these criteria are not met, the promised deliverables are accounted for as a combined performance obligation. For arrangements with multiple distinct performance obligations, we allocate consideration among the performance obligations based on their relative standalone selling price. Standalone selling price is the price at which we would sell a promised good or service separately to the customer. When not directly observable, we typically estimate standalone selling price by using the expected cost plus a margin approach. We typically establish a standalone selling price range for our deliverables, which is reassessed on a periodic basis or when facts and circumstances change.

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For performance obligations where control is transferred over time, revenue is recognized based on the extent of progress towards completion of the performance obligation. The selection of the method to measure progress towards completion requires judgment and is based on the nature of the deliverables to be provided. Revenue related to fixed-price contracts for application development and systems integration services, consulting or other technology services is recognized as the service is performed using the output method, under which the total value of revenue is recognized based on each contract's deliverable(s) as they are completed and when value is transferred to a customer. Revenue related to fixed-price application maintenance, testing and business process services is recognized based on our right to invoice for services performed for contracts in which the invoicing is representative of the value being delivered, in accordance with the practical expedient in ASC 606-10-55-18.

If our invoicing is not consistent with the value delivered, revenue is recognized as the service is performed based on the method described above. The output method measures the results achieved and value transferred to a customer, which is updated as the project progresses to reflect the latest available information; such estimates and changes in estimates involve the use of judgment. The cumulative impact of any revision in estimates is reflected in the financial reporting period in which the change in estimate becomes known and any anticipated losses on contracts are recognized immediately. Revenue related to fixed-price hosting and infrastructure services is recognized based on our right to invoice for services performed for contracts in which the invoicing is representative of the value being delivered, in accordance with the practical expedient in ASC 606-10-55-18. If our invoicing is not consistent with value delivered, revenue is recognized on a straight-line basis unless revenue is earned and obligations are fulfilled in a different pattern. The revenue recognition method applied to the types of contracts described above provides the most faithful depiction of performance towards satisfaction of our performance obligations.

Revenue related to our software license arrangements that do not require significant modification or customization of the underlying software is recognized when the software is delivered as control is transferred at a point in time. For software license arrangements that require significant functionality enhancements or modification of the software, revenue for the software license and related services is recognized as the services are performed in accordance with the methods described above. In software hosting arrangements, the rights provided to the customer, such as ownership of a license, contract termination provisions and the feasibility of the client to operate the software, are considered in determining whether the arrangement includes a license or a service. Revenue related to software maintenance and support is generally recognized on a straight-line basis over the contract period.

Revenue related to transaction-based or volume-based contracts is recognized over the period the services are provided in a manner that corresponds with the value transferred to the customer to-date relative to the remaining services to be provided.

From time to time, we may enter into arrangements with third party suppliers to resell products or services. In such cases, we evaluate whether we are the principal (i.e. report revenue on a gross basis) or agent (i.e. report revenue on a net basis). In doing so, we first evaluate whether we control the good or service before it is transferred to the customer. If we control the good or service before it is transferred to the customer, we are the principal; if not, we are the agent. Determining whether we control the good or service before it is transferred to the customer may require judgment.

We provide customers with assurance that the related deliverable will function as the parties intended because it complies with agreed-upon specifications. General updates or patch fixes are not considered an additional performance obligation in the contract.

Variable consideration is estimated using either the sum of probability weighted amounts in a range of possible consideration amounts (expected value), or the single most likely amount in a range of possible consideration amounts (most likely amount), depending on which method better predicts the amount of consideration to which we may be

entitled. We include in the transaction price variable consideration only to the extent it is probable that a significant reversal of revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Our estimates of variable consideration and determination of whether to include estimated amounts in the transaction price may involve judgment and are based largely on an assessment of our anticipated performance and all information that is reasonably available to us.

We assess the timing of the transfer of goods or services to the customer as compared to the timing of payments to determine whether a significant financing component exists. As a practical expedient, we do not assess the existence of a significant financing component when the difference between payment and transfer of deliverables is a year or less. If the difference in timing arises for reasons other than the provision of finance to either the customer or us, no financing component is deemed to exist. The primary purpose of our invoicing terms is to provide customers with simplified and predictable ways of purchasing our services, not to receive or provide financing from or to customers. We do not consider set up or transition fees paid upfront by our customers to represent a financing component, as such fees are required to encourage customer commitment to the project and protect us from early termination of the contract.

