

Edgar Filing: PARK CITY GROUP INC - Form 10KSB

PARK CITY GROUP INC  
Form 10KSB  
October 14, 2003

10-KSB  
PERIOD ENDING 6/30/03

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

FORM 10-KSB

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

For the fiscal year ended  
June 30, 2003

Commission file number  
000-03718

PARK CITY GROUP, INC.  
-----

(Exact name of registrant as specified in its charter)

Nevada  
-----

37-1454128  
-----

(State or other jurisdiction of  
incorporation)

(IRS Employer Identification No.)

333 Main Street, Park City, Utah 84060  
-----

(Address of principal executive offices)

(435) 649-2221  
-----

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:  
Common Stock (\$.01 par value per share)

| Title of each Class<br>-----  | Name of each exchange on which registered<br>----- |
|-------------------------------|--|
| Common Stock, \$.01 Par Value | Over-the-Counter Bulletin Board                    |

Outstanding as of October 10, 2003  
-----

216,104,271 (2,344 shareholders)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities 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. (1) [ XX ] Yes [ ] No ; (2) [XX] yes [ ] No.

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

The issuer's revenues for the year ended June 30, 2003 were \$5,350,182.

The aggregate market value of the stock held by non-affiliates of the registrant is approximately \$4,374,000, calculated using a price of \$0.05 per share on October 10, 2003.

### TABLE OF CONTENTS TO ANNUAL REPORT ON FORM 10-KSB YEAR ENDED JUNE 30, 2003

#### PART I

|        |   |   |
|--------|---|---|
| Item 1 | Description of Business                             | 3 |
| Item 2 | Description of Properties                           | 7 |
| Item 3 | Legal Proceedings                                   | 7 |
| Item 4 | Submission of Matters to a Vote of Security Holders | 7 |

#### PART II

|         |  |    |
|---------|--|----|
| Item 5  | Market for Common Equity and Related Stockholder Matters                             | 8  |
| Item 6  | Management's Discussion and Analysis or Plan of Operation                            | 9  |
| Item 7  | Financial Statements   | 15 |
| Item 8  | Changes In and Disagreements with Accountants on Accounting and Financial Disclosure | 15 |
| Item 8A | Controls and Procedures  | 15 |

#### PART III

|            |   |    |
|------------|---|----|
| Item 9     | Directors, Executive Officers, Promoters and Control Persons  | 16 |
| Item 10    | Executive Compensation  | 18 |
| Item 11    | Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters                      | 20 |
| Item 12    | Certain Relationships and Related Transactions  | 21 |
| Item 13    | Exhibits and Reports on Form 8-K  | 21 |
|            | Signatures  | 22 |
|            | Consolidated Financial Statements June 30, 2003 and June 30, 2002   |    |
|            | Independent Auditor's Report  | 24 |
|            | Consolidated Balance Sheet as of June 30, 2003  | 25 |
|            | Consolidated Statements of Operations   | 26 |
|            | Consolidated Statements of Stockholders' Deficit  | 27 |
|            | Consolidated Statements of Cash Flows   | 28 |
|            | Notes to Consolidated Financial Statements June 30, 2003 and June 30, 2002  | 29 |
| Exhibit 31 | Certification pursuant to 18 U.S.C. Sec. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |    |
| Exhibit 32 | Certification pursuant to 18 U.S.C. Sec. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |    |

(REMAINDER OF PAGE INTENTIONALLY LEFT BLANK)

Forward-Looking Statements

This annual report on Form 10-KSB contains forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The words or phrases "would be," "will allow," "intends to," "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those projected in the forward looking statements as a result of a number of risks and uncertainties, including the risk factors set forth below and elsewhere in this report. See "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." Statements made herein are as of the date of the filing of this Form 10-KSB 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 disclaims any obligation, to update any forward-looking statements to reflect occurrences, developments, unanticipated events or circumstances after the date of such statement.

PART I

Item 1. Description of Business

General

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.

On June 13, 2001, the Company entered into a "Reorganization Agreement" with Randall K. Fields and Riverview Financial Corporation (hereafter referred to as "Reorganization Agreement,") whereby it acquired substantially all of the outstanding stock of Park City Group, Inc., a Delaware corporation ("PCG"), which became a 98.67% owned subsidiary. This business combination was treated as a reverse acquisition or a recapitalization of PCG, with PCG being treated as the acquirer. In connection with the Reorganization, the then Board of Directors resigned and was replaced by the Board of Directors of PCG. The stockholders of PCG gained voting control of the common stock of the Company and the name was changed from Amerinet Group.com, Inc. to Fields Technologies, Inc.

Operations are conducted through the subsidiary, PCG, which was incorporated in the State of Delaware in May 1990. PCG on April 5, 2001, acquired its wholly owned subsidiary, Fresh Market Manager, LLC ("FMM"), which is a Limited Liability Company formed in the State of Utah. PCG has conducted its operations since 1990. PCG provides, develops licenses and delivers consulting services through various software applications identified as "ActionManager" and "Fresh Market Manager."

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, PCG. In this Annual Report Form 10-KSB when the terms "we", "Company" or "Park City Group" are used, it is referring to the Park City Group, Inc., a Nevada corporation, as well as to Fields Technologies, Inc., the

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

Delaware corporation, which was reincorporated in Nevada under the name of 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 website address is [HTTP://WWW.PARKCITYGROUP.COM](http://WWW.PARKCITYGROUP.COM).

The Company has not been involved in any bankruptcy, receivership, or similar proceeding.

### Business

Park City Group is an established software company providing business operation management solutions, such as labor management and cost/category management software and consulting services to the retail sector of the market. The ActionManager and Fresh Market Manager applications are offered as a superior set of software solutions to retailers in the store operations management and perishable product management areas. 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 are highly pragmatic in their approach to standardizing and improving managerial actions. Finally, the products are executed on a fully developed, contemporary patented technology platform that is not only capable of supporting existing offerings, but can also be expanded to support related products.

3

The critical strength of the products is its artificial intelligence-like rules based technology that allows customers to tailor the operating rules to replicate the expert knowledge and practices of their most successful managers. Rules based systems are applications in which the action to be taken is determined by the rules defined by the user. As such, customers who use rules based system determine what action the system will perform when an identified condition occurs, usually based on the policies and procedures or "rules" of the customer's business operations. In this way, the customer decomposes its business operation into different rules or the way in which it wants certain conditions or actions to be addressed. In comparison, in non-rules based systems, the applications perform action as they have been designed and coded by the vendor, regardless of the action the customer might wish to take.

### ActionManager

ActionManager applications are designed to replace 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 corporate office while insuring that each geographically distributed location adheres to the company's defined operational standards. ActionManager applications provide an automated method for managers to plan, schedule, and administer virtually every administrative task at store-level. In addition to automating the bulk of all administrative processes, ActionManager also provides the local manager with a real-time "dashboard" view of the business, as well as a "cockpit management" type alert system to notify the manager when something is or is not to be planned, and suggests best practice advice as to what course of action to be taken. By automating a great deal of the "process" and administrative burden of management, ActionManager allows management, at all levels, to devote more time to customer-related and employee related activities and to improve their over-all planning and decision making. The use of the ActionManager applications are intended to result in cost savings and improved staff and customer focus in the store. ActionManager applications have been marketed to large, as well as small to mid-size retailers with 50 or more locations.

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

ActionManager is a suite of software applications grouped into three distinct solutions or "workbenches." Each ActionManager Workbench incorporates the core ActionBase and ActionBoard technologies that allow a multi-unit organization to embed a company's "best practice" solutions into the system.

### ActionBase

ActionBase provides a set of utilities for menu creation, maintenance and security. ActionBase is designed to efficiently and effectively manage and control the software deployed to remote locations and insure that all locations have the same consistent interfaces.

### ActionBoard

ActionBoard is a user defined, rules based, and real-time display of events requiring immediate managerial attention. ActionBoard provides best practices advice to location managers through the critical alerts process and the recommended action to be taken. This is accomplished by embedding corporate rules and practices in an application that cross-references and consolidates operating data.

ActionBoard is intended to be used by employees, managers, and the company as a whole. It displays operational information and guides employee and manager action. ActionBoard has been designed to provide the following potential advantages to employees:

- o Alerts managers to issues that require immediate attention
- o Gives advice on actions to be taken
- o Maintaining employees focus on essential activities and tasks to ensure that a critical task is not overlooked or delayed
- o Improving performance quality and consistency
- o Improving employee response time and level of contribution
- o Spotlighting achievements and successes for management

The following describes the ActionManager software workbenches and the individual applications within them:

### Information Manager's Workbench

The Information Manager's Workbench consists of the applications: ActionForm, ActionMail, CashSheet, ScoreTracker, Internet Mail Gateway, Action Gatekeeper, ReadyReference, and ReportBuilder which automate data collection and distribution, insuring consistent data flow both to and from the locations and the corporate office.

4

### Labor Manager's Workbench

The Labor Manager's Workbench consists of the applications: Scheduler, Forecaster and TimeMeter. These applications are designed to address the problems of managing staff and insuring that staff is performing the right tasks at the right time and in the right place. Labor requirements are determined by analyzing the results created by the Forecaster and compliance to schedules and monitoring time punches are provided by the TimeMeter application.

### HR Manager's Workbench

The HR Manager's workbench consists of the applications: SmartHire, Interactive Tutor, Checkup, and HRAction, which provide an automated process for personnel selection, training, and retention. These applications are intended to assist managers by automating many of the time consuming tasks that are associated with the hiring and training process.

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

### Fresh Market Manager

Fresh Market Manager is a fully integrated system for managing perishable grocery departments such as deli, bakery, food service, meat, seafood and produce. This software enables item management and category analysis by exception, with particular emphasis on managing the production processes taking place within the store. In addition, this application provides accurate cost of goods identification and sales profitability analysis to determine gross profit and net profit by item.

Fresh Market Manager provides corporate, store and department managers with total item information, allowing extensive category analysis of perishable products. Category and store department managers can leverage this information to increase sales, decrease shrinkage, and improve overall gross profit. Combined with demand forecasting and automated production, Fresh Market Manager is designed to ensure that variety and item freshness increase, while overall waste decreases.

Focusing initially on perishable inventory needs, the applications gather point of sale and production data, which is especially helpful in areas where better product delivery based on real demand, can help eliminate unnecessary waste, and can improve "right product" availability. The applications assist in the timely ordering of materials and provides real time demand management (based on patented forecasting algorithms) by using alerting functions. Store management may use this software application for:

- o Assortment planning to respond to customer preferences for variety and selection within the store
- o Forecasting, to attempt to improve sales by anticipating the expected demand
- o Production planning, to build produced items efficiently, when they are needed
- o Item management, to quickly and accurately enter transactions into the system
- o Reporting, to see what the business is doing now and make decisions based on current information

Corporate management may use the Fresh Market Manager software to control detailed data through well-defined information groupings to:

- o Determine the product mix for the enterprise at any level of detail
- o Create rules that drive production scheduling to meet the company's specific needs
- o Apply labor standards for production and for category management

The Fresh Market Manager applications are Cost Control and Category Management, Demand Forecast and Production Planner, Inventory and Computer Assisted Ordering, and Alert Advisor.

### Cost Control & Category Management

This application assists managers in reporting the amount of product produced, production waste as well as losses from throwaways and markdowns. The software decomposes the Point-of-Sale data to determine the timing of products sold and by using all the information, delivers cost and category management information down to the item level. The visibility gained through the use of the software assists all levels of a company's management to focus on profitability and product contribution.

### Demand Forecast and Production Planner

Demand Forecast and Production Planner: (a) delivers assortment plans and production schedules; (b) delivers corporate standards for core

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

items; (c) assists managers in selecting customer/market driven items; and (d) develops a daily production plan based on forecasted needs. This application is intended to assist an organization in making the right product in the right quantity to improve the profitability of the perishable business by effective production planning and accurate assortment planning.

### Inventory & Computer Assisted Ordering

This aspect of the application provides cost control and inventory management of perishable product ingredients (i.e. raw materials). It includes computer-assisted ordering and item receiving modules. The Inventory capability is intended to address the needs of businesses to control the cost of inventory while minimizing lost sales from items not produced due to out of stock ingredients.

5

### Alert Advisor

Alert Advisor delivers demand monitoring, exception analysis and production schedule revisions to relevant managers on a real-time basis.

### Business Operations Consulting (consulting services)

The consulting group's staff has extensive knowledge of the business operations aspects of retail businesses. The consulting group provides consulting services ranging from accelerated implementations (consultation support in conjunction with the customer's staff), to project level advisory consulting. Focused primarily on the implementation of the ActionManager and Fresh Market Manager applications, the professional services consultants assist customers in decision-making and implementing the software.

### Accelerated Implementation Strategy

Using experience and industry expertise, the team focuses on identifying the company's mission, crucial business elements within the client company, developing a rapid implementation program, and providing the customer with continued assistance. The elements of this strategy include:

- o On-site support for pre-implementation analysis of requirements
- o Consultants to augment the customer's project team
- o Defined project plans with time lines created to meet customer requirements
- o On-site support for installation and verification
- o Completion and delivery of post-implementation and return on investment analysis

### Implementation Assistance Services

An additional service provided to the customers including:

- o Project management and consulting support for customer project teams
- o Business rule recommendations and tailoring
- o Technical systems analysis, assessment and configuration
- o On-site training and educational services

### Patents and Proprietary Rights

The Company owns or controls 8 U.S. patents, 5 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.

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

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 as 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 plans to timely file international patents in all countries in which we seek market share.

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 results of 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.

6

### 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 \$2,100,695 and \$2,427,412 for the years ended June 30, 2003 and 2002, respectively; a 14% decrease. These expenditures include \$948,788 and \$1,701,850, respectively, which were capitalized. The decrease is attributable primarily to the reduction of development efforts after the release to customers of the Fresh Market Manager applications in September 2002.

### Reports to Security Holders



## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

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).

### Employees

As of June 30, 2003, the Company had 47 employees, including 23 software developers and programmers, 8 sales, marketing and account management employees, 7 software service and support employees and 9 accounting and administrative employees. All of these employees work for the Company on a full time basis. The employees are not represented by any labor union. In September 2003 the Company reduced the total employees to 32.

