PARK CITY GROUP INC
Form 10KSB/A
September 14, 2006

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

FORM 10-KSB/A No. 2

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

For the fiscal year ended
June 30, 2005

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 ($0.01 par value per share

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

Outstanding as of October 13, 2005
5,657,079 (2,369 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 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. [X]

The issuer's revenues for the year ended June 30, 2005 were $3,631,812.

The aggregate market value of the stock held by non-affiliates of the registrant is approximately $2,994,106, calculated using a price of $2.75 per share on October 12, 2005.

Explanatory Note

This Form 10-KSB/A is being filed to amend and restate the Park City Group, Inc. (the "Company") Annual Report on Form 10-KSB/A for the Fiscal Year Ended June 30, 2005. The restatement arose out of, and in conjunction with, a letter of comment dated September 1, 2006 received from the staff of the Securities and Exchange Commission as a result of the Company's submission and filing of Form SB-2 Registration Statement. The financial statements and references thereto have been amended and updated to reflect the effect of the 1:50 reverse stock split effective August 11, 2006 pursuant to SAB Topic 4:C. At the time of the reverse split, the Articles of Incorporation were amended to reflect authorized common shares from 500,000,000 to 50,000,000.

Generally, no attempt has been made in this Form 10-KSB/A to modify or update other disclosures presented in the original report on Form 10-KSB/A except as required to meet the staff's comments. This Form 10-KSB/A does not reflect events occurring after the filing of the original Form 10-KSB/A or modify or update those disclosures. Information not affected by the amendment is unchanged and reflects the disclosures made at the time of the original filing of the Form 10-KSB/A with the Securities and Exchange Commission on September 30, 2005. The following items have been amended as of result of the restatement:

Annual Report on Form 10-KSB/A
June 30, 2005

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Exhibit 31	Certifications of the Principal Executive Officer and Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32	Certifications pursuant to 18 U.S.C. Sec. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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Forward-Looking Statements

This annual report on Form 10-KSB contains forward looking statements. The words or phrases "would be," "will allow," "intends to," "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," or similar expressions are intended to identify "forward-looking statements." Actual results could differ materially from those projected in the forward looking statements as a result of a number of risks and uncertainties, including 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 develops and licenses its software applications identified as "Fresh Market Manager" and "ActionManager". PCG also provides implementation and profit optimization consulting services for its application products.

On August 7, 2002, Fields Technologies, Inc., 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 Deleware corporation, as well as to Fields Technologies, Inc., the Delaware corporation, which was reincorporated in Nevada under the name of the Park City Group, Inc. The stock trades under the symbol PKCY.

The principal executive offices are located at 333 Main Street, P.O. Box 5000, Park City, Utah 84060. The telephone number is (435) 649-2221. The website address is http://www.parkcitygroup.com.

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

Business

Park City Group develops and markets patented computer software and profit optimization consulting services that help its retail customers to reduce their inventory and labor costs; the two largest controllable expenses in the retail industry, while increasing the customer's sales and gross margin. The technology has its genesis in the operations of Mrs. Fields Cookies co-founded by Randy Fields, CEO of Park City Group, Inc. Industry leading customers such as The Home Depot, Victoria's Secret, Limited Brands, Anheuser Busch Entertainment, Del Monte, WaWa and Tesco Lotus benefit from the Company's software. Park City Group products, Supply Chain Profit Link, C-Store Manager, Fresh Market Manager and ActionManager are proven, patented technologies that address the needs of

retailers in store operations management, manufacturing and both durable goods and perishable product management. Because the product concepts originated in the environment of actual multi-unit-retail chain ownership, the products are strongly oriented to an operation's bottom line results. The products are highly pragmatic in their approach to standardizing and improving managerial actions. The products use 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.

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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.

The success achieved by our customers in both their economic as well as operational performance improvement is the best measure of our performance and success.

The Company now offers a monthly subscription method for licensing of the software to its customer companies. A monthly subscription deployment option was introduced in Q3FY2004. With its lower initial implementation cost and monthly charge for the software by department by location, the Company can now offer its products to a larger potential market and estimates increasing its recurring revenue stream, although no assurances can be given.