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Trade Accounts Receivable and Contract Balances

We classify our right to consideration in exchange for deliverables as either a receivable or a contract asset (unbilled receivable). A receivable is a right to consideration that is unconditional (i.e. only the passage of time is required before payment is due). For example, we recognize a receivable for revenue related to our transaction or volume-based contracts when earned regardless of whether amounts have been billed. We present such receivables in trade accounts receivable, net in our consolidated statements of financial position at their net estimated realizable value. We maintain an allowance for doubtful accounts to provide for the estimated amount of receivables that may not be collected. The allowance is based upon an assessment of customer creditworthiness, historical payment experience, the age of outstanding receivables, judgement, and other applicable factors.

A contract asset is a right to consideration that is conditional upon factors other than the passage of time. Contract assets are presented in current and other assets in our consolidated balance sheets and primarily relate to unbilled amounts on fixed-price contracts utilizing the output method of revenue recognition. The table below shows movements in contract assets:

	Contract assets
Balance – September 30, 2018	$5,005,395
Revenue recognized during the period but not billed	1,571,453
Amounts reclassified to accounts receivable	(673,802)
Other	-
Balance – December 31, 2018	$5,903,046(1)

(1) Contract asset balances for December 31, 2018 include a current and a long-term contract asset, $2,727,921, and $3,175,125, respectively.

Our contract assets and liabilities are reported in a net position at the end of each reporting period. The difference between the opening and closing balances of our contract assets and deferred revenue primarily results from the timing difference between our performance obligations and the customer’s payment. We receive payments from customers based on the terms established in our contracts, which may vary generally by contract type.

The table below shows movements in the deferred revenue balances (current and noncurrent) for the period:

	Contract liability
Balance – September 30, 2018	$2,115,539
Amounts billed but not recognized as revenue	1,362,981
Revenue recognized related to the opening balance of deferred revenue	(807,224)
Other	-
Balance – December 31, 2018	$2,671,296

Our contract assets and liabilities are reported in a net position on a contract by contract basis at the end of each reporting period. The difference between the opening and closing balances of our contract assets and deferred revenue primarily results from the timing difference between our performance obligations and the customer’s payment. We receive payments from customers based on the terms established in our contracts, which may vary generally by

contract type.

Disaggregation of Revenue

The table below presents disaggregated revenue from contracts with customers by customer geography and contract-type. We believe this disaggregation best depicts the nature, amount, timing and uncertainty of our revenue and cash flows that may be affected by industry, market and other economic factors:

For the Six Months Ended December 31 2018

Geography	Subscription & support	Professional services	Transaction based	Total
North America	$8,217,716	$1,854,737	$1,408,896	11,481,349
International	-	-	25,882	25,882
Total	$8,217,716	$1,854,737	$1,434,778	$11,507,231

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Earnings Per Share

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

The following table presents the components of the computation of basic and diluted earnings per share for the periods indicated:

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Numerator				
Net income applicable to common shareholders	$1,538,997	$1,187,518	$2,358,795	$1,401,208
Denominator				
Weighted average common shares outstanding, basic	19,822,000	19,487,000	19,804,000	19,455,000
Warrants to purchase common stock	553,000	851,000	670,000	885,000
Weighted average common shares outstanding, diluted	20,375,000	20,338,000	20,474,000	20,340,000
Net income per share				
Basic	$0.08	$0.06	$0.12	$0.07
Diluted	$0.08	$0.06	$0.12	$0.07

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year's presentation. These reclassifications have no impact on the previously reported results.

NOTE 3. EQUITY

Restricted Stock Units	Restricted Stock Units	Weighted Average Grant Date Fair Value ($/share)

Outstanding at September 30, 2018	850,229	$6.46
Granted	1,112	9.00
Vested and issued	(25,580)	10.40
Forfeited	(11,605)	9.51
Outstanding at December 31, 2018	814,156	$5.59

The number of restricted stock units outstanding at December 31, 2018 included 752 units that have vested but for which shares of common stock had not yet been issued pursuant to the terms of the agreement.

As of December 31, 2018, there was approximately $4.56 million of unrecognized stock-based compensation expense under our equity compensation plans, which is expected to be recognized on a straight-line basis over a weighted average period of 4.82 years.