### Item 2. Description of Properties

-----

The principal place of business operations is 333 Main Street, Park City, Utah. The Company leases approximately 14,000 square feet at this location, consisting primarily of office and storage areas under a lease expiring on December 31, 2003 with an unrelated third party. The Company is currently negotiating for new office space to replace the existing space at the end of the lease term.

### Item 3. Legal Proceedings

-----

Debra Elenson vs. Fields Technologies, and Randall K. Fields (Filed -January 2002, in the Circuit Court of the 11th Judicial Circuit in and for Dade County, Florida): The plaintiff alleged, among other causes of actions, that a private placement memorandum pursuant to which the plaintiff had purchased shares of Fields Technologies, contained financial statements which were not prepared in accordance with U.S. generally accepted accounting principles and the requirements of SEC regulation S-X. The plaintiff alleged fraud, misrepresentation, unregistered sales of securities and other causes of actions. The lawsuit was settled in September 2003 for an additional 1,125,000 shares of common stock to be issued to Debra Elenson and payment of plaintiff's legal fees of \$21,348.

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

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

### Item 4. Submission of Matters to a Vote of Security Holders

-----

None

# Edgar Filing: PARK CITY GROUP INC - Form 10KSB

7

## PART II

### Item 5. Market for Common Equity and Related Stockholder Matters

#### Dividend Policy

To date, the Company has not paid dividends on common stock. The payment of dividends, if any, is within the discretion of the Board of Directors and will depend upon earnings, capital requirements and financial condition, and other relevant factors. See "Management's Discussion and Analysis of Financial Condition and Results of Operation." The Board does not intend to declare any dividends in the foreseeable future, but instead intends to retain all earnings, if any, for use in operations.

#### Share Price History

Common stock (the "Common Stock") is traded in the over-the-counter market in what is commonly referred to as the "Electronic" or "OTC Bulletin Board" or the "OTCBB" under the trading symbol "PKCY." The following table sets forth the high and low bid information of the Common Stock's closing price for the periods indicated. The price information contained in the table was obtained from internet sources considered reliable. Note that such over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, markdown or commission and the quotations may not necessarily represent actual transactions in the Common Stock.

| Fiscal Year 2002   | Low    | High   |
|--------------------|--------|--------|
| September 30, 2001 | \$0.17 | \$0.60 |
| December 31, 2001  | \$0.07 | \$0.17 |
| March 31, 2002     | \$0.09 | \$0.32 |
| June 30, 2002      | \$0.09 | \$0.22 |
| Fiscal Year 2003   |        |        |
| September 30, 2002 | \$0.05 | \$0.10 |
| December 31, 2002  | \$0.01 | \$0.07 |
| March 31, 2003     | \$0.01 | \$0.10 |
| June 30, 2003      | \$0.01 | \$0.10 |

#### Holdings of Record

At October 10, 2003 there were 2,344 holders of record of Common Stock and shares issued and outstanding of 216,104,271. The number of holders of record was calculated by reference to the stock transfer agent's books.

#### Issuance of Securities

Subsequent to June 30, 2001, shares of common stock were issued as follows:

- o In December 2001, 6,800,000 shares of common stock were sold in a private placement at \$0.25 per share. In addition to the common stock, purchasers received various additional rights. In March 2002, certain of these additional rights were relinquished in exchange for additional shares of the Company's common stock. The exchange was for every 1.67 shares with rights held 1 share of additional common stock was issued.
- o In March 2002, 1,666,667 shares of common stock were sold in a private placement, at \$0.15 per share, with an option to purchase

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

- 1,666,667 additional shares that expired September 2002.
- o In December 2001, 400,000 shares were issued as payment for consulting services.
  - o In March, 2002, the Company issued convertible debt, of \$1,750,000 at 10% interest due October 31, 2005. This debt was converted into 11,666,667 shares of common stock in June 2002, and carries a warrant for 11,666,667 shares to be purchased at \$.17 per share expiring, March 27, 2005. The warrant and debt carried anti-dilution rights. Adjustments to the warrant price and additional shares were issued in accordance with the anti-dilution rights in August and November 2002. In August 2002, 8,458,334 additional shares of common stock were issued, the exercise price of the warrants was decreased to \$0.10 per share, and the number of shares of common stock to be purchased under the warrant was increased to 20,125,001. In November 2002, 8,625,000 additional shares of common stock were issued the exercise price of the warrants was decreased to \$0.07 per share, and the number of shares of common stock to be purchased under the warrant was increased to 28,750,001. This shareholder was allowed further anti-dilution of the warrant exercise price to \$0.04 per share of common stock (and a corresponding increase in the number of shares of common stock to be purchased under the warrant), but the shareholder waived this right and opted for \$0.07 exercise price per share on the warrant.

8

- o In May 2002 166,667 shares of common stock were issued for consulting services.
- o In August and November 2002, the CEO of the Company and two members of the Board of Directors received in accordance with antidilution rights, additional shares of common stock and adjustments to the corresponding warrants. In August 2002, 1,450,000 additional shares of common stock were issued to the CEO, the exercise price of the warrants was decreased to \$0.10 per share from \$0.11 and \$0.24, and the number of shares of common stock to be purchased under the warrants was increased to 880,000 and 2,880,000 from 800,000 and 1,200,000, respectively. In November 2002, 1,478,571 additional shares of common stock were issued to the CEO, the exercise price of the warrants was decreased to \$0.04 per share, and the number of shares of common stock to be purchased under the warrant was increased to 9,400,000 in total. In August 2002, 2,658,334 additional shares of common stock were issued to the two directors, the exercise price of the warrants was decreased to \$0.10 per share from \$0.11 and \$0.24, respectively, and the number of shares of common stock to be purchased under the warrants was increased to 1,980,000 and 4,480,001 from the 1,800,000 and 1,866,667, respectively. In November 2002, 2,710,714 additional shares of common stock were issued, the exercise price of the warrants was decreased to \$0.04 per share, and the number of shares of common stock to be purchased under the warrants was increased to 16,150,002.
- o In December 2002, as consideration for extension of payment on the Note Payable to Riverview Financial Corporation ("Riverview"), the majority shareholder of PCG, the Company issued 7,000,000 shares of common stock to Riverview. The CEO of PCG is also majority owner and CEO of Riverview.
- o In December 2002 the Company obtained a \$2,000,000 note payable funding from a related party, a \$250,000 advance from Riverview and a credit facility of \$200,000 from Riverview. The Company

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

- issued 3,809,524 shares of common stock as a fee for the financing, and issued 857,143 shares of common stock to Riverview in connection with the financing.
- o In May 2003 349,901 shares of common stock were issued for consulting services.
  - o In June 2003 the Company issued 4,575,033 shares of common stock to officers and members of management in lieu of cash compensation. These shares included 750,006 to the CEO and 450,000 to a director in his capacity of Acting CFO.
  - o In June 2003 the Company issued 1,575,000 shares in settlement of a claim arising from the Reorganization with Amerinet Group.com, Inc. ("Amerinet") in June 2001.
  - o In September 2003 the Company issued 525,000 shares in settlement of a lawsuit with Debra Elenson arising from the Reorganization with Amerinet.
  - o In September 2003 100,000 shares of common stock were issued for consulting services.
  - o In October 2003 the Company issued 1,738,680 shares of common stock in to certain directors, an officer and others in connection with the extension of the Bridge Loan notes payable. See notes 8 and 19 to the audited financial statements.

### Item 6. Management's Discussion and Analysis of Financial Condition

#### ----- and Results of Operation -----

The following discussion and analysis provides information that management believes is relevant to an assessment and understanding of the consolidated results of operations and financial condition. The terms "Company", "we", "our" or "us" are used in this discussion to refer to Park City Group, Inc. (formerly Fields Technologies, Inc.) along with Park City Group, Inc.'s wholly owned subsidiary, Fresh Market Manager, LLC, on a consolidated basis, except where the context clearly indicates otherwise.

#### Overview

The principal business is the design, development, marketing and support of proprietary software products. These software products are designed to be used in retail and grocery businesses having multiple locations by assisting individual store locations and corporate management with managing daily business operations and communicating results of those operations in a timely manner.

In accordance with U.S. generally accepted accounting principles, all software development costs were expensed as incurred through December 31, 2000, with the software having been viewed as an evolving product. During January 2001, technological feasibility of major revisions to the Fresh Market Manager software and the ActionManager 4x development platform was established. In accordance with U.S. generally accepted accounting principles, development costs for Fresh Market Manager software incurred from January 2001 through September 2002, totaling \$1,063,515, were capitalized. These costs are being amortized on a straight-line basis over four years, beginning in September 2002 when the product was available for general release to customers. Development costs for ActionManager totaling \$2,242,079, incurred from January 2001 through March 2003, when the product became available for release to customers, were capitalized. The Company has focused its sales and marketing resources on its Fresh Market Manager software products, and intends to continue selling ActionManager software primarily through alliances with other software companies or software resellers. These distribution channels for ActionManager software have not yet been proven to provide the level of sales necessary to support the continued economic viability of the ActionManager capitalized development costs. Consequently, \$2,242,079 of capitalized development costs associated with the ActionManager products were charged to expense in June 2003.

The consolidated balance sheet does not reflect any value attributable to intellectual property, the cost of which has been expensed as incurred. To date, development and intellectual property expenditures have resulted in the development of applications of the ActionManager and Fresh Market Manager software, along with eight granted software patents and five patent applications, with numerous separate trademarks and copyrights.

Through June 30, 2003 the Company has accumulated aggregate consolidated losses totaling \$16,482,923 which includes net losses of \$5,003,355 and \$3,390,760 for years ended June 30, 2003, and 2002, respectively.

#### Management's Discussion and Analysis

##### Years Ended June 30, 2003 and 2002

During the year ended June 30, 2003, the Company had total revenues of \$5,350,182, compared to \$3,869,420 in 2002, a 38% increase. Software license sales were \$2,647,188 and \$1,664,207 for 2003 and 2002, respectively, a 59% increase. This increase was primarily attributable to sales to new Fresh Market Manager ("FMM") customers and to a strategic alliance with a consulting firm to the grocery industry. This firm purchased FMM licenses for resale, resulting in revenue to the Company of \$600,000. Maintenance and support revenue increased by 8% over 2002, primarily from maintenance agreements with new customers. The average customer of Park City Group purchases maintenance support services for 5 years. Consulting revenue increased by 111% over 2002 primarily attributable to implementation services for new Fresh Market Manager customers. The Company expects maintenance and support revenue for the year ending June 30, 2004 to be consistent with 2003. 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 \$1,218,070 and \$1,630,868 at June 30, 2003 and 2002, respectively, a decrease of 26%. This decrease is primarily attributable to decreased outstanding contractual obligations on contracts.

Research and development expenses (after capitalization of software development costs) were \$1,151,907 and \$725,562 for 2003 and 2002, respectively, a 59% increase. This increase is primarily because the Company stopped capitalizing software development costs for FMM in September 2002 and for ActionManager in March 2003. Research and development costs continue for both products for enhancements and upgrades.

Sales and marketing expenses were \$1,460,283 and \$1,614,710 for 2003 and 2002, respectively, a decrease of 10%. This decrease is primarily attributable to a reduction in the sales force during the later half of the year ended June 30, 2003. Continuing sales efforts are now performed primarily by senior management personnel.

General and administrative expenses were \$2,181,089 and \$1,908,983 for 2003 and 2002, respectively, a 14% increase. This increase is primarily attributable to legal fees for ongoing lawsuits and settlement costs of claims and lawsuits.

Interest expense was \$2,216,308 and \$771,225 for 2003 and 2002, respectively, a 187% increase. This increase is attributable principally to: (i) interest and amortization of warrants associated with the Bridge Note financing from directors and an officer; (ii) a change from simple interest to compounding interest on the note payable to Riverview; and (iii) increased interest rates and additional borrowings associated with the debt restructuring in December 2002.

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

### Financial Position, Liquidity and Capital Resources

The Company had \$69,305 in cash at June 30, 2003 compared with \$140,972 at June 30, 2002, a decrease of \$71,667. Working capital deficit at June 30, 2003 increased to \$5,988,254, compared to \$3,201,600 at June 30, 2002. The increase in the working capital deficit is principally attributable to an increase in the current portion of long-term debt as the result of the unfinished renegotiation to extend the note payable to Riverview, which is due in January 2004. The Company believes that the negotiations will conclude shortly with the note and related accrued interest being extended. This restructuring has not taken place as of October 13, 2003. If the extension of this debt had been accomplished, the working capital deficit would have been \$1,754,725. This improvement in proforma working capital deficit is primarily attributable to the restructuring of and probable restructuring of current debt in December 2002 to notes due in December 2004, and extension of payments to vendors.

During the year ended June 30, 2003 the operations of the Company provided net cash of \$23,278, compared to net cash used of \$1,242,859 for 2002. The improvement is primarily attributable to a smaller loss from operations in 2003 (after the non-cash expense of the write-off of capitalized software development costs is removed).

The Company reduced its overall monthly cash operating expenses by approximately \$90,000 in October 2002. In October 2003 the Company again reduced monthly cash operating expenses by another approximately \$70,000. A combination of efforts to judiciously monitor, control and, where appropriate, reduce ongoing expenses has been adopted by the Company's management team. The marketing focus of the Company is primarily on the promotion of Fresh Market Manager (FMM), by parlaying the success of our most recent licensees to drive sales momentum in this industry segment (grocery), and taking advantage of the sales potential by increasing the licensing of new customers. The sales cycle for FMM has proven to be extended, with most customers requiring several months from initial contact to licensing. Therefore, FMM licensing sales have been lower than anticipated in the second half of 2003. However, demonstrations of the product have been made to a significant number of potential customers, and proposals are outstanding to many of these potential customers. Management believes that new license sales will increase as the sales pipeline, although longer than anticipated, begins to

10

yield additional revenue, although there is no assurance that the additional sales will happen. 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 products through alliances with other software vendors and companies selling to the retail industry. The success of this selling strategy is dependent on establishing 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 may be unable to raise additional equity capital until it achieves profitable operations and refinances its debt. Because essentially all of the Company's assets are pledged to secure existing debt, additional debt financing may be unavailable. The Company anticipates that it will meet its working capital requirements primarily through increased revenue, while controlling and reducing costs and expenses. However, no assurances can be given that the Company will be

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

able to meet its working capital requirements.