During Q3FY2005 the Company introduced both Supply Chain Profit link and C-Store Manager products in both a subscription and traditional purchase offering. These products are targeted to meet the needs of manufactures serving the retail market place and the convenience store market respectively. In Q4FY2004, the company also expanded their business operations consulting practice to the Financial Services Industry.

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. The product has also been deployed in supermarkets, convenience stores, commissaries and offers a center store inventory management option. This software enables item level 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 application assists customers 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:

- Assortment planning to respond to customer preferences for variety and selection within the store
- Forecasting, to attempt to improve sales by anticipating the expected demand
- Production planning, to build produced items efficiently, when they are needed
- Item management, to quickly and accurately enter transactions into the system
- 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:

- Determine the product mix for the enterprise at any level of detail
- Create rules that drive production scheduling to meet the company's specific needs
- 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 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.

Alert Advisor and Task Manager

Alert Advisor delivers demand monitoring, exception analysis and production schedule revisions to relevant managers on a real-time basis. A task management component is also available to direct task activities whether from the corporate office or at the specific locations and the system provides visibility to the status of those tasks.

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.

ActionManager is a suite of software applications grouped into three distinct solutions areas. Each ActionManager solution 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:

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

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

Workflow and Information Management

The Workflow and Information Management solution 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.

Labor Management

The Labor Management solution 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 Management

The HR Management solution 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.

Supply Chain Profit Link

Supply Chain Profit Link utilizes a mix of both Fresh Market Manager and Action Manager products to produce a daily view of item movement of a manufactures product by location within any given retailer. Supply Chain Profit link products include Category Management, Forecasting, and Automated Ordering.

Category Management

The Category Management solution includes ScoreTracker Category Management tool, Central Server, Alerts Manager, and our universal integration solution. These applications provide the retail category manager, the manufacture category management and sales/operations team with a current view of the profitability of each product being carried by the retailer by store location.

Forecasting

The forecasting system determines the demand by item by store location and aggregates the demand to user configured totals. This product provides both the retailer and manufacturer with a total demand that is driven by the individual store performance, and takes into consideration the marketing and merchandising plan as determined by the corporate merchandising team.

Automated Ordering

The Automated ordering system supplies an estimated order to the retailer for review and once approved can generate an electronic purchase order to a manufacture or can feed the order to the retailers existing purchase order legacy system.

C-Store Manager

C-Store Manager integrates the Action Manager Products with the Fresh Market Manager Products in a package geared to solve the problems currently facing the C-Store Industry. This product is configured for rapid deployment and is a complete management system to fill the gaps between the Accounting Systems at the Headquarters to the Point of Sale System at the store. The product is sold and implemented in modules depending on the specific chain's needs.

Profit Optimization and 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:

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

Implementation Assistance Services

Additional services provided to the customers include:

- Project management and consulting support for customer project teams

- Business rule recommendations and tailoring
- Technical systems analysis, assessment and configuration
- On-site training and educational services

Financial Services and Call Center Operations Consulting

The company has developed a services product that centers around Labor Management, Organizational Design, Forecasting, and Best Practice development and training.

Patents and Proprietary Rights

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

Company policy is to seek patent protection for all developments, inventions and improvements that are patentable and have potential value to the Company and to protect 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.

Government Regulation and Approval

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

Cost of Compliance with Environmental Laws

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

Research and Development

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

Reports to Security Holders

The Company is subject to the informational requirements of the Securities Exchange Act of 1934. Accordingly, it files annual, quarterly and other reports and information with the Securities and Exchange Commission. You may read and

copy these reports and other information at the Securities and Exchange Commission's public reference rooms in Washington, D.C. and Chicago, Illinois. The Company's filings are also available to the public from commercial document retrieval services and the Internet world wide website maintained by the Securities and Exchange Commission at www.sec.gov.

Employees

As of June 30, 2005, the Company had 32 employees, including 8 software developers and programmers, 9 sales, marketing and account management employees, 7 software service and support employees and 8 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.

Item 2. Description of Properties

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

Item 3. Legal Proceedings

None

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

None

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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. NOTE: On the 11th day of August 2006, the company effected a 1 for 50 reverse stock split. All trading price information set forth below gives effect to such reverse stock split.