Warrants

The following table summarizes information about warrants outstanding and exercisable at December 31, 2018:

Warrants Outstanding at December 31, 2018				Warrants Exercisable at December 31, 2018	
Range of exercise prices Warrants	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
$4.00	1,085,068	1.10	$4.00	1,085,068	$4.00
$10.00	23,737	1.07	$10.00	23,737	$10.00
	1,108,805	1.08	$4.13	1,108,805	$4.13

Preferred Stock

The Company's articles of incorporation currently authorize the issuance of up to 30,000,000 shares of "blank check" preferred stock with designations, rights, and preferences as may be determined from time to time by the Company's Board of Directors, of which 700,000 shares are currently designated as Series B Preferred Stock ("Series B Preferred") and 550,000 shares are designated as Series B-1 Preferred Stock ("Series B-1 Preferred"). As of December 31, 2018, a total of 625,375 shares of Series B Preferred and 212,402 shares of Series B-1 Preferred were issued and outstanding. Both classes of Series B Preferred Stock pay dividends at a rate of 7% per annum if paid by the Company in cash, or 9% if paid by the Company in additional shares of Series B Preferred ("PIK Shares"), the Company may elect to pay accrued dividends on outstanding shares of Series B Preferred in either cash or by the issuance of PIK Shares.

The Company does business with some of the largest retailers and wholesalers in the world. Management believes the Series B-1 Preferred favorably impacts the Company's overall cost of capital in that it is: (i) perpetual and, therefore, an equity instrument that positively impacts the Company's coverage ratios, (ii) possesses a below market dividend rate relative to similar instruments, (iii) offers the flexibility of a paid-in-kind (PIK) payment option, and (iv) is without covenants. After exploring alternative options for redeeming the Series B-1 Preferred, management determined that alternative financing options were significantly more expensive or would negatively impact the Company's net cash position, which management believes could cause customer concerns and weaken the Company's ability to attract new business.

Section 4 of the Company's First Amended and Restated Certificate of Designation of the Relative Rights, Powers and Preferences of the Series B-1 Preferred Stock, as amended (the "Series B-1 COD"), provides the Company's Board of Directors with the right to redeem any or all of the outstanding shares of the Company's Series B-1 Preferred for a cash payment of $10.70 per share at any time upon providing the holders of Series B-1 Preferred at least ten days written notice that sets forth the date on which the redemption will occur (the "Redemption Notice").

In July 2017, the Company issued 20,000 shares of Series B-1 Preferred in satisfaction of an accrued bonus payable to the Company's Chief Executive Officer.

On February 6, 2018, the Company delivered a Redemption Notice to certain holders of the Series B-1 Preferred notifying the holders of the Company's intent to redeem certain shares of Series B-1 Preferred on February 7, 2018 (the "Redemption Date") (the "Series B-1 Redemption"). On the Redemption Date, the Company paid an aggregate total of $999,990 to the holders of shares of Series B-1 Preferred, resulting in the redemption of 93,457 shares of Series B-1 Preferred. Following the Series B-1 Redemption, a total of 212,402 shares of Series B-1 Preferred remain issued and outstanding.

NOTE 4. RELATED PARTY TRANSACTIONS

During the six months ended December 31, 2018, the Company continued to be a party to a Service Agreement with Fields Management, Inc. (“FMI”), pursuant to which FMI provides certain executive management services to the Company, including designating Randall K. Fields to perform the functions of President and Chief Executive Officer for the Company. Mr. Fields also serves as the Company’s Chairman of the Board of Directors and controls FMI. The Company had payables of $45,200 and $316,539 to FMI at December 31, 2018 and June 30, 2018, respectively, under this Service Agreement. In addition, in the first quarter of fiscal 2017, 20,000 shares of Series B-1 Preferred were paid to FMI in satisfaction of an accrued bonus payable to Mr. Fields.

Randall K. Fields and Robert W. Allen each beneficially own Series B-1 Preferred. As a result of the Series B-1 Redemption, the Company paid an aggregate of $889,159 and $110,831 to Messrs. Fields and Allen, respectively, in consideration for the redemption of 83,099 and 10,358 shares of Series B-1 Preferred. See Note 3.

NOTE 5. RECENT ACCOUNTING PRONOUNCEMENTS

In August 2018, the FASB issued Accounting Standards Update (“ASU”) 2018-15 “Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40) Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract.” This ASU requires companies to defer specific implementation costs incurred in a Cloud Computing Arrangement (“CCA”) that are often expensed as incurred under current GAAP and recognize the expense over the noncancelable term of the CCA. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Although we are still evaluating the impact of this new standard, we do not believe that the adoption will materially impact our Condensed Consolidated Financial Statements and related disclosures.