### Inflation

The impact of inflation is not expected to have a significant effect on operations.

### Risk Factors

The Company is subject to certain other risk factors due to the organization and structure of the business, the industry in which it competes and the nature of its operations. These risk factors include the following:

#### Risk Factors Related to the Company's Operations

Continued net losses could impair the ability to raise capital.

The Company cannot accurately predict future revenues. The future marketing strategy emphasizes sales activities for the Fresh Market Manager applications; if this marketing strategy fails, revenues and operations will be negatively affected. All Park City Group applications are designed to be highly flexible so that they can work in multiple retail and supplier environments such as grocery stores, convenience stores, and quick service restaurants. There is no assurance that the market will accept the Fresh Market Manager applications in proportion to the increased marketing of this product line, although current business activity might suggest that the market opportunity and acceptance of the Fresh Market Manager product line are positive. It is possible that the Company may face significant competition that may negatively affect demand for the Fresh Market Manager applications, including the public's preference for competitor's new product releases or updates over the Company's releases or updates. If the Fresh Market Manager applications marketing emphasis fails, the Company will need to refocus its marketing strategy to ActionManager product offerings, which could lead to increased marketing costs, delayed revenue streams, and otherwise negatively affect operations.

There can be no assurance that the Company will be able to generate significant revenues or that it will achieve or maintain profitability, or generate revenues from operations in the future. Management believes that success will depend upon the ability to generate and retain new customers, which cannot be assured, and in many circumstances, may be beyond the Company's control. The ability to generate sales will depend on a variety of factors, including:

- o Sales and marketing efforts as well as the co-marketing efforts of strategic partners,
- o The reliability and cost-effectiveness of services, and
- o Customer service and support.

The Company faces competition from existing and emerging technologies that may affect our profitability. The markets for our type of software products and that of our competitors are characterized by: (i) Development of new software, software solutions, or enhancements that are subject to constant change, (ii) Rapidly evolving technological change, (iii) Unanticipated changes in customer needs.

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

- o Whether or how the Company will respond to technological changes in a timely or cost-effective manner,
- o Whether the products or technologies developed by competitors will render the products and services less attractive to potential buyers or shorten the life cycle of the Company's products and services, and

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

- o Whether products and services will achieve and sustain market acceptance.

11

If the Company is unable to adapt to the constantly changing markets and to continue to develop new products and technologies to meet customers' needs, revenues and profitability will be negatively affected. Future revenues are dependent on the successful development and licensing of new and enhanced versions of the products and potential product offerings. If the Company fails to successfully upgrade existing products and develop new products or the product upgrades and new products do not achieve market acceptance, revenues will be negatively impacted.

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

Management expects a portion of the revenue stream to come from license sales, maintenance and services charged to new customers, which will fluctuate in amounts because software sales to retailers tend to be cyclical in nature. 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,
- 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, Management expects future operating results to 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 the Company's expenses will be relatively fixed in the short-term, particularly with respect to depreciation, facilities and personnel. Therefore, future operating results will be particularly sensitive to fluctuations in revenues because of these and other short-term fixed costs.

The Company may be unable to collect receivables in amounts previously estimated.

In accordance with United States generally accepted accounting principles, the Company has established allowances against its receivables for the estimated uncollectible portion of receivables. However, the Company may experience collection rates below its established allowances, which could reduce the amount of available funds and require additional allowances. There can be no assurance that the Company will be able to collect its receivables in sufficient amounts. Failure to collect adequate amounts of its receivables could materially adversely affect the business and results of operations.

Some competitors are larger and have greater financial and operational resources



## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

that may give them an advantage in the market. Many of the Company's competitors are larger and have greater financial and operational resources. This may allow them to offer better pricing terms to customers in the industry, which could result in a loss of potential or current customers or could force the Company 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 the Company's product and service offerings less desirable to customers, again resulting in the loss of customers or a reduction in the price the Company can demand for our offerings.

The Company needs to hire and retain qualified personnel to sustain its business.

The Company is currently managed by a small number of key management and operating personnel. There are no employment agreements with most of the employees. Future success depends, in part, on the continued service of key executive, management, and technical personnel, some of whom have only recently been hired, and the ability to attract highly skilled employees. If key officers or employees are unable or unwilling to continue in their present positions, business could be harmed. From time to time, the Company has experienced, and expects to continue to experience, difficulty in hiring and retaining highly skilled employees. Competition for employees in the industry is intense. If the Company is unable to retain key employees or attract, assimilate or retain other highly qualified employees in the future, it may have a material adverse effect on the business and results of operations.

12

The Company is dependent on the continued participation of certain key executives and personnel to effectively execute its business plan and strategies and must effectively integrate its management team.

The business is dependent on the continued services of its founder and Chief Executive Officer, Randall K. Fields. Should the services of Mr. Fields be lost, operations will be negatively impacted. The Company currently maintains key man insurance on Mr. Fields life in the amount of \$10,000,000. The loss of the services of Mr. Fields would have a materially adverse effect on the business.

The Company depends on the ability of its management team to effectively execute its business plan and strategies. During the last year, key executives have had to forgo a portion of their salary, and as such are at risk for their continued commitment. If the management group is unable to effectively integrate its activities, or if the Company is unable to integrate new employees into its operations, its business plan and strategies will not be effectively executed and operations could suffer.

The business is currently dependent on a limited customer base; should any of these customer accounts be lost, revenues will be negatively impacted.

The Company expects 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. In addition, future revenues will be negatively impacted if the Company fails to add new customers that will make purchases of its products and services.

The Company may be unable to raise necessary funds for operations.

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

The Company anticipates that we need to raise additional funds to meet cash flow and capital requirements. In the past, the Company has frequently experienced cash flow shortages because not enough cash has been generated from operations to cover expenses. Raising additional funds will be necessary to meet capital needs. There can be no assurance that such financing will be available in amounts or on acceptable terms, if at all. Further, the lack of tangible assets to pledge could prevent the Company from establishing debt-based sources of financing. The inability to raise necessary funding would adversely affect the ability to successfully implement the business plan. There can be no assurance that the Company will be able to obtain additional financing to meet the current or future requirements on satisfactory terms, if at all. Failure to obtain sufficient capital could materially adversely affect the business and results of operations.

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

Despite efforts to protect proprietary rights, unauthorized parties may attempt to copy aspects of the Company's products or obtain and use information regarded as proprietary. Policing unauthorized use of the Company's products is difficult. While the Company is unable to determine the extent to which piracy of its software exists, software piracy can be expected to be a persistent problem, particularly in foreign countries where the laws may not protect proprietary rights as fully as the United States. The Company can offer no assurance that its means of protecting its proprietary rights will be adequate or that its competitors will not reverse engineer or independently develop similar technology.

The Company incorporates third party software providers' licensed technologies into its products; the loss of these technologies may prevent sales of its products or lead to increased costs.

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

The Company may discover software errors in its products that may result in a loss of revenues or injury to its reputation.

Non-conformities or bugs ("errors") may be found from time to time in the existing, new or enhanced products after commencement of commercial shipments, resulting in loss of revenues or injury to the Company's reputation. In the past, the Company has discovered errors in its products and, as a result, has experienced delays in the shipment of products. Errors in its products may be caused by defects in third-party software incorporated into the products. If so, these defects may not be able to be fixed without the cooperation of these software providers. Since these defects may not be as significant to the software provider as they are to the Company, it may not receive the rapid cooperation that may be required. The Company may not have the contractual right to access the source code of third-party software and, even if it does have access to the source code, it may not be able to fix the defect. Since its customers use its products for critical business applications, any errors, defects or other performance problems could result in damage to the customers'

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

business. These customers could seek significant compensation from the Company for their losses. Even if unsuccessful, a product liability claim brought against the Company would likely be time consuming and costly.

13

The Company's officers and directors serve as officers and directors of other corporations and have ownership interests in other corporations; conflicts of interest may arise which are not resolved in the Company's favor and which may negatively impact its operations and financial condition.

The officers and directors are in a position to control their own compensation and to approve dealings by the Company with other entities with which these principals are also involved. For example, if a company affiliated with one of the directors were to be considered as a possible strategic alliance, the director would have a conflict of interest in negotiating the most favorable terms for the director's affiliated company or Park City Group. As a result there will be conflicts of interest. There is no assurance that these conflicts will be resolved in the Company's favor.

The Chief Executive Officer, Randall K. Fields, has a 100% ownership interest in Riverview Financial Corp. that has entered into financial transactions with the Company; these transactions present conflicts of interest that may not be resolved in the Company's favor.

Park City Group has an unpaid promissory note due to Riverview Financial Corp. ("Riverview") in the amount of \$3,260,714 with interest payable at 12% per annum. In addition, another agreement provides that the Company's subsidiary, Park City Group, will pay to Riverview, an amount equal to 5% of the value of any acquisition the Company enters into during the term of Mr. Fields' employment agreement.

The Company may continue to have other transactions with Riverview that may create conflicts of interest between its interests and Mr. Fields' sole ownership of Riverview. There is no assurance that these conflicts will be resolved in the Company's favor.

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

The officers and directors are required to exercise good faith and high integrity in the management of the Company's affairs. The 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. The certificate of incorporation and bylaws also provide for the Company to indemnify the officers and directors against any losses or liabilities they may incur as a result of the manner in which they operate the business or conduct the internal affairs, provided that the officers and directors reasonably believe such actions to be in, or not opposed to, the Company's best interests, and their conduct does not constitute gross negligence, misconduct or breach of fiduciary obligations.

### Market and Capital Risks

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

The shares may be substantially diluted due to the following:

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

- 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 the Company issues any additional shares of common or preferred stock, proportionate ownership of common stock and voting power will be reduced. Further, any new issuance of common or preferred shares may prevent a change in control or management.

Issuance of preferred stock could depress the market value of current shareholders and could have a potential anti-takeover effect. The Company has 30,000,000 authorized shares of preferred stock that may be issued by action of the Board of Directors. The Board of Directors may designate voting control, liquidation, dividend and other preferred rights to preferred stock holders. The Board of Directors' authority to issue preferred stock without shareholder consent may have a depressive effect on the market value of the common stock. The issuance of preferred stock, under various circumstances, could have the effect of delaying or preventing a change in control or other take-over attempt and could adversely affect the rights of holders of the shares of common stock.

Preferred stock holders would receive dividends, if any, at a rate twenty times that paid per share of the common stock holders; accordingly, if dividends are declared, preferred stock holders will have preferential rights in the payment of dividends.

14

The holders of shares of preferred stock are entitled to receive, out of Company assets, legally available, and as when declared by the Board of Directors, dividends of every kind declared and paid to holders of common stockholders, at a rate of twenty times that paid for shares of common stock. Because the Board of Directors has the authority to issue preferred stock to such preferred stock holders will have preferential rights in the payment of dividends.

Because the common stock is considered a penny stock, any investment in the common stock is considered to be a high-risk investment and is subject to restrictions on marketability.

The common stock has traded on the Over-the-Counter Bulletin Board since June 2001. The bid price of the common stock has been less than \$5.00 during this period. The Company is subject to the penny stock rules adopted by the Securities and Exchange Commission that require brokers to provide extensive disclosure to its customers prior to executing trades in penny stocks. These disclosure requirements may cause a reduction in the trading activity of the common stock.

Broker-dealer practices in connection with transactions in penny stocks are regulated by certain penny stock rules adopted by the Securities and Exchange Commission.

Penny stocks generally are equity securities with a price of less than \$5.00. Penny stock rules require a broker dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document that provides information about penny stocks and the risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. In addition, the penny stock rules generally require that prior to a transaction in a penny stock, the broker-dealer make a special written determination that the penny stock is a suitable investment for the purchaser and receives the purchaser's written agreement to the transaction.

Because the Company is subject to the penny stock rules its shareholders may find it difficult to sell their shares.

### Item 7. Financial Statements

-----

See the index to consolidated financial statements and consolidated financial statement schedules included herein as Item 13.

### Item 8. Changes In and Disagreements With Accountants on Accounting ----- and Financial Disclosure -----

None.

### ITEM 8A. CONTROLS AND PROCEDURES

-----

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

Under the supervision and with the participation of our Management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operations of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of June 30, 2003. Based on this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective such that the material information required to be included in our Securities and Exchange Commission ("SEC") reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms relating to Park City Group, Inc., including our consolidated subsidiaries, and was made known to them by others within those entities, particularly during the period when this report was being prepared.

#### (b) Changes in internal controls over financial reporting.

In addition, there were no significant changes in our internal control over financial reporting that could significantly affect these controls during fiscal year ended June 30, 2003. We have not identified any significant deficiency or materials weaknesses in our internal controls, and therefore there were no corrective actions taken.

15

### PART III

-----

### Item 9. Directors, Executive Officers, Promoters and Control Persons;

-----

Compliance With Section 16(a) of the Exchange Act  
-----

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

The Board of Directors and executive officers consist of the persons named in the table below. Vacancies in the Board of Directors may only be filled by the Board of Directors by majority vote at a Board of Director's meeting of which stockholders holding a majority of the issued and outstanding shares of capital stock are present. The directors are elected annually by the stockholders at the annual meeting. Each director shall be elected for the term of one year, and until his or her successor is elected and qualified, or until earlier resignation or removal. The bylaws provide for at least one director. The directors and executive officers are as follows:

| Name<br>----             | Age<br>--- | Position - Committee<br>-----  |
|--------------------------|------------|--|
| Randall K. Fields        | 56         | President, Chief Executive Officer<br>Chairman of the Board and Director |
| *Peter Jensen            | 53         | Chief Financial Officer and Secretary                                    |
| Thomas W. Wilson         | 71         | Director and Compensation Committee Chairman                             |
| William R. Jones         | 68         | Director and Audit Committee Chairman                                    |
| Bernard F. Brennan       | 65         | Director   |
| **Edward C. Dmytryk      | 57         | Director   |
| ***Anthony E. Meyer      | 42         | Director   |
| ****Terry R. Peets       | 59         | Director   |
| *****Stephen D. Weinroth | 64         | Director   |

\*Appointed CFO on 6/3/03

\*\* Became acting CFO of the Company on 10/11/02, resigned as acting CFO on 6/3/03

\*\*\*Joined Board 10/14/02

\*\*\*\*Resigned from the Board 11/21/02

\*\*\*\*\*Resigned from the Board 10/14/02

Randall K. Fields has been the President, 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.