In August 2018, the FASB issued ASU 2018-13 “Fair Value Measurement (Topic 820) Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement.” This ASU eliminates, amends, and adds disclosure requirements for fair value measurements. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Although we are still evaluating the impact of this new standard, we do not believe that the adoption will materially impact our Condensed Consolidated Financial Statements and related disclosures.

In January 2017, the FASB issued ASU 2017-04 “Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,” which amends and simplifies the accounting standard for goodwill impairment. The new standard removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount a reporting unit’s carrying value exceeds its fair value, limited to the total amount of goodwill allocated to that reporting unit. The new standard is effective for annual and any interim impairment tests for periods beginning after December 15, 2019. We are currently assessing the implication of our adoption as well as the potential impact that the standard will have on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 “Leases (Topic 842).” Under the new guidance, lessees will be required to recognize for all leases (with the exception of short-term leases) a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis and a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. We adopted the provisions on January 1, 2019 and determined that the amount of Lease Obligations retrospectively did not have a material effect on the financial statements. We expect that future lease obligations and right-of-use assets may increase the total assets and total liabilities we report and that amount may be material.

NOTE 6. SUBSEQUENT EVENTS

In accordance with the Subsequent Events Topic of the FASB ASC 855, we have evaluated subsequent events through the filing date and noted no subsequent events, other than those disclosed below, that are reasonably likely to impact the financial statements.

Corporate Office Lease

On January 4, 2019, the Company reached an agreement to lease office space of approximately 9,800 square feet at 5288 Commerce Drive, Suite D-292, Murray, UT 84107. The Company will relocate its corporate headquarters from a downtown high-rise in Salt Lake City to a more reasonably priced location. Rent commences on March 1, 2019. Rent is $10,200 per month. The initial term is for three years with two additional three year option renewals.

Stand-Alone Revolving Note Amendment

On January 9, 2019, the Company and U.S. Bank N.A. (the “Bank”) entered into an amendment to the outstanding Stand-Alone Revolving Note dated February 12, 2018. Pursuant to the Amendment, the parties agreed to (i) extend the maturity date to December 31, 2019; (ii) increase the maximum borrowing amount to $6.0 million; (iii) increase the interest rate to 1.75% per annum plus the greater of zero percent or one-month LIBOR, (iv) convert the Note from a secured instrument to an unsecured instrument; provided, however, that the Company must maintain liquid assets equal to the outstanding balance of the Note, and (v) to add a provision requiring the Company to maintain a Senior Funded Debt to EBITDA Ratio of not more than 2:1.

Master Lease Agreement

On January 9, 2019, the Company also entered into a Master Lease Agreement with the Bank, pursuant to which the parties agreed that the Bank will finance up to $1.0 million of equipment and services related to the Company’s information technology expenditures and build-out of its new corporate facility, which it will then lease back to the Company. Specific terms related to future purchases shall be set forth in various schedules, which shall be entered into by the parties from time to time, and which shall incorporate the terms of the Master Lease Agreement.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements. The words or phrases "would be," "will allow," "intends to," "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," or similar expressio intended to identify "forward-looking statements." Actual results could differ materially from those projected in the forward-looking statements as a result of a number of risks and uncertainties, including those risks factors contained in our June 30, 2018 Annual Report on Form 10-K, incorporated by reference herein. Statements made herein are as of the date of the filing of this Quarterly Report on Form 10-Q with the Securities and Exchange Commission and should not be relied upon as of any subsequent date. Unless otherwise required by applicable law, we do not undertake, and specifically disclaim any obligation, to update any forward-looking statements to reflect occurrences, developments, unanticipated events or circumstances after the date of such statement.

Overview

Park City Group, Inc. (the "Company") is a Software-as-a-Service (SaaS) provider, and the parent company of ReposiTrak Inc., a business-to-business ("B2B") e-commerce, compliance, and supply chain management platform company that partners with retailers, wholesalers, and product suppliers to help them source, vet, and transact with their suppliers in order to accelerate sales, control risks, and improve supply chain efficiencies.

The Company's supply chain and MarketPlace services provide its customers with greater flexibility in sourcing products by enabling them to choose new suppliers and integrate them into their supply chain faster and more cost effectively, and it helps them to more efficiently manage these relationships, enhancing revenue while lowering working capital, labor costs and waste. The Company's food safety and compliance solutions help reduce a company's potential regulatory, legal, and criminal risk from its supply chain partners by providing a way for them to ensure these suppliers are compliant with food safety regulations, such as the Food Safety Modernization Act of 2011 ("FSMA").

The Company's services are grouped in three application suites: (i) ReposiTrak MarketPlace, encompassing the Company's supplier discovery and B2B e-commerce solutions, which helps the Company's customers find new suppliers, (ii) ReposiTrak Compliance and Food Safety solutions, which help the Company's customers vet suppliers to mitigate the risk of doing business with these suppliers, and (iii) ReposiTrak's Supply Chain solutions, which help the Company's customers to more efficiently manage their various transactions with their suppliers.

The Company's services are delivered though proprietary software products designed, developed, marketed and supported by the Company. These products are designed to provide transparency and to facilitate improved business processes among all key constituents in the supply chain, starting with the retailer and moving back to suppliers and eventually to raw material providers. The Company provides cloud-based applications and services that address e-commerce, supply chain, food safety and compliance activities. The principal customers for the Company's products are multi-store food retail store chains and their suppliers, branded food manufacturers, food wholesalers and distributors, and other food service businesses.

The Company has a hub and spoke business model. The Company is typically engaged by retailers and wholesalers ("Hubs"), which in turn require their suppliers ("Spokes") to utilize the Company's services.

The Company is incorporated in the state of Nevada and has three principal subsidiaries: PC Group, Inc., a Utah corporation (98.76% owned); Park City Group, Inc., a Delaware corporation (100% owned); and ReposiTrak, Inc., a Utah corporation (100% owned). All intercompany transactions and balances have been eliminated in the Company's consolidated financial statements, which contain the operating results of the operations of Park City Group, Inc. (Delaware) and ReposiTrak, Inc. Park City Group, Inc. (Nevada) has no business operations separate from the operations conducted through its subsidiaries.

The Company's principal executive offices are located at 299 South Main Street, Suite 2225, Salt Lake City, Utah 84111. Its telephone number is (435) 645-2000. Its website address is http://www.parkcitygroup.com, and ReposiTrak's website address is http://repositrak.com.

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Results of Operations

Comparison of the Three Months Ended December 31, 2018 to the Three Months Ended December 31, 2017.

Revenue

	Fiscal Quarter Ended December 31,		Variance	
	2018	2017	Dollars	Percent
Revenue	$5,565,237	$5,724,706	$(159,469)	-3%

Revenue was $5,565,237 and $5,724,706 for the three months ended December 31, 2018 and 2017, respectively, a 3% decrease. This decrease was primary due to lower transaction revenue associated with the Company's MarketPlace B2B e-commerce services offering and lower revenue from the sale of licenses versus the comparable period, offset in part by higher subscription revenue from the Company's ReposiTrak Compliance and supply chain services.

While no assurances can be given, management currently believes that revenue will increase in subsequent periods primarily due to growth in new customers for all of the Company's services, and in particular the Company's MarketPlace B2B e-commerce services, and secondarily due to the Company's strategy of cross-selling existing customers other services.

Cost of Services and Product Support

	Fiscal Quarter Ended December 31,		Variance	
	2018	2017	Dollars	Percent
Cost of services and product support	$1,270,659	$1,426,351	$(155,692)	-11%
Percent of total revenue	23%	25%		

Cost of services and product support was $1,270,659 and $1,426,351 for the three months ended December 31, 2018 and 2017, respectively, a 11% decrease. This decrease is primarily attributable to lower costs related to cost of goods sold associated with new product introductions, in particular to MarketPlace, and to a lesser extent the expansion of ReposiTrak compliance capabilities to include new attributes versus the comparable period.

While no assurance can be given, management currently expects cost of services to grow in both absolute terms, and as a percentage of revenue, as the Company continues to invest in MarketPlace.

Sales and Marketing Expense

	Fiscal Quarter Ended December 31,		Variance	
	2018	2017	Dollars	Percent
Sales and marketing	$1,139,855	$1,621,149	$(481,294)	-30%
Percent of total revenue	20%	28%		

Sales and marketing expense was $1,139,855 and $1,621,149 for the three months ended December 31, 2018 and 2017, respectively, a 30% decrease. This decrease in sales and marketing expense is due to a decrease in head count, salary expense, and variable compensation associated with its Success Team strategy.

While no assurances can be given, management currently expects sales and marketing expense to be relatively flat in absolute value in subsequent periods, but to fall as a percentage of total revenue as it continues to utilize its Success Team strategy.