Peter Jensen has been Chief Financial Officer since June 3, 2003. Prior to joining Park City Group Mr. Jensen was a partner at the CPA firm of Niederhauser & Davis, LLC in Park City, Utah from July 2000. From 1996 to 2000 Mr. Jensen was a vice president of Enstor, LP, a developer of energy projects. Mr. Jensen has previously served as Treasurer of Plantronics, Inc., a publicly traded communications equipment manufacturer, and as Senior Manager at the CPA firm of KPMG. Mr. Jensen received a Bachelor of Science degree in Accounting from Brigham Young University and a Masters of Business Administration from Santa Clara University.

Thomas W. Wilson, Jr. has been a director since August, 2001. Mr. Wilson is also currently a director and the Chairman of the Board of Productivity Solutions, Inc., a Jacksonville, Florida builder of customer self-checkout point-of-sale equipment. From 1995 to 1999, Mr. Wilson was the Chairman of the Board and currently serves as a member of the Board of 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

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

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.

16

William R. Jones has been a director since August, 2001. Mr. Jones founded WR Jones Associates in 1996, a consulting firm that assists startup software companies to form marketing strategies, management processes and management teams. Mr. Jones served as a vice-president of Park City Group from 1991 to 1994. From 1984 to 1991, Mr. Jones was employed at International Business Machines in various capacities, including having served as a vice-president and was in charge of all marketing to the U.S. retail industry. Mr. Jones participated in bringing IBM's technologies to market, including: (i) Universal Product Code for item identification, (ii) The original IBM Personal Computer, (iii) Computer Assisted Manufacturing (iv) Just-in-Time inventory management and (v) Quick Response - supply chain inventory management

Bernard F. Brennan has been a director since August, 2001. Mr. Brennan has been a senior executive (CEO and President) with such organizations as Sears Roebuck & Company, Montgomery Ward Corporation, Von's Supermarkets as well as an additional broad spectrum of retail operations. He became President & CEO of Household Merchandising, Inc., a \$5 billion division of Household International, Inc. where he also served on Household International's board of directors. There he oversaw a diversity of retail operations, including Von's Supermarkets, Ben Franklin Stores, Coast-To-Coast Stores, TG & Y Discount Stores, Barker Brothers, Colby's and American Furniture Stores. In 1985, Brennan rejoined Montgomery Ward Corporation as Chairman & CEO of the holding company, including the Retail Group and Signature Direct Marketing Group, where he served until 1997. Mr. Brennan has also served as chairman of the National Retail Federation. Mr. Brennan currently serves on the board for Marketmax, a retail merchandising technology company, and Spotlight Solutions, a retail pricing optimization technology company.

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. Since September 1999, Mr. Dmytryk has also been the Acting President of GNR Health Systems, Inc., a physical therapy products sales company located in Ocala, Florida and is on the Board of Directors of Colmena Corporation. Since June of 1990, Mr. Dmytryk has also been the owner and Chief Executive Officer of Benchmark Industries, Inc., a metal fabrications company headquartered in Fort Worth, Texas. Mr. Dmytryk graduated Summa Cum Laude from the Citadel, the Military College of South Carolina in 1968 with a Bachelor of Science Degree.

Anthony E. Meyer has been a director since October, 2002. Mr. Meyer is the Chairman of privately held Meyer and Company LLC, a diversified merchant-banking firm based in New York City. He has extensive experience and relationships in the real estate, finance, venture capital, technology, and media sectors. Prior to founding Meyer and Company, Meyer was a Managing Director at Lazard Freres & Company LLC, a leading global private investment bank. Prior to joining Lazard Freres, Meyers was a General Partner of Trammell Crow Company, one of the largest diversified real estate companies in the US. After co-founding Trammell Crow Ventures, he served as the Chief Investment Officer and led the \$2.6 billion investment management company's efforts in real estate, private equity and venture capital. In his positions of entrepreneur, adviser and private

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

investor, Meyer worked with many private and public company representing a wide variety of industries some of which he continues to serve as a member of the Board of Directors. Mr. Meyer graduated from Harvard University with a degree in Economics and he received his MBA from Harvard Business School.

Terry R. Peets joined the Board of Directors in April 2002 and resigned his position in November 2002. Mr. Peets is currently an advisor to J P Morgan Partners and holds director positions with Diamond Brands, Inc., SuperMarkets Online, PSC/Spectra Physics, Doane Pet Care, Inc., City of Hope and the Children's Museum of Orange County.

Stephen D. Weinroth joined the Board of Directors on March 11, 2002, to represent the interests of AW Fields Acquisition, Inc. AW Fields Acquisition resigned its board representation on October 14, 2002. Mr. Weinroth serves on the board of the following entities: K. Hovnanian Enterprises, Inc., Central Asian-American Enterprise Fund, Financial Federal Corporation and First Britannia Mezzanine N.V.

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

17

### Item 10. Executive Compensation

-----

The following table sets forth information concerning the compensation paid to the Company's Chief Executive Officer, and all persons serving as the Company's most highly compensated executive officers other than its chief executive officer, who were serving as executive officers as of June 30, 2003 and whose annual compensation exceeded \$100,000 during such year (collectively the "Named Executive Officers").

#### SUMMARY COMPENSATION TABLE

| Name and Principal Position                                     | Year/Period | Annual Compensation |            |                                | Long-Term Compensation       |                                    |
|---|-------------|---------------------|------------|--------------------------------|------------------------------|------------------------------------|
|   |             | Salary (\$)         | Bonus (\$) | Other Annual Compensation (\$) | Restricted Stock Awards (\$) | Securities Underlying Options (\$) |
| Randall K. Fields<br>Chairman, President<br>and CEO             | *2001       | 175,000             | -          | 30,942 (1)                     | -                            |                                    |
|   | 2002        | 358,750             | -          | 48,334 (1)                     | -                            |                                    |
|   | 2003        | 330,000             | 6,477      | 41,185 (1)                     | 24,167                       |                                    |
| Shaun Broadhead<br>PCG Director of<br>Research &<br>Development | *2001       | 55,000              | -          | 1,098 (2)                      | -                            |                                    |
|   | 2002        | 127,708             | -          | 2,554 (2)                      | -                            |                                    |
|   | 2003        | 108,750             | 6,477      | 675 (2)                        | 24,167                       |                                    |



## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

|                         |       |         |        |        |     |        |
|-------------------------|-------|---------|--------|--------|-----|--------|
| Carolyn Doll            |       |         |        |        |     |        |
| PCG Vice-President      |       |         |        |        |     |        |
| Marketing               | *2001 | 60,000  | -      | 13,605 | (3) | -      |
|                         | 2002  | 120,000 | -      | 2,400  | (3) | -      |
|                         | 2003  | 105,000 | 6,477  | 600    | (3) | 24,167 |
|                         |       |         |        |        |     |        |
| Will Dunlavy            |       |         |        |        |     |        |
| PCG Vice-President      |       |         |        |        |     |        |
| Operations              | *2001 | 57,500  | 6,250  | 1,148  | (4) | -      |
|                         | 2002  | 115,000 | 6,250  | 2,425  | (4) | -      |
|                         | 2003  | 103,750 | 31,477 | 575    | (4) | 24,167 |
|                         |       |         |        |        |     |        |
| Paul Baird              |       |         |        |        |     |        |
| PCG Vice-President      |       |         |        |        |     |        |
| Consulting Services     | 2002  | 75,000  | 10,080 | 40,938 | (5) | -      |
|                         | 2003  | 112,500 | 6,477  | 625    | (5) | 24,167 |
|                         |       |         |        |        |     |        |
| Peter Jensen            |       |         |        |        |     |        |
| Chief Financial Officer |       |         |        |        |     |        |
| Corporate Secretary     | 2003  | 13,333  | -      | -      | (6) | 5,667  |

\* Compensation amounts for 2001 are for the period January 1, 2001 through June 30, 2001.

(1) These amounts include employer contributions to the Company's 401(k) Plan for the benefit of Mr. Fields in the amounts of \$1,608, \$5,278, and \$2,997 for 2003, 2002, and 2001, respectively, as well as payments for unused accrued vacation and sick leave of \$39,577, \$43,076, and \$27,945 for 2003, 2002 and 2001, respectively; (2) These amounts represent employer contributions to the Company's 401(k) Plan for the benefit of Mr. Broadhead; (3) These amounts include employer contributions to the Company's 401(k) Plan for the benefit of Mrs. Doll, as well as commissions of \$12,406 in 2001; (4) These amounts represent the employer contribution to the Company's 401(k) Plan for the benefit of Mr. Dunlavy; (5) Mr. Baird started with Park City Group in January 2002 and left the Company in July 2003. These amounts includes employer contributions to the Company 401K plan for the benefit of Mr. Baird, as well as \$40,000 of reimbursed relocation expenses in 2002; (6) Mr. Jensen started with Park City Group in May 2003 and was appointed CFO in June 2003.

18

### Employment Agreement with Randall K. Fields

Park City Group has an employment agreement with its president and chief executive officer, Randall K. Fields, dated effective January 1, 2001, and revised effective July 1, 2003. The term of the revised agreement is five years ending June 30, 2008, with automatic one-year renewals. This revised employment agreement provides for:

- o An annual base salary 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 Committee of the Board of Directors.

Effective October 1, 2002, Mr. Fields agreed to a temporary, but indefinite, reduction of his base salary to \$317,500.

### Director Compensation

The continuing outside directors, Edward C. Dmytryk, Thomas W. Wilson, Jr.,

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

William R. Jones, Bernard F. Brennan, and Anthony E. Meyer receive the following compensation:

- o Annual cash compensation of \$6,000 reflecting \$2,000 per scheduled in person director's meetings.
- o Options to acquire 125,000 shares of common stock (adjusted for any stock splits) to be granted annually at the beginning of the fiscal year, July 1, with an exercise price equal to the market price on the date of grant with such options to fully vest at the end of the respective fiscal year .
- o During his tenure as Acting CFO, Mr. Dmytryk received \$62,500 in salary, \$6,477 in bonuses, and stock valued at \$14,490.

### 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 was made after September 30, 2002. The expenses related to the plan for the years ended June 30, 2003 and 2002 were \$12,903 and \$53,910, respectively.

### Indemnification for Securities Act Liabilities

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, 2003, a total of 18,458,334 of such options were outstanding with exercise prices ranging from \$0.08 to \$0.24 per share.

At June 30, 2003 a total of 62,269,536 warrants to purchase shares of common stock were outstanding. Of those warrants, 300,000 have been issued to former officers of Amerinet; 248,273 were assumed in the reverse acquisition; 32,465,310 were issued in connection with certain debt financings; 1,575,000 were issued in settlement of a legal claim; and 27,680,953 were issued based on antidilution provisions associated with shares and warrants issued with certain transactions. These warrants have exercise prices ranging from \$0.04 to \$1.4325 per share and expire between August 31, 2003 and November 12, 2007.

### 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.

[Balance of page intentionally left blank]

## Item 11. Security Ownership of Certain Beneficial Owners and Management

---

Security Ownership of Certain Beneficial Owners

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

The following table sets forth certain information with respect to the beneficial ownership of the Company's Common Stock as of June 30, 2003, for each person or entity that is known to beneficially own more than 5 percent of the Common Stock. As of June 30, 2003, there were 213,740,591 shares of Common Stock outstanding.

| Title of<br>-----<br>Class<br>----- | Name and Address of Beneficial Owner<br>-----  | Amount of Beneficial<br>-----<br>Ownership<br>----- | Nature of<br>-----<br>Ownership<br>----- |
|-------------------------------------|--|---|--|
| Common                              | Randall K. Fields, Park City, Utah             | 35,181,662 (8)                                      | Direct                                   |
| Common                              | Riverview Financial Corp., Park City, Utah (1) | 92,780,243  | Direct                                   |
| Common                              | AW Fields Acquisition, LLC, New York, New York | 57,500,002 (3)                                      | Direct                                   |
| Total                               |  | 185,461,907<br>=====                                |  |

(1) Randall K. Fields is the president and 100% shareholder of Riverview Financial Corp.

### Security Ownership of Management

The following table sets forth certain information with respect to the beneficial ownership of Common Stock as of June 30, 2003, for each of the directors, each of the Named Executive Officers, and all directors and executive officers as a group. As of June 30, 2003, there were 213,740,591 shares of Common Stock outstanding.

| Title of Class<br>----- | Name, Position and Address of Beneficial Owner<br>-----                     | Amount of<br>Beneficial<br>Ownership (1)<br>----- | Nature of<br>-----<br>Ownership<br>----- |
|-------------------------|---|---|--|
| Common                  | Randall K. Fields, President, CEO, Chairman and Director<br>Park City, Utah | 127,961,905 (2)                                   | Direct and Indirect                      |
| Common                  | Edward C. Dmytryk, Director<br>Ocala, Florida                               | 862,660   | Direct                                   |
| Common                  | Thomas W. Wilson Jr., Director<br>Westport, Connecticut                     | 13,406,648 (4)                                    | Direct                                   |
| Common                  | William R. Jones; Director<br>Cumming, Georgia                              | 158,300   | Direct                                   |
| Common                  | Bernard F. Brennan, Director<br>Point Vedra Beach, Florida                  | 14,055,654 (5)                                    | Direct                                   |
| Common                  | Terry R. Peets, Director (8)<br>Balboa Island, California                   | 397,540 (6)                                       | Direct                                   |

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

|        |  |               |        |
|--------|--|---------------|--------|
| Common | Anthony E. Meyer<br>New York, New York             | 6,773,913 (7) | Direct |
| Common | Peter Jensen, CFO and Secretary<br>Park City, Utah | 133,334       | Direct |
| Common | Executive Officers & Directors as a Group          | 163,749,954   |        |

\* Less than 1%.

-----

(1) Beneficial ownership is determined in accordance with SEC rules and generally includes holding voting and investment power with respect to the securities. Shares of common stock subject to options or warrants currently exercisable, or exercisable within 60 days, are deemed outstanding for computing the percentage of the total number of shares beneficially owned by the designated person, but are not deemed outstanding for computing the percentage for any other person.