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General and Administrative Expense

	Fiscal Quarter Ended December 31,		Variance	
	2018	2017	Dollars	Percent
General and administrative	$1,326,735	$1,140,085	$186,650	16%
Percent of total revenue	24%	20%		

General and administrative expense was $1,326,735 and $1,140,085 for the three months ended December 31, 2018 and 2017, respectively, a 16% increase. General and administrative expense was higher year over year due to increased administrative compensation, accounting fees, and compliance related costs.

While no assurances can be given, management currently expects general and administrative expense to increase in absolute value in subsequent periods, but to fall as a percentage of total revenue as it benefits from investments in automation and process optimization.

Depreciation and Amortization Expense

	Fiscal Quarter Ended December 31,		Variance	
	2018	2017	Dollars	Percent
Depreciation and amortization	$144,030	$163,825	$(19,795)	-12%
Percent of total revenue	3%	3%		

Depreciation and amortization expense was $144,030 and $163,825 for the three months ended December 31, 2018 and 2017, respectively, a decrease of 12%. This decrease is primarily due to the fully depreciation of computer hardware and software.

Other Income and Expense

	Fiscal Quarter Ended December 31,		Variance	
	2018	2017	Dollars	Percent
Net other income (expense)	$49,150	$(7,696)	$56,846	739%

Percent of total revenue	1%	NM

Net other income was $49,150 for the three months ended December 31, 2018 compared to net other expense of $7,696 for the three months ended December 31, 2017. Other income was positive in the quarter versus negative in the comparable period a year ago due to an increase in interest income as a result of an increase in the Company’s cash balance and higher investment yields on that cash, as well as lower interest expense associated with end-of-term equipment financing.

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Preferred Dividends

	Fiscal Quarter Ended December 31,		Variance	
	2018	2017	Dollars	Percent
Preferred dividends	$146,611	$162,966	$(16,355)	-10%
Percent of total revenue	3%	3%		

Dividends accrued on the Company's Series B-1 Preferred was $146,611 for the three months ended December 31, 2018, compared to dividends accrued on the Series B-1 Preferred of $162,966 for the three months ended December 31, 2017. This decrease was due to a timing difference of dividends earned but not paid for the three months ended December 31, 2017.

Comparison of the Six Months Ended December 31, 2018 to the Six Months Ended December 31, 2017.

Revenue

	Six Months Ended December 31,		Variance	
	2018	2017	Dollars	Percent
Revenue	$11,507,231	$10,436,871	$1,070,360	10%

Revenue was $11,507,231 and $10,436,871 for the six months ended December 31, 2018 and 2017, respectively, a 10% increase. This increase was driven by growth in all revenue streams.

Cost of Services and Product Support

	Six Months Ended December 31,		Variance	
	2018	2017	Dollars	Percent
Cost of services and product support	$2,999,185	$2,844,364	$154,821	5%
Percent of total revenue	26%	27%		

Cost of services and product support was $2,999,185 and $2,844,364 for the six months ended December 31, 2018 and 2017, respectively, a 5% increase. This increase is primarily attributable to costs related to new product introductions, including MarketPlace and expansion of ReposiTrak compliance capabilities to include new features

and attributes.

Sales and Marketing Expense

	Six Months Ended December 31,		Variance	
	2018	2017	Dollars	Percent
Sales and marketing	$3,047,879	$3,207,089	$(159,210)	-5%
Percent of total revenue	26%	31%		

Sales and marketing expense was $3,047,879 and $3,207,089 for the six months ended December 31, 2018 and 2017, respectively, a 5% decrease. This decrease in sales and marketing expense is due to a decrease in head count, salary expense, and variable compensation associated with its inside sales Success Team strategy.

General and Administrative Expense

	Six Months Ended December 31,		Variance	
	2018	2017	Dollars	Percent
General and administrative	$2,470,046	$2,275,855	$194,191	9%
Percent of total revenue	21%	22%		

General and administrative expense was $2,470,046 and $2,275,855 for the six months ended December 31, 2018 and 2017, respectively, a 9% increase. General and administrative expense was higher year over year due to increased administrative compensation, accounting fees, and compliance related costs.

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Depreciation and Amortization Expense

	Six Months Ended December 31,		Variance	
	2018	2017	Dollars	Percent
Depreciation and amortization	$289,405	$322,628	$(33,223)	-10%
Percent of total revenue	3%	3%		

Depreciation and amortization expense was $289,405 and $322,628 for the six months ended December 31, 2018 and 2017, respectively, a decrease of 10%. This decrease is primarily due to the full depreciation of computer hardware and software as well as a lower depreciation associated with business equipment.

Other Income and Expense

	Six Months Ended December 31,		Variance	
	2018	2017	Dollars	Percent
Net other income (expense)	$73,801	$(29,887)	$103,688	347%
Percent of total revenue	1%	NM		

Net other income was $73,801 for the six months ended December 31, 2018 compared to net other expense of $29,887 for the six months ended December 31, 2017. Other income was positive in the six months ended December 31, 2018 versus negative in the comparable period a year ago due to an increase in interest income as a result of an increase in the Company's cash balance and higher yields on that cash balance, as well as lower interest expense associated with end of term lease financing.

Preferred Dividends

	Six Months Ended December 31,		Variance	
	2018	2017	Dollars	Percent
Preferred dividends	$293,222	$280,126	$13,096	5%
Percent of total revenue	3%	3%		

Dividends accrued on the Company's Series B-1 Preferred was $293,222 for the six months ended December 31, 2018, compared to dividends accrued on the Series B-1 Preferred of $280,126 for the six months ended December 31, 2017. This increase was due to a timing difference of dividends earned but not paid for the six months ended December 31, 2017.

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Inflation

We do not believe that inflation or changing prices have had a material impact on our historical operations or profitability.

Financial Position, Liquidity and Capital Resources

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

	As of		Variance	
	December 31, 2018	June 30, 2018	Dollars	Percent
Cash and cash equivalents	$16,682,282	$14,892,439	$1,789,843	12%

We have historically funded our operations with cash from operations, equity financings, and borrowings from the issuance of debt. Cash was $16,682,282 and $14,892,439 at December 31, 2018 and June 30, 2018, respectively. This 12% increase is principally the result of increased cash flows from operations due to higher revenue and accelerated collections.

Net Cash Flows from Operating Activities

	Six Months Ended December 31,		Variance	
	2018	2017	Dollars	Percent
Cash provided by operating activities	$1,830,582	$1,368,613	$461,969	34%

Net cash provided by operating activities is summarized as follows:

	Six Months Ended December 31,	
	2018	2017
Net Income	$2,652,017	$1,681,334

Noncash expense and income, net	812,678	905,777
Net changes in operating assets and liabilities	(1,634,113)	(1,218,498)
	$1,830,582	$1,368,613

Net cash used in operating activities increased primarily as a result of higher net income, offset in part by lower non-cash expense. Noncash expense decreased by $93,099 in the three months ended December 31, 2018 compared to December 31, 2017 as a result of a decrease in stock compensation, depreciation and amortization. The reduction in operating assets and liabilities versus the comparable period was due to an increase in trade receivable, accrued liabilities and deferred revenue offset in part by a reduction in accounts payable.

Net Cash Flows used in Investing Activities

	Six Months Ended December 31,		Variance	
	2018	2017	Dollars	Percent
Cash used in investing activities	$(3,547)	$(288,884)	$285,337	-99%

Net cash used in investing activities for the six months ended December 31, 2018 was $3,547 compared to net cash used in investing activities of $288,884 for the six months ended December 31, 2017. This decrease in cash used in investing activities for the six months ended December 31, 2018 is due to a decrease in fixed asset purchases and capitalized software costs.

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Net Cash Flows from Financing Activities

	Six Months Ended December 31,		Variance	
	2018	2017	Dollars	Percent
Cash used in financing activities	$(37,192)	$(315,227)	$(278,035)	-88%

Net cash used in financing activities totaled $37,192 for the six months ended December 31, 2018 as compared to cash used in financing activities of $315,227 for the six months ended December 31, 2017. The decrease in net cash used in financing activities is primarily attributable to a decrease in the payment of dividends and notes payable, offset in part by an increase in the amount drawn on the Company’s line of credit and higher proceeds from the exercise of warrants.

Working Capital

At December 31, 2018, the Company had working capital of $15,484,542, as compared to working capital of $15,743,569 at June 30, 2018. This $259,027 decrease in working capital is primarily due to a decrease of $652,283 in accounts payable, a decrease of $408,051 in accounts receivable and short-term contract assets, a decrease of $151,710 in the current portion of notes payable and a decrease of $87,970 in prepaid expense offset by an increase of $1,789,843 in cash, an increase of $1,430,000 in amounts drawn on the Company’s line of credit, an increase of $590,832 in accrued liabilities, and an increase of $336,010 in deferred revenue.