(2) Includes 92,780,243 shares of common stock owned by Riverview Financial Corp., which is 100% owned by Randall K. Fields.

(3) Includes warrants to purchase 28,750,001 shares of common stock.

(4) Includes warrants and options to purchase 9,299,505 shares of common stock.

20

(5) Includes warrants and options to purchase 9,127,083 shares of common stock.

(6) Includes warrants to purchase 397,540 shares of common stock.

(7) Includes warrants to purchase 6,773,913 shares of common stock.

(8) Includes warrants and options to purchase 13,690,185 shares of common stock.

### Change in Control

The Company is not currently engaged in any activities or arrangements that it anticipates will result in a change in control of the Company.

Pursuant to the terms of the note payable with Whale Investments, Ltd., the Company stock partially securing the note payable equates to a controlling interest in the Company. In the event of the Company's default on the Whale Investments, Ltd. note payable, the note holder may choose to foreclose on the Company stock partially securing the note, which would result in Whale Investment, Ltd. becoming the majority shareholder of the Company.

### Item 12. Certain Relationships and Related Transactions

-----

The Company has a note payable to Riverview Financial Corporation (Riverview), in the principal amount of \$3,260,714, a discount of \$131,250, and a net balance of \$3,129,464, at June 30, 2003 with accrued interest of \$1,049,065. The chief executive of Riverview is also the chief executive of the Company. In August 2002 the interest rate was increased from 10% to 12% and from simple to compounded interest. Riverview was issued 7,000,000 shares of common stock in November 2002 in consideration for an extension of the due date to January 2004. See notes 7 and 12 to the audited financial statements.

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 2004. Riverview was issued 857,143 shares of common stock in as an inducement to make the loan. See notes 8 and 12 to the audited financial statements.

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

The Company's CEO has made loans to the Company to cover short term cash needs pursuant to a line of credit promissory note payable. Repayments are made as funds are available, with a due date of July 31, 2004. Interest is at 12%. The balance due under the line of credit at June 30, 2003 was \$55,000. See note 7 to the audited financial statements.

In December 2002 the Company obtained a \$2,000,000 note payable funding from Whale Investment, Ltd. The note bears interest at 18%, payable monthly, and is due in December 2004. Whale Investment, Ltd. is controlled by an individual who was already a shareholder of the Company at the time of the loan. See notes 8 and 12 to the audited financial statements.

The Company has a payable to chief executive officer of \$54,989 at June 30, 2003 for unreimbursed business expenses, which is included in accounts payable.

The Company issued shares of common stock and warrants to an officer and directors pursuant to antidilution rights triggered by terms of the bridge note financings. See notes 8 and 12 to the audited financial statements.

### Item 13. Exhibits and Reports on Form 8-K

On May 21, 2003, the Company filed a Current Report on Form 8-K dated May 21, 2003 disclosing under Item 9 the operating and financial results for the quarter ended March 31, 2003.

On June 4, 2003, the Company filed a Current Report on Form 8-K dated June 4, 2003 disclosing under Item 5 the resignation of Edward C. Dmytryk as Acting CFO and the appointment of Peter Jensen as CFO.

On July 14, 2003, the Company filed a Current Report on Form 8-K dated July 2, 2003 disclosing under Item 2 the cancellation of 6,283,529 shares of common stock pledged under Subscription Agreements from three shareholders. The Promissory Notes related to the Subscription Agreements were in default.

#### Exhibits, Financial Statements and Schedules

The Consolidated Financial Statements and Report of Independent Accountants are contained in this Form 10-KSB beginning on page 24.

Exhibit 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

#### SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Edgar Filing: PARK CITY GROUP INC - Form 10KSB

PARK CITY GROUP, INC.  
(Registrant)

Date: October 14, 2003  
-----

By /s/ Randall K. Fields  
-----

Randall K. Fields  
President, Chief Executive Officer,  
Chairman of the Board and Director

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature   | Title  | Date                 |
|---|--|----------------------|
| /s/ Randall K. Fields<br>-----<br>Randall K. Fields         | President, Chief Executive Officer,<br>Chairman of the Board and Director<br>(Principal Executive Officer) | October 14,<br>----- |
| /s/ Peter Jensen<br>-----<br>Peter Jensen                   | Chief Financial Officer and<br>Secretary   | October 14,<br>----- |
| /s/ Edward C. Dmytryk<br>-----<br>Edward C. Dmytryk         | Director   | October 14,<br>----- |
| /s/ William R. Jones<br>-----<br>William R. Jones           | Director   | October 14,<br>----- |
| /s/ Thomas W. Wilson, Jr.<br>-----<br>Thomas W. Wilson, Jr. | Director   | October 14,<br>----- |
| /s/ Bernard F. Brennan<br>-----<br>Bernard F. Brennan       | Director   | October 14,<br>----- |
| /s/ Anthony E. Meyer<br>-----<br>Anthony E. Meyer           | Director   | October 14,<br>----- |

22

Park City Group, Inc. & Subsidiaries  
-----

Consolidated Financial Statements  
-----

June 30, 2003 and 2002  
-----

Index to Consolidated Financial Statements

Edgar Filing: PARK CITY GROUP INC - Form 10KSB

|  | Page No. |
|--|----------|
| Independent Auditors' Report<br>Tanner + Co.   | 24       |
| Consolidated Balance Sheet as of June 30, 2003   | 25       |
| Consolidated Statements of Operations for the years<br>ended June 30, 2003 and 2002            | 26       |
| Consolidated Statements of Stockholders' Deficit for<br>the years ended June 30, 2003 and 2002 | 27       |
| Consolidated Statements of Cash Flows for the years<br>ended June 30, 2003 and 2002            | 28       |
| Notes to Consolidated Financial Statements   | 29       |

23

Park City Group, Inc. & Subsidiaries

-----  
Independent Auditors' Report  
-----

To the Board of Directors and  
Shareholders of Park City Group, Inc.

We have audited the accompanying consolidated balance sheet of Park City Group, Inc. and Subsidiaries as of June 30, 2003, and the related consolidated statements of operations, stockholders' deficit, and cash flows for the years ended June 30, 2003 and 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Park City Group, Inc. and subsidiaries as of June 30, 2003 and the results of their operations and their cash flows for the years ended June 30, 2003 and 2002, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has a working capital deficit and has suffered recurring losses that raise substantial doubt about its ability to

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

continue as a going concern. Management's plans regarding those matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Tanner + Co.  
-----

Salt Lake City, Utah  
October 9, 2003

24

### Park City Group, Inc. & Subsidiaries

#### ----- Consolidated Balance Sheet -----

June 30, 2003  
-----

#### Assets

-----

#### Current assets:

-----

|   |    |           |
|---|----|-----------|
| Cash  | \$ | 69,305    |
| Receivables, net of allowance for doubtful accounts |    | 945,402   |
| Prepaid expenses and other current assets           |    | 49,267    |
|   |    | -----     |
| Total current assets                                |    | 1,063,974 |
|   |    | -----     |

|  |  |         |
|--|--|---------|
| Property and equipment, net of accumulated depreciation and amortization |  | 105,355 |
|  |  | -----   |

#### Other assets:

|   |  |         |
|---|--|---------|
| Deposits and other assets                                   |  | 117,049 |
| Capitalized software costs, net of accumulated amortization |  | 864,106 |
|   |  | -----   |

|                    |  |         |
|--------------------|--|---------|
| Total other assets |  | 981,155 |
|                    |  | -----   |

|              |    |           |
|--------------|----|-----------|
| Total assets | \$ | 2,150,484 |
|              |    | =====     |

#### Liabilities and Stockholders' Deficit

-----

#### Current liabilities

-----

|   |    |           |
|---|----|-----------|
| Accounts payable  | \$ | 763,914   |
| Accrued liabilities   |    | 637,167   |
| Deferred revenue  |    | 1,218,070 |
| Advances payable  |    | 175,000   |
| Current portion of long-term debt and capital lease obligations |    | 24,548    |
| Notes payable to related parties, net of discount of \$131,250  |    | 3,184,464 |
| Accrued interest on notes payable to                            |    |           |



Edgar Filing: PARK CITY GROUP INC - Form 10KSB

|   |              |
|---|--------------|
| related parties   | 1,049,065    |
|   | -----        |
| Total current liabilities   | 7,052,228    |
| Long-term debt and related party note payable, less current portion, net of discount of \$242,166 | 3,027,576    |
|   | -----        |
| Total liabilities   | 10,079,804   |
|   | -----        |
| Commitments and contingencies   | -            |
| Stockholders' deficit:  |              |
| Preferred stock, \$.01 par value, 30,000,000 shares authorized no shares issued,                  | -            |
| Common stock, \$.01 par value, 300,000,000 shares authorized, 213,740,591 issued and outstanding  | 2,138,407    |
| Additional paid-in-capital  | 6,445,196    |
| Treasury stock, 100,000 shares  | (30,000)     |
| Accumulated deficit   | (16,482,923) |
|   | -----        |
| Total stockholders' deficit   | (7,929,320)  |
|   | -----        |
| Total liabilities and stockholders' deficit   | \$ 2,150,484 |
|   | =====        |

See accompanying notes to consolidated financial statements.

25

Park City Group, Inc. & Subsidiaries

Consolidated Statement of Operations

For the Years Ended June 30, 2003 and 2002

|                         | Year Ended<br>June 30, 2003 | Year Ended<br>June 30, 2002 |
|-------------------------|-----------------------------|-----------------------------|
|                         | -----                       | -----                       |
| Revenues:               |                             |                             |
| Software licenses       | \$ 2,647,188                | \$ 1,664,207                |
| Maintenance and support | 2,035,891                   | 1,888,415                   |
| Consulting and other    | 667,103                     | 316,798                     |
|                         | -----                       | -----                       |
| Total revenues          | 5,350,182                   | 3,869,420                   |
| Cost of revenues        | 1,101,871                   | 839,700                     |
|                         | -----                       | -----                       |

Edgar Filing: PARK CITY GROUP INC - Form 10KSB

|  |                |                |
|--|----------------|----------------|
| Gross margin                               | 4,248,311      | 3,029,720      |
| Operating expenses:                        |                |                |
| Research and development                   | 1,151,907      | 725,562        |
| Sales and marketing                        | 1,460,283      | 1,614,710      |
| General and administrative expenses        | 2,181,089      | 1,908,983      |
| Impairment of capitalized software costs   | 2,242,079      | -              |
| Total operating expenses                   | 7,035,358      | 4,249,255      |
| Loss from operations                       | (2,787,047)    | (1,219,535)    |
| Interest expense                           | (2,216,308)    | (771,225)      |
| Loss before income taxes                   | (5,003,355)    | (1,990,760)    |
| Income tax (expense) benefit:              |                |                |
| Current                                    | -              | -              |
| Deferred                                   | -              | (1,400,000)    |
|  | -              | (1,400,000)    |
| Net loss                                   | \$ (5,003,355) | \$ (3,390,760) |
| Preference dividend to shareholders        | -              | (670,000)      |
| Net loss available to common shareholders  | \$ (5,003,355) | \$ (4,060,760) |
| Weighted average shares, basic and diluted | 198,027,000    | 155,737,000    |
| Basic and diluted loss per share           | \$ (0.03)      | \$ (0.02)      |

See accompanying notes to consolidated financial statements.

Edgar Filing: PARK CITY GROUP INC - Form 10KSB

|  | Common Stock |              | Additional         | Subscription   | Treasury    | A           |
|--|--------------|--------------|--------------------|----------------|-------------|-------------|
|  | Shares       | Amount       | Paid-In<br>Capital | Receivable     | Stock       |             |
|  | -----        | -----        | -----              | -----          | -----       | -----       |
| Balance, June 30, 2001                               | 149,276,564  | \$ 1,492,766 | \$ 1,829,539       | \$ (1,323,200) | \$ -        | \$ -        |
| Beneficial conversion<br>feature on AW Fields note   | -            | -            | 233,334            | -              | -           | -           |
| Payment received on stock<br>subscription receivable | -            | -            | -                  | 255,000        | -           | -           |
| Common stock issued for:                             |              |              |                    |                |             |             |
| Cash   | 10,466,667   | 104,667      | 2,072,083          | -              | -           | -           |
| Services   | 566,667      | 5,667        | 67,333             | -              | -           | -           |
| Cancellation of<br>rights                            | 4,466,667    | 44,667       | (44,667)           | -              | -           | -           |
| Conversion of debt                                   | 11,666,667   | 116,667      | 1,456,795          | -              | -           | -           |
| Purchase of treasury stock                           | (100,000)    | -            | -                  | -              | (30,000)    | -           |
| Net loss   | -            | -            | -                  | -              | -           | -           |
|  | -----        | -----        | -----              | -----          | -----       | -----       |
| Balance, June 30, 2002                               | 176,343,232  | 1,764,434    | 5,614,417          | (1,068,200)    | (30,000)    | (30,000)    |
| Common stock issued for:                             |              |              |                    |                |             |             |
| Compensation   | 4,708,367    | 47,083       | 105,584            | -              | -           | -           |
| Services   | 349,901      | 3,499        | 20,994             | -              | -           | -           |
| Settlement   | 1,575,000    | 15,750       | 74,551             | -              | -           | -           |
| Debt refinancing                                     | 11,666,667   | 116,667      | 402,857            | -              | -           | -           |
| Antidilution<br>provisions                           | 25,380,953   | 253,809      | 119,179            | -              | -           | -           |
| Warrants issued with<br>related party Bridge Notes   | -            | -            | 922,090            | -              | -           | -           |
| Repricing of related<br>party Bridge Note warrants   | -            | -            | 11,178             | -              | -           | -           |
| Warrants issued with<br>related party note payable   | -            | -            | 179,711            | -              | -           | -           |
| Cancellation under<br>subscription agreements        | (6,283,529)  | (62,835)     | (1,005,365)        | 1,068,200      | -           | -           |
| Net loss   | -            | -            | -                  | -              | -           | -           |
|  | -----        | -----        | -----              | -----          | -----       | -----       |
| Balance, June 30, 2003                               | 213,740,591  | \$ 2,138,407 | \$ 6,445,196       | \$ -           | \$ (30,000) | \$ (30,000) |
|  | =====        | =====        | =====              | =====          | =====       | =====       |

See accompanying notes to consolidated financial statements.

Edgar Filing: PARK CITY GROUP INC - Form 10KSB

-----  
 Consolidated Statement of Cash Flows  
 -----

For the Years Ended June 30, 2003 and 2002  
 -----

|   | Year Ended<br>June 30, 2003 | Year<br>June 30, 2002 |
|---|-----------------------------|-----------------------|
|   | -----                       | -----                 |
| Cash flows from Operating Activities:                                       |                             |                       |
| Net loss  | \$ (5,003,355)              | \$ (3,000,000)        |
| Adjustments to reconcile net loss to net cash used in operating activities: |                             |                       |
| Depreciation and amortization   | 296,135                     |                       |
| Bad debt expense  | 78,920                      |                       |
| Impairment of capitalized software costs                                    | 2,242,079                   |                       |
| Loss on disposition of assets   | 32,931                      |                       |
| Deferred income taxes   | -                           | 1,000,000             |
| Stock issued for services and compensation                                  | 640,450                     |                       |
| Amortization of beneficial conversion feature                               | -                           |                       |
| Amortization of discounts on debt   | 1,195,713                   |                       |
| Repricing of warrants   | 11,178                      |                       |
| Decrease (increase) in:   |                             |                       |
| Trade receivables   | (288,558)                   | (1,000,000)           |
| Related party receivables   | -                           |                       |
| Prepaid and other assets  | 60,097                      |                       |
| Stock subscription receivable   | -                           |                       |
| Increase (decrease) In:   |                             |                       |
| Accounts payable  | 204,056                     | (1,000,000)           |
| Accrued liabilities   | 266,534                     |                       |
| Related party payable   | (45,000)                    |                       |
| Deferred revenue  | (412,798)                   |                       |
| Advances payable  | 175,000                     |                       |
| Accrued interest, related party   | 569,896                     | 3,000,000             |
| Net cash used in operating activities                                       | 23,278                      | (1,000,000)           |
| Cash flows from investing activities:                                       |                             |                       |
| Purchase of property and equipment  | (14,889)                    |                       |
| Capitalization of software costs  | (948,788)                   | (1,000,000)           |
| Proceeds from disposal of property  | -                           |                       |
| Net cash used in investing activities                                       | (963,677)                   | (1,000,000)           |
| Cash flows from financing activities:                                       |                             |                       |
| Net increase (decrease) in line of credit                                   | (62,500)                    |                       |
| Receipt of subscription receivable  | -                           |                       |
| Purchase of treasury stock  | -                           |                       |
| Proceeds from debt  | 1,135,000                   |                       |
| Proceeds from convertible promissory note                                   | -                           | 1,000,000             |
| Payments on notes payable and capital leases                                | (203,768)                   | (1,000,000)           |
| Proceeds from issuance of common stock                                      | -                           | 2,000,000             |
| Net cash provided by financing activities                                   | 868,732                     | 2,000,000             |

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

|                           |           |       |
|---------------------------|-----------|-------|
|                           | -----     |       |
| Net decrease in cash      | (71,667)  |       |
| Cash at beginning of year | 140,972   |       |
| Cash at end of year       | \$ 69,305 | \$    |
|                           | =====     | ===== |

See accompanying notes to consolidated financial statements.

28

Park City Group, Inc. & Subsidiaries  
 -----  
 Notes to Consolidated Financial Statements  
 -----  
 June 30, 2003 and June 30, 2002  
 -----

1. Summary of Significant Accounting Policies, Organization and Principles of  
 -----  
 Consolidation  
 -----

The Company was incorporated in Delaware on May 11, 1990 as Riverview Software, Inc. In 1990, the Company changed its name to Fields Software Group, Inc. and in 1993, the Company's name was changed again to Park City Group, Inc. (PCG).

On June 13, 2001, Park City Group, Inc. (formerly known as Fields Technologies, Inc.(FTI) and prior to that AmeriNet Group.com, Inc.) issued 109,623,600 shares of common stock in exchange for 98.76% of the issued and outstanding shares of PCG. For accounting purposes the business combination is treated as a reverse acquisition or a recapitalization of PCG, with PCG being treated as the accounting acquirer. On August 7, 2002 Fields Technologies, Inc., changed its name to Park City Group, Inc., and reincorporated in Nevada. Throughout these financial statements when the terms "Company" or "Park City Group" are used it is referring to the current Nevada successor Park City Group, Inc.

The financial statements presented herein reflect the consolidated financial position of PCG and FTI as of June 30, 2003, and operations of PCG and FTI for the years ended June 30, 2003 and 2002. All intercompany transactions and balances have been eliminated in consolidation.

On April 5, 2001, the Company acquired for \$3,750,000 Fresh Market Manager (FMM), which was substantially owned by the primary shareholder of the Company and another individual. In as much as the transaction was between entities of common ownership and FMM had a deficit in equity, the deficit in equity and the purchase price were accounted for as a distribution to the primary shareholder. The consolidated statements include the operations of FMM since April 5, 2001, the date of the transaction.

Riverview Financial Corp. (Riverview) is a stockholder and creditor of the Company. Riverview is wholly owned by the Company's CEO.

Business Activity  
 -----

The Company designs, develops, markets and supports proprietary software products. These products are designed to be used in retail businesses having

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

multiple locations to assist in the management of business operations on a daily basis and communicate results of operations in a timely manner. The principal markets for the Company's products are retail companies which have operations in North America and, to a lesser extent, in Europe and Asia.

### Use of Estimates and Reclassifications

-----

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 U.S. Securities and Exchange Commission has defined the most critical accounting policies as the ones that are most important to the portrayal of the Company's financial condition and results, and require the Company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, the Company's most critical accounting policies include: revenue recognition, allowance for doubtful accounts, capitalization of software development costs and impairment of long-lived assets.

### Cash and Cash Equivalents

-----

The Company considers all short-term instruments with an original maturity of three months or less to be cash equivalents.

### Concentration of Credit Risk

-----

The Company maintains cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Financial instruments which potentially subject the Company to concentration of credit risk consist primarily of trade receivables. In the normal course of business, the Company provides credit terms to its customers. Accordingly, the Company performs ongoing credit evaluations of its customers and maintains allowances for possible losses which when realized have been within the range of management's expectations. The Company does not require collateral from its customers.

The Company's accounts receivable are derived from sales of products and services primarily to customers operating multi-location retail and grocery stores. At June 30, 2003, accounts receivable includes amounts due from customers totaling \$945,402. Substantially all of these receivables are due from three new customers and four long-standing customers.

29

During the year ended June 30, 2003, the Company received approximately \$2.1 million of its revenue from new customers and approximately \$3.2 million in revenue from existing customers for continued support and additional license sales.

### Depreciation and Amortization

-----

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

Years

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

|                                |           |
|--------------------------------|-----------|
|                                | -----     |
| Furniture and fixtures         | 3 - 7     |
| Computer equipment             | 3 - 7     |
| Equipment under capital leases | 3 - 7     |
| Leasehold improvements         | see below |

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

### Warranties

-----  
The Company offers a limited warranty against software defects for a general period of ninety days. Customers who are not completely satisfied with their software purchase may attempt to be reimbursed for their purchases outside the warranty period. The Company accrues amounts for such warranty settlements that are probable and can be reasonably estimated.

### Revenue Recognition

-----  
Revenue from the sale of software licenses is recognized upon delivery of the software unless specific delivery terms provide otherwise. If not recognized upon delivery, revenue is recognized upon meeting specified conditions, such as, meeting customer acceptance criteria. In no event is revenue recognized if significant Company obligations remain. Customer payments are typically received in part upon signing of license agreements, with the remaining payments received in installments pursuant to the agreements.

Maintenance and support services that are sold with the initial license fee are recorded as deferred revenue and recognized ratably over the initial service period. Revenues from maintenance and other support services provided after the initial period are generally paid in advance and are recorded as deferred revenue and recognized on a straight-line basis over the term of the agreements.

Consulting service revenues are recognized in the period that the service is provided or in the period such services are accepted by the customer if acceptance is required by agreement.

### Software Development Costs

-----  
The Company accounts for software development costs in accordance with Statement of Financial Accounting Standards No. 86, Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed. Research and development costs have been charged to operations as incurred. From inception through January 2001, the Company viewed the software as an evolving product. Therefore, all costs incurred for research and development of the Company's software products through January 2001 were expensed as incurred. During January 2001, technological feasibility of a major revision to the Company's Fresh Market Manager and the Company's ActionManager 4x development platform was established. Development costs for Fresh Market Manager software incurred from January 2001 through September 2002, totaling \$1,063,515, were capitalized. These costs are being amortized on a straight-line basis over four years, beginning in September 2002 when the product was available for general release to customers. Development costs for ActionManager totaling \$2,242,079, incurred from January 2001 through March 2003, when the product became available for release to customers, were capitalized. The Company has focused its sales and marketing resources on its Fresh Market Manager software products, and intends to continue selling ActionManager software primarily through alliances with other software companies or software resellers. These distribution channels for ActionManager software have not yet been proven to provide the level of sales necessary to support the continued economic viability of the ActionManager capitalized development costs. Consequently, \$2,242,079 of capitalized development costs associated with the ActionManager products were charged to expense in June 2003.

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

### Research and Development Costs

Research and development costs include personnel costs, engineering, consulting, and contract labor and are expensed as incurred for software that has not achieved technological feasibility.

### Income Taxes

The Company accounts for income taxes under the provision of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. This method requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between tax bases and financial reporting bases of other assets and liabilities.

30

### Earnings Per Share

The computation of basic (loss) earnings per common share is based on the weighted average number of shares outstanding during each year. The computation of diluted earnings per common share is based on the weighted average number of shares outstanding during the year, plus the common stock equivalents that would arise from the exercise of stock options and warrants outstanding, using the treasury stock method and the average market price per share during the year. Options and warrants to purchase 80,727,870 shares of common stock at prices ranging from \$.04 to \$1.43 per share were outstanding at June 30, 2003, but were not included in the diluted loss per share calculation because the effect would have been antidilutive.

The shares used in the computation of the Company's basic and diluted earnings per common share are reconciled as follows:

|   | June 30, 2003 | June 30, 2002 |
|---|---------------|---------------|
| Weighted average                                      | 198,027,000   | 155,737,000   |
| Dilutive effect of options and warrants               | -             | -             |
| Weighted average shares outstanding assuming dilution | 198,027,000   | 155,737,000   |

### Fair Value of Financial Instruments

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

### 2. Going Concern

The accompanying consolidated financial statements have been prepared under the assumption that the Company will continue as a going concern. Such assumption contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the consolidated financial statements, the Company incurred losses for the years ended June 30, 2003 and 2002. The Company also has a working capital deficit at June 30, 2003. The consolidated financial statements do not include any adjustments that might be



## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

necessary should the Company be unable to continue as a going concern.

The Company's continuation as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis, to obtain additional financing as may be required, and ultimately to attain profitability. Potential sources of cash include new sales contracts, external debt, the sale of new shares of Company stock or alternative methods such as mergers or sale transactions. No assurances can be given, however, that the Company will be able to obtain any of these potential sources of cash. The Company currently requires additional cash to sustain existing operations and to meet current obligations and ongoing capital requirements.

### 3. Receivables

-----

Trade accounts receivable consist of the following at June 30, 2003:

|                                 |    |          |
|---------------------------------|----|----------|
| Trade Accounts Receivable       | \$ | 986,542  |
| Allowance for doubtful accounts |    | (41,140) |
|                                 |    | -----    |
|                                 | \$ | 945,402  |
|                                 |    | =====    |

### 4. Property and Equipment

-----

Property and equipment are stated at cost and consist of the following at June 30, 2003:

|   |    |             |
|---|----|-------------|
| Computer equipment                                | \$ | 1,302,420   |
| Furniture and equipment                           |    | 173,031     |
| Equipment under capital lease                     |    | 23,259      |
| Leasehold improvements                            |    | 85,795      |
|   |    | -----       |
|   |    | 1,584,505   |
| Less accumulated depreciation<br>and amortization |    | (1,479,150) |
|   |    | -----       |
|   | \$ | 105,355     |
|   |    | =====       |

31

### 5. Intangible Asset

-----

Intangible assets consists of the following at June 30, 2003

|                               |    |           |
|-------------------------------|----|-----------|
| Capitalized software costs    | \$ | 1,063,516 |
| Less accumulated amortization |    | (199,410) |
|                               |    | -----     |
|                               | \$ | 864,106   |
|                               |    | =====     |

### 6. Accrued Liabilities

-----

Accrued liabilities consist of the following at June 30, 2003:

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

|                           |    |         |
|---------------------------|----|---------|
| Accrued vacation          | \$ | 133,305 |
| Other payroll liabilities |    | 182,905 |
| Commissions               |    | 140,979 |
| Other accrued liabilities |    | 179,978 |
|                           |    | -----   |
|                           | \$ | 637,167 |
|                           |    | =====   |

### 7. Notes Payable and Current Portion of Long-Term Debt and Capital Lease

#### ----- Obligations -----

The Company has the following short-term notes payable and current portion of long-term debt and capital lease obligations at June 30, 2003.

|  |    |           |
|--|----|-----------|
| Notes payable to a Riverview bearing interest at 12%, due in January 2004, unsecured, net of discount of \$131,250 | \$ | 3,129,464 |
| Note payable to an officer bearing interest at 12%, due July 2003, unsecured                                       |    | 55,000    |
|  |    | -----     |
|  | \$ | 3,184,464 |
|  |    | =====     |

In August 2002, Riverview agreed to subordinate the note payable to the rights of the holders of the Bridge Notes (see footnote 8). In exchange for this subordination the interest rate on the note was changed to 12% compounded annually. In November 2002 the Company negotiated with Riverview an extension of the payment date for the note payable from December 2002 to January 4, 2004. In consideration for the extension of the due date, 7,000,000 common shares were issued to Riverview. The fair value of these shares was \$350,000, which is being amortized into interest expense over the extended term of the note. During the year ended June 30, 2003, \$218,750 of the discount was recognized as interest expense. Interest is accrued but not payable until maturity. The Company is in negotiations with Riverview for a further extension of the payment date for the note and accrued interest.