	As of December 31,	As of June 30,	Variance	
	2018	2018	Dollars	Percent
Current assets	$25,027,283	$23,733,461	$1,293,822	5%

Current assets as of December 31, 2018 totaled $25,027,283, an increase of $1,293,822, as compared to $23,733,461 as of June 30, 2018. The increase in current assets is attributable to an increase in cash of $1,789,843 offset in part by a decrease of $408,051 in accounts receivable and short-term contract assets, and a decrease of $87,970 in prepaid expense and other current assets.

	As of December 31,	As of June 30,	Variance	
	2018	2018	Dollars	Percent
Current liabilities	$9,542,741	$7,989,892	$1,552,849	19%

Current liabilities totaled $9,542,741 as of December 31, 2018 as compared to $7,989,892 as of June 30, 2018. The comparative increase in current liabilities is principally due to an increase of $1,430,000 in amounts drawn on the Company's line of credit, an increase of $590,832 in accrued liabilities, an increase of $336,010 in deferred revenue, offset in part by a reduction of $652,283 in accounts payable, and a reduction of $151,710 in the current portion of notes payable.

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Off-Balance Sheet Arrangements

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

Contractual obligations

Total contractual obligations and commercial commitments as of December 31, 2018 are summarized in the following table:

	Payment Due by Year				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Lease obligations	$34,808	$34,808	-	-	-

Critical Accounting Policies

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

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

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

Income Taxes

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

Goodwill and Other Long-Lived Asset Valuations

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

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Revenue Recognition

Effective July 1, 2018, we adopted the Financial Accounting Standards Board's Accounting Standards Update 2014-09: Revenue from Contracts with Customers (Topic 606), and its related amendments ("ASU 2014-09"). ASU 2014-09 provides a unified model to determine when and how revenue is recognized and enhances certain disclosure around the nature, timing, amount and uncertainty of revenue and cash flows arising from customers.

ASU 2014-09 represents a change in the accounting model utilized for the recognition of revenue and certain expense arising from contracts with customers. We adopted ASU 2014-09 using a "modified retrospective" approach and, accordingly, revenue and expense totals for all periods before July 1, 2018 reflect those previously reported under the prior accounting model and have not been restated.

See Note 2 to our Unaudited Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for a full description of the impact of the adoption of new accounting standards on our financial statements. Following the adoption of this guidance, the revenue recognition for our sales arrangements remained materially consistent with our historical practice and there have been no material changes to our critical accounting policies and estimates as compared to our critical accounting policies and estimates included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2018.

Stock-Based Compensation

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

Our exposure to interest rate changes related to borrowing has been limited, and we believe the effect, if any, of near-term changes in interest rates on our financial position, results of operations and cash flows should not be material. At December 31, 2018, the debt portfolio was composed of approximately 6% fixed rate debt and 94% variable rate debt.

	December 31, 2018 (Unaudited)	Percent of Total Debt
Fixed rate debt	$294,977	6%
Variable rate debt	4,660,000	94%
Total debt	$4,954,977	100%

The table that follows presents fair values of principal amounts and weighted average interest rates for our investment portfolio as of December 31, 2018:

Cash:	Aggregate Fair Value	Weighted Average Interest Rate
Cash	$16,682,282	2.21%

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ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness of the design and operations of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of December 31, 2018 was completed. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer believe that our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, including to ensure that information required to be disclosed by the Company is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

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

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PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are, from time to time, involved in various legal proceedings incidental to the conduct of our business. Historically, the outcome of all such legal proceedings has not, in the aggregate, had a material adverse effect on our business, financial condition, results of operations or liquidity. There is currently no pending or threatened material legal proceeding that, in the opinion of management, could have a material adverse effect on our business or financial condition.

ITEM 1A. RISK FACTORS

There are no risk factors identified by the Company in addition to the risk factors previously disclosed in Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended June 30, 2018.

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

10.1	Amendment to Note, dated January 9, 2019 (incorporated by reference to the Company's Current Report on Form 8-K, dated January 15, 2019).
10.2	Master Lease Agreement, dated January 9, 2019 (incorporated by reference to the Company's Current Report on Form 8-K, dated January 15, 2019).
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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SIGNATURES

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

		PARK CITY GROUP, INC.
Date: February 7, 2019	By:	/s/ Randall K. Fields
		Randall K. Fields
		Chief Executive Officer, Chairman and Director
		(Principal Executive Officer)

		PARK CITY GROUP, INC.
Date: February 7, 2019	By:	/s/ Todd Mitchell
		Todd Mitchell
		Chief Financial Officer
		(Principal Financial Officer & Principal Accounting Officer)