In May 2003 the Company arranged an unsecured, revolving line of credit for \$350,000 with its CEO. Advances bear interest at 12%, and are repaid as funds availability permits. The line of credit expires July 31, 2004. Because advances under the line of credit are expected to be repaid as soon as cash flow allows, borrowings under the line of credit of \$55,000 at June 30, 2003 have been classified as a current liability.

32

### 8. Long-term and related party notes payable

-----  
The Company had the following long-term notes payable at June 30, 2003:

|   |    |           |
|---|----|-----------|
| Note payable to an entity controlled by a stockholder at an interest rate of 18%, due in December 2004, secured by Company stock owned and controlled by the CEO, and substantially all assets of the Company, net of discount of \$134,784 | \$ | 1,865,216 |
|---|----|-----------|

Note payable to Riverview bearing interest at

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

|   |              |
|---|--------------|
| 18%, due in December 2004, net of discount of \$12,856  | 332,145      |
| Notes payable to related parties bearing interest 18%, due in July 2004, net of discount of \$94,526  | 704,372      |
| Notes payable to unrelated parties bearing interest at 8%, due in December 2005   | 105,000      |
| Capital lease obligation on computer equipment, net of depreciation \$16,349, due in monthly installments of \$2,358 through April 2005, imputed interest rate of 10.9% | 45,391       |
|   | 3,052,124    |
| Less current portion  | (24,548)     |
|   | \$ 3,027,576 |

Maturities of long-term debt at June 30, 2003 are as follows:

| Year | Amount      |
|------|-------------|
| ---- | -----       |
| 2004 | \$ 24,548   |
| 2005 | 3,027,576   |
|      | -----       |
|      | \$3,052,124 |
|      | =====       |

In December 2002, the Company obtained a \$2,000,000 note payable funding from Whale Investment, Ltd., an entity controlled by a shareholder of the Company. The proceeds were used to repay existing notes payable and accrued interest. The \$2,000,000 note payable has an interest rate of 18%, a due date of December 24, 2004, and a monthly interest only payments until the due date. In connection with the new \$2,000,000 note payable, the Company incurred a fee paid in 3,809,524 shares of common stock and a warrant to purchase 7,142,857 shares of common stock, exercisable at \$0.07 per share, immediately exercisable and expiring in December 2004. The discount from the warrants was determined to be \$179,711, which is being amortized into interest expense over the two-year term of the note. The value of the shares of common stock issued as a finders fee had a fair market value of \$152,381, which is being amortized into interest expense over the two-year term of the note. Total interest expense over the expected term of the note, including the 18% interest and \$179,711 warrants discount, is \$899,711, or an effective annual interest rate of 23%. The Company has pledged substantially all of its assets as security for this debt, and the CEO has personally guaranteed the note and pledged his all of his Company stock as well as Company stock owned by Riverview.

As a condition of obtaining the funding from Whale Investment, Ltd., Riverview provided additional funding to the Company under terms of a promissory note for \$345,000. The note has an interest rate of 18%, a due date of December 24, 2004, and monthly interest only payments until the due date. No principal payments can be made without a corresponding repayment to Whale Investments, Ltd. The Company incurred a fee paid with 857,143 shares of common stock, the fair value of which was determined to be \$17,143. This amount is being amortized into interest expense over the two-year term of the note. During the year ended June 30, 2003, \$4,286 of the \$17,143 was recognized as interest expense.

In August 2002 the Company issued approximately \$575,000 in Bridge Note financing, at a stated interest rate of 10% per annum with a due date of December 15, 2002 and which were issued at a 7% discount. This financing carried

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

warrants to purchase 5,350,000 common shares at \$.10 per share, expiring in August 2007. The discount from the warrants was determined to be \$183,109, which was amortized into interest over the term of the Bridge Notes. Total interest expense including the 7% interest discount, 10% interest and \$183,109 warrants discount was \$242,553, or an effective annual interest rate of 49%. The individual note holders include the Company's CEO and certain directors, a former director and an individual associated with AW Fields Acquisition.

33

As a result of the price of Bridge Note A warrants being issued at \$.10 per share the antidilution rights associated with the sale of shares made earlier in the year ( AW Fields Acquisition and private placement including directors and officer) were triggered. Resulting in 12,556,667 additional shares being issued and the number of shares to be purchased under warrants with antidilution rights increased by 8,458,334 shares, the warrant price to purchase a total of 20,125,001 common shares was reduced to \$0.10.

In November 2002 Bridge Note A was repaid and replaced with a new Bridge Note totaling approximately \$799,000 at a stated interest rate of 10% per annum, a due date of July 31, 2003 and was issued at a 7.5% discount. The new Bridge Note B carried warrants to purchase 19,972,451 shares of common stock at \$.04 per share, expiring in November 2007. The discount from the warrants was determined to be \$738,981, which is being amortized into interest over the term of the Bridge Note B. During the year ended June 30, 2003, \$651,504 of the warrant discount was recognized as interest expense. Total interest expense including the 7.5% interest discount, 10% interest and \$738,981 warrants discounts is \$848,829 or an effective annual interest rate of 110%.

As a result of the price of the warrants in Bridge Note B being \$.04 per share, this triggered the anti-dilution rights associated with warrants of the first Bridge Note and the anti-dilution rights associated with the sale of shares made earlier in the year ( AW Fields Acquisition and private placement including directors and officer). As a result an additional 12,814,286 common shares were issued and the number of shares to be purchased under warrants with anti-dilution rights increased by 8,625,000 shares, the warrant price to purchase a total of 28,750,001 and 8,297,619 common shares were reduced to \$.07 and \$.04 per share, respectively. The AW Fields Acquisition agreement allows for the further anti-dilution right to the \$.04 per share level, but AW Fields Acquisition has waived this right for this transaction.

In July 2003 Bridge Note B was repaid and replaced with a new Bridge Note totaling \$868,457 at a stated interest rate of 18% and a due date of July 31, 2004. The new Bridge Note C required an incentive fee of 1,738,680 shares of common stock to be issued to the note holders. The fair value of these shares is \$86,934 (\$.05 per share), which is to be amortized into interest expense over the term of Bridge Note C. The AW Fields Acquisition agreement and agreements with certain directors allow for the further anti-dilution right to the \$.05 per share level, but they have waived their right for this transaction. Because Bridge Note B, which was due July 31, 2003, was refinanced into Bridge Note C, which is due July 31, 2004, the balance at June 30, 2003 is shown as a long-term liability.

### 9. Deferred Revenue

Deferred revenue consisted of the following at June 30, 2003:

|                         |            |
|-------------------------|------------|
| Software licenses       | \$ 175,000 |
| Maintenance and Support | 1,043,140  |

Edgar Filing: PARK CITY GROUP INC - Form 10KSB

-----  
 \$ 1,218,140  
 =====

10. Income Taxes  
 -----

The Company provides for deferred income taxes on temporary differences that represent tax effects of transactions reported for tax purposes in periods different than for book purposes.

The provisions for income taxes differ from the amount computed at statutory rates as follows:

|                                       | Year Ended<br>June 30, 2003 | Year Ended<br>June 30, 2002 |
|---------------------------------------|-----------------------------|-----------------------------|
|                                       | -----                       | -----                       |
| Income tax benefit at statutory rates | \$ 1,574,000                | \$ 1,225,000                |
| Change in valuation allowance         | (1,573,000)                 | (2,559,000)                 |
|                                       | -----                       | -----                       |
| Other                                 | (1,000)                     | (66,000)                    |
|                                       | -----                       | -----                       |
|                                       | \$ -                        | \$ (1,400,000)              |
|                                       | =====                       | =====                       |
| Current income tax expense            | \$ -                        | \$ -                        |
| Deferred income tax expense           | -                           | (1,400,000)                 |
|                                       | -----                       | -----                       |
|                                       | \$ -                        | \$ (1,400,000)              |
|                                       | =====                       | =====                       |

34

The deferred income tax benefit for the years ended June 30, 2003 and 2002 is as follows:

|                                  | June 30, 2003 | June 30, 2002 |
|----------------------------------|---------------|---------------|
|                                  | -----         | -----         |
| Short Term                       |               |               |
| -----                            |               |               |
| Allowance for bad debts          | \$ 16,000     | \$ 22,000     |
| Accrued vacation                 | 52,000        | 66,000        |
| Accrued sick pay                 | -             | 26,000        |
| Deferred revenue                 | 407,000       | 305,000       |
| Valuation allowance              | (475,000)     | (419,000)     |
|                                  | -----         | -----         |
| Deferred tax asset               | \$ -          | \$ -          |
| -----                            | =====         | =====         |
| Long Term                        |               |               |
| -----                            |               |               |
| Depreciation                     | \$ 51,000     | \$ 52,000     |
| Net Operating loss carry forward | 2,887,000     | 1,369,000     |
| Valuation allowance              | (2,938,000)   | (1,421,000)   |
|                                  | -----         | -----         |

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

|                    |       |       |
|--------------------|-------|-------|
| Deferred tax asset | \$ -  | \$ -  |
| -----              | ===== | ===== |

As of June 30, 2003, the Company had available net operating losses (NOL) for federal and state tax purposes of approximately \$7,404,000. The NOL carry forward is limited to use against future taxable income due to changes in ownership and control. If a substantial change in the Company's ownership should occur, there would be an annual limitation of the amount of the NOL carry forward which could be utilized. The following schedule summarizes the net operating losses available to the Company with the corresponding expiration periods:

| Period of Loss | Amount      | Expiration Year |
|----------------|-------------|-----------------|
| -----          | -----       | -----           |
| 2001           | 1,040,000   | 2021            |
| 2002           | 2,470,000   | 2022            |
| 2003           | 3,894,000   | 2023            |
|                | -----       |                 |
|                | \$7,404,000 |                 |

### 11. Preference Dividend

-----

On March 14 and 15, 2002, certain shareholders and the Company entered into Conversion Agreements, whereby these certain shareholders received 4,466,667 additional shares of the Company's common stock for the cancellation of certain rights and provisions of the original subscription agreements, all of which had been entered into during fiscal year 2002. The Company's issuance of additional shares to these shareholders was deemed a preference dividend to shareholders, and is valued at \$670,000.

### 12. Supplemental Disclosure of Cash Flow Information

-----

Interest paid during the years ended June 30, 2003 and 2002 was \$339,341 and \$401,911, respectively. No income taxes were paid during the years ended June 30, 2003 or 2002.

### Non-Cash Transactions Disclosure

-----

During the year ended June 30, 2002, the Company entered into a convertible note payable with detachable warrants with a principal balance of \$1,750,000 and cash proceeds of \$1,667,587. During June 2002, the note holder converted the principal balance of \$1,750,000 into 11,666,667 shares of the Company's common stock. The convertible note payable had been issued with detachable warrants, which were valued at \$233,334. Prior to the conversion, \$77,777 of the warrants' value had been amortized into interest expense, and the remaining \$155,557 of the warrant's unamortized value at the date of conversion affected the value of the 11,666,667 shares of the Company's common stock issued upon conversion of the note payable.

In connection with the Bridge Notes A issued in August 2002 (see note 8), the Company recorded a \$40,268 discount related to the 7% interest discount at which the notes were financed. The Company also recorded an \$183,109 discount related to the fair value of the warrants. For the period from the date of the Bridge Notes A to June 30, 2003, the Company amortized all of the interest and warrants discounts.

In connection with the Bridge Notes B issued in November 2002 (see note 8), Bridge Note A was repaid and the Company recorded a \$59,917 discount related to the 7.5% interest discount at which the notes were financed. The Company also

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

recorded a \$738,981 discount related to the warrants. For the period from the date of the Bridge Notes B to June 30, 2003, the Company amortized \$52,868 and \$651,504 of the interest and warrants discounts on Bridge Note B, respectively.

35

The Company issued 8,625,000 shares of common stock pursuant to antidilution rights to AW Fields Acquisition (see note 8), which was recorded as an increase to common stock and decrease to additional paid-in capital of \$86,250, thus increasing the shares issued under antidilution for AW Fields to 17,083,334.

The Company issued 4,189,285 shares of common stock pursuant to antidilution rights to an officer and directors (see note 8), which was recorded as an increase to common stock of \$41,893, an increase to additional paid-in capital of \$125,678 and an expense of shares issued for services of \$167,571, which was included in general and administrative expense during the year ended June 30, 2003. This increased the number of shares issued under antidilution for an officer and directors to 8,297,620, and the total expense for these shares increased to \$372,988.

The modification of Bridge Note A warrants from an exercise price of \$.07 to \$.04 resulted in an interest expense of \$11,178 (see note 8).

In connection with the note payable funding from Whale Investment, Ltd. (see note 8), the Company incurred a finders fee which was paid with 3,809,524 shares of common stock and a warrant to purchase 7,142,857 shares of common stock. The 7,142,857 shares of common stock have a fair value of \$152,381 which was recorded as a prepaid expense and is being amortized into expense over the two-year term of the note payable. The fair value of the warrants of \$179,711 was recorded as a discount on the note payable and is being amortized into interest expense over the two-year term of the note payable. For the period from the date of the \$2,000,000 note payable to June 30, 2003, the Company amortized \$44,928 of the warrants discount into interest expense, and \$38,095 of the prepaid finders fee into expense.

An additional 857,143 shares of common stock were issued in connection with the \$345,000 note payable funding from Riverview obtained as a condition of the Whale Investment, Ltd. funding (see note 8). The 857,143 shares of common stock have a fair value of \$17,143 which was recorded as a discount on the advances and is being amortized into interest expense over the two-year term of the advances. For the period ended June 30, 2003, the Company amortized \$4,286 of the common shares discount into interest expense.

The Company issued 7,000,000 shares of common stock to Riverview in exchange for extending the associated related party note payable to January 2, 2004. The fair value of the shares of common stock of \$350,000 is recorded as a discount to the related party note payable. As of June 30, 2003, \$218,750 of the discount had been amortized into interest expense (see note 7).

During the years ended June 30, 2003 and 2002, the Company issued 349,901 and 536,667 shares of common stock, respectively, as payment for consulting and legal services in the amounts of \$24,493 and \$73,000, respectively.

### 13. Commitments and Contingencies.

-----  
Capital Leases: Amortization expense related to capitalized leases is included in depreciation expense and was \$7,222 and \$12,716 for the years ended June 30, 2003 and 2002, respectively. Accumulated amortization was \$116,298 at June 30, 2003.

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

Operating Leases. In September 1998, the Company entered into a lease agreement for office space. Under the terms of the lease agreement, the Company was required to pay \$16,723 per month with a 4% annual increase in the base rent through December 2000. The lease agreement was renewed in February 2001, and under the terms of the new agreement, the Company must pay \$18,482 per month with a 4% annual increase in base rent until December 31, 2003. Total rent expense under this agreement for each of the years ended June 30, 2003 and 2002 was \$221,784. The Company is currently negotiating for office space to replace existing space at the end of the lease term. The Company expects to reduce its office space and the corresponding monthly rental expense.

### 14. Legal

-----

Debra Elenson vs. Fields Technologies, Randall K. Fields (Filed -January 2002, in the Circuit Court of the 11th Judicial Circuit in and for Dade County, Florida): The plaintiff alleged, among other causes of actions, that a private placement memorandum pursuant to which the plaintiff had purchased shares of Fields Technologies, contained financial statements which were not prepared in accordance with generally accepted accounting principles and the requirements of SEC regulation S-X. The plaintiff alleged fraud, misrepresentation, unregistered sales of securities and other causes of actions. The lawsuit was settled in September 2003 for an additional 1,125,000 shares of common stock to be issued to the plaintiff and payment of plaintiff's legal fees of \$21,348.

36

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

Approximately two weeks following the filing of the complaint against Yankee Companies, the Company was served with a complaint by Yankee Companies and others, alleging sales of unregistered securities, securities fraud, registration violations, fraud negligent misrepresentation, and breach of loan agreement. On or about February 5, 2003 the case was dismissed based on the fact that the case filed by the Company was filed first and all issues can be argued in that case. Both cases are still in the discovery stage.

### 15. Employee Benefit 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 eligible to participate. The Company, at its discretion, matches 50% of the first 4% of each employee's contributions. No matching contribution was made after September 30, 2002. The expenses related to the plan for the years ended June 30, 2003 and 2002 were \$12,903 and \$53,910 respectively.

### 16. Stock Compensation Plans

-----

Stock in Lieu of Cash Compensation. Beginning October 1, 2002, officers and management of the Company received a portion of their compensation in common stock of the Company. The number of shares was calculated based on the fair value of the shares at the end of each payroll period, with a floor price of \$.05 per share. During the year ended June 30, 2003 4,708,367 shares were issued



## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

with a fair value of \$152,667.

Officers and Directors Stock Compensation. In October 2001, the Board of Directors approved the following compensation for directors who are not employed by the Company.

- o \$2,000 for every Board of Directors meeting attended; four are held each year.
- o Stock Options to purchase 125,000 shares of the Company's common stock, par value \$.01 at the price listed on the OTC on the date of grant, vesting over one year, and expiring in five years. These options are to be granted for each year the director is a member of the board and is prorated for any directors who may serve a partial year. No shares were reserved for this plan.
- o Reimbursement of all travel expenses related to performance of Directors duties on behalf of the Company.

As of June 30, 2003 there were outstanding to directors fully vested options outstanding to purchase 1,125,000 common shares at prices of \$.08 - \$.14 per share, and expiring at various dates through July 2007.

In December 2001, the Board of Directors approved a plan to incentivize members of the Board of Directors, including those employed by the Company, to purchase shares of stock of the Company. Therefore, for any common stock purchased at fair market value by a member of the Board of Directors, the Company matches with an option to purchase additional shares equivalent to those purchased, at the same price of the original purchased shares and expiring two years from the date of grant. Under this plan the Company had options to purchase 5,666,667 shares of common stock at prices of \$.11 - \$.24 and expiring at various times through March 2004.

Officers, Key Employees, Consultants and Directors Stock Compensation In January 2000, the Company entered into a non-qualified stock option & stock incentive plan. Officers, key employees, consultants and directors of the Company are eligible to participate. The maximum aggregate number of shares which may be granted under this plan was originally 1,000,000 and was subsequently amended to 2,000,000 on March 8, 2000. The plan is administered by a Committee. The exercise price for each share of common stock purchasable under any incentive stock option granted under this plan shall be not less than 100% of the fair market value of the common stock, as determined by the stock exchange on which the common stock trades on the date of grant. If the incentive stock option is granted to a shareholder who possesses more than 10% of the Company's voting power, then the exercise price shall be not less than 110% of the fair market value on the date of grant. Each option shall be exercisable in whole or in installments as determined by the Committee at the time of the grant of such options. All incentive stock options expire after 10 years. If the incentive stock option is held by a shareholder who possesses more than 10% of the Company's voting power, then the incentive stock option expires after five years. If the option holder is terminated, then the incentive stock options granted to such holder expire no later than three months after the date of termination. For options holders granted incentive stock options exercisable for the first time during any fiscal year and in excess of \$100,000 (determined by the fair market value of the shares of common stock as of the grant date), the excess shares of common stock shall not be deemed to be purchased pursuant to incentive stock options.

A schedule of the options and warrants at June 30, 2003 is as follows:

Edgar Filing: PARK CITY GROUP INC - Form 10KSB

|                |               | Number of<br>Options<br>----- | Warrants<br>----- | Price per Share<br>----- |
|----------------|---------------|-------------------------------|-------------------|--------------------------|
| Outstanding at | June 30, 2001 | 297,800                       | 713,273           | \$0.27-1.44              |
|                | Granted       | 24,700,001                    | -                 | \$0.10-0.25              |
|                | Exercised     | -                             | -                 | -                        |
|                | Called        | (100,000)                     | -                 | \$0.25                   |
|                | Cancelled     | (3,100,000)                   | -                 | \$0.25                   |
|                | Expired       | (297,800)                     | (150,000)         | \$0.27-1.44              |
|                |               | -----                         | -----             | -----                    |
| Outstanding at | June 30, 2002 | 21,500,001                    | 563,273           | \$0.10-1.44              |
|                | Granted       | 750,000                       | 61,721,263        | \$0.04-0.10              |
|                | Exercised     | -                             | -                 | -                        |
|                | Called        | -                             | -                 | -                        |
|                | Cancelled     | (125,000)                     | -                 | \$0.08                   |
|                | Expired       | (3,666,667)                   | (15,000)          | \$0.25-\$1.28            |
|                |               | -----                         | -----             | -----                    |
| Outstanding at | June 30, 2003 | 18,458,334                    | 62,269,536        | \$0.04-1.44              |

17. Stock-Based Compensation  
-----

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (FAS 123) which established financial accounting and reporting standards for stock-based compensation. The new standard defines a fair value method of accounting for an employee stock option or similar equity instrument. This statement gives entities the choice between adopting the fair value method or continuing to use the intrinsic value method under Accounting Principles Board (APB) Opinion No. 25 with footnote disclosures of the pro forma effects if the air value method had been adopted. The Company has opted for the latter approach.

Had compensation expense for the Company's option plan been determined based on fair value at the grant dates, as prescribed in SFAS No. 123, the Company's net loss would have been as follows:

|                               | Year Ended<br>June 30,<br>2003<br>----- | Year Ended<br>June 30,<br>2002<br>----- |
|-------------------------------|---|---|
| Net loss                      |   |   |
| As reported                   | \$ (5,003,355)                          | \$ (3,140,760)                          |
| Pro forma                     | (5,063,320)                             | (3,540,719)                             |
| Loss per common share-        |   |   |
| basic and diluted-as reported | \$ (0.03)                               | \$ (0.02)                               |
| Loss per common share-        |   |   |
| basic and diluted-pro forma   | \$ (0.03)                               | \$ (0.03)                               |

The weighted-average grant-date fair value of options granted during year ended June 30, 2003 was \$0.08 per share. The fair value for the options granted in 2003 were estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

Risk-free interest rate 4.00%

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

|                          |         |
|--------------------------|---------|
| Expected life (in years) | 5       |
| Expected volatility      | 305.15% |
| Expected dividend yield  | 0.00%   |

38

The following table summarizes information about fixed stock options and warrants outstanding at June 30, 2003:

|                                      | Options and Warrants Outstanding<br>at June 30, 2003<br>----- |   |   | Options and Warrants<br>Exercisable at June 30, 2003<br>----- |
|--------------------------------------|---|---|---|---|
| Range of<br>exercise prices<br>----- | Number<br>Outstanding at<br>June 30, 2003<br>-----            | Weighted<br>average<br>remaining<br>contractual<br>life(years)<br>----- | Weighted<br>average<br>exercise<br>price<br>----- | Number<br>Exercisable at<br>June 30, 2003<br>-----            |
|                                      |   |   |   | Weighted<br>average<br>exercise<br>price<br>-----             |
| \$0.04 - \$0.09                      | 67,287,390  | 3.55  | \$ 0.06   | 67,287,390  |
| \$0.10 - \$0.11                      | 9,450,000   | 1.96  | 0.10  | 9,450,000   |
| \$0.12 - \$0.14                      | 375,000   | 3.32  | 0.14  | 375,000   |
| \$0.24 - \$0.25                      | 3,066,667   | 0.71  | 0.24  | 3,066,667   |
| \$0.56 - \$0.69                      | 250,000   | 0.67  | 0.61  | 250,000   |
| \$0.70 - \$0.75                      | 248,273   | 1.42  | 0.75  | 248,273   |
| \$1.28 - \$1.44                      | 50,000  | 1.00  | 1.43  | 50,000  |
|                                      | -----   |   |   | -----   |
|                                      | 80,727,870  | 3.24  | 0.08  | 80,727,870  |
|                                      | =====   |   |   | =====   |

### 18. Related Party Transactions

-----

The Company has a note payable to Riverview Financial Corporation (Riverview), in the principal amount of \$3,260,714, a discount of \$131,250, and a net balance of \$3,129,464, at June 30, 2003 with accrued interest of \$1,049,065. The chief executive of Riverview is also the chief executive of the Company. In August 2002 the interest rate was increased from 10% to 12% and from simple to compounded interest. Riverview was issued 7,000,000 shares of common stock in November 2002 in consideration for an extension of the due date to January 2004. See notes 7 and 12.

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 2004. Riverview was issued 857,143 shares of common stock in as an inducement to make the loan. See notes 8 and 12.

The Company's CEO has made loans to the Company to cover short term cash needs pursuant to a line of credit promissory note payable. Repayments are made as funds are available, with a due date of July 31, 2004. Interest is at 12%. The balance due under the line of credit at June 30, 2003 was \$55,000. See note 7 to the audited financial statements.

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

In December 2002 the Company obtained a \$2,000,000 note payable funding from Whale Investment, Ltd. The note bears interest at 18%, payable monthly, and is due in December 2004. Whale Investment, Ltd. is controlled by an individual who was already a shareholder of the Company at the time of the loan. See notes 8 and 12.

The Company has a payable to chief executive officer of \$54,989 at June 30, 2003 for unreimbursed business expenses, which is included in accounts payable.

The Company issued shares of common stock and warrants to an officer and directors pursuant to antidilution rights triggered by terms of the bridge note financings. See notes 8 and 12.

### 19. Subsequent Events

-----

In July 2003 Bridge Note B was repaid and replaced with a new Bridge Note totaling \$868,457 at a stated interest rate of 18% and a due date of July 31, 2004. The new Bridge Note C required an incentive fee of 1,738,680 shares of common stock to be issued to the note holders. The fair value of these shares is \$86,934 (\$.05 per share), which is to be amortized into interest expense over the term of Bridge Note C. The AW Fields Acquisition agreement and agreements with certain directors allow for the further anti-dilution right to the \$.05 per share level, but they have waived their right for this transaction. Because Bridge Note B, which was due July 31, 2003, was refinanced into Bridge Note c, which is due July 31, 2004, the balance at June 30, 2003 is shown as a long-term liability. See note 8.

In September 2003 a lawsuit against the Company was settled for the issuance of an additional 1,125,000 shares of common stock and the payment of the plaintiff's legal fees of \$21,348. The costs of this settlement were accrued at June 30, 2003. See note 14.

39

### 20. Recent Accounting Pronouncements

-----

In July 2002, the FASB issued SFAS No. 146 "Accounting for Exit or Disposal Activities." The provisions of this standard are effective for disposal activities initiated after December 31, 2002, with early application encouraged. The adoption of this standard did not have a material impact on the consolidated financial statements.

In January 2003, the FASB issued Interpretation No. 46 "Consolidation of Variable Interest Entities, an Interpretation of ARB 51." This Interpretation addressed consolidation by business enterprises of certain variable interest entities (VIEs). The Interpretation is effective immediately for all enterprises with variable interests in VIEs created after January 31, 2003. For variable interests in VIEs created before February 1, 2003, the provisions of this Interpretation will be applicable no later than the beginning of the first interim or annual period beginning after June 15, 2003. Further, the disclosure requirements of the Interpretation are applicable for all financial statements initially issued after January 31, 2003, regardless of the date on which the VIE was created. The Company is currently investigating the potential impact on the consolidated financial statements.

The EITF reached a consensus on Issue No. 02-17 "Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination," which clarifies certain recognition requirements in SFAS No. 141 "Business

## Edgar Filing: PARK CITY GROUP INC - Form 10KSB

Combinations." The guidance in this Issue is to be applied to business combinations consummated and goodwill impairment tests performed after October 25, 2002. The Company does not expect its application to have a material impact on the consolidated financial statements.

In April 2003, the FASB issued SFAS No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This standard amends and clarifies financial accounting and reporting for derivative instruments and hedging activities, primarily as a result of decisions made by the FASB Derivatives Implementation Group subsequent to the original issuance of SFAS No. 133 and in connection with other FASB projects. This standard is generally effective prospectively for contracts and hedging relationships entered into or modified after June 30, 2003. The Company does not expect its application to have a material impact on the consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 changes the accounting for certain financial instruments that, under previous guidance, could be classified as equity or "mezzanine" equity, by now requiring those instruments to be classified as liabilities (or assets in some circumstances) in the statement of financial position. Further, SFAS No. 150 requires disclosure regarding the terms of those instruments and settlement alternatives. The guidance in SFAS No. 150 is generally effective for all financial instruments entered into or modified after May 31, 2003, and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. The Company is in the process of evaluating this standard, but does not expect the adoption to have a material impact on the consolidated financial statements.