Fiscal Year 2004	Low	High
September 30, 2003	$1.50	$3.50
December 31, 2003	$1.00	$2.50
March 31, 2004	$2.00	$8.50
June 30, 2004	$3.50	$7.00
Fiscal Year 2005		
September 30, 2004	$2.50	$4.00
December 31, 2004	$2.00	$4.50
March 31, 2005	$2.00	$4.00
June 30, 2005	$1.00	$2.50

Holders of Record

At October 12, 2005 there were 2,369 holders of record of Common Stock and shares issued and outstanding of 5,657,079. The number of holders of record and shares issued and outstanding was calculated by reference to the stock transfer agent's books.

Purchases of Equity Securities by the Small Business Issuer and Affiliated Purchasers

None

Equity Compensation Plan Information

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securit remaining availabl future issuance u equity compensat plans (excludin securities reflect column (a)) (c)
Equity compensation plans approved by security holders	0	0	0
Equity compensation plans not approved by security holders	180,930	$2.865	51,070
Total	180,930	$2.865	51,070

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The Company has several different Equity Compensation Plans in effect at this time. These include the following

- In August 2003 the Company authorized 40,000 options for distribution to the employees. These options had a strike price of $2.50
- In August 2003 the Company authorized 40,000 options for distribution to the senior management. These options had a strike price of $1.50
- In September of 2005 the Company authorized to pay Senior Management 3 options for every share purchased at $3.50 for one year. Starting October of 2006 Senior Management will get 2 options for every share purchased from the Company at market price or $3.50 which ever is higher.

Issuance of Securities

We issued shares of our common stock in unregistered transactions during 2005. All of the shares of common stock issued were issued in non registered transactions in reliance on Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"). We report share issued on a quarterly bases. The shares of common stock issued subsequent to March 31, 2005 shares of common stock were issued as follows:

- In June 2005 47,722 shares were issued to employees in lieu of cash compensation.
- In June 2005 35,276 shares were issued to management in lieu of cash compensation.
- In July 2005 1,320 shares were issued for consulting services.
- In July 2005 3,115 shares were issued per anti-dilution agreement with the CEO.
- In August 2005 2,688 shares were issued to an employee in

lieu of cash compensation.

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 along with ongoing operational consulting practice. 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.

Through June 30, 2005 the Company has accumulated aggregate consolidated losses totaling $20,566,203 which includes net losses of $3,408,037 and $675,243 for the years ended June 30, 2005, and 2004, respectively.

Management's Discussion and Analysis

Years Ended June 30, 2005 and 2004

During the year ended June 30, 2005, the Company had total revenues of $3,631,812 compared to $6,029,823 in 2004, a 40% decrease. Software license sales were $479,615 and $3,245,557 for 2005 and 2004, respectively, an 85% decrease. This decrease was primarily attributable to the postponement of large sales for Fresh Market Manager at fiscal year end. One customer did sign their agreement in July 2005 for $3,000,000 in licenses as well as $500,000 in consulting services and $75,000 for one year exclusivity rights for the Point of Purchase Display manufacturing industry, and $100,000 for the first right of refusal on stock offers through December 2005, and then six months of First Right of Offer for company offered stock sales. Maintenance and ASP revenues increased by 6% over 2004, primarily from the increase in ASP sales agreements. Consulting revenue increased by 44% to $735,522 for 2005, compared to $509,928 for 2004. This increase is primarily attributable to ongoing operational consulting services for Fresh Market Manager customers and the successful launch of our new financial services operational consulting services products. The Company expects maintenance and support revenue for the year ending June 30,

2006 to be increase over 2005. Some customers may discontinue maintenance agreements, but maintenance agreements with new customers should replace discontinuing customers, and may result in a similar growth in maintenance revenue.

Deferred revenue was $883,425 and $1,111,915 at June 30, 2005 and 2004, respectively, a decrease of 20%.

Research and development expenses were $1,019,411 and $1,176,222 for 2005 and 2004, respectively, a 13% decrease. This decrease is primarily because both the Fresh Market Manager and Action Manager products have reached a mature development state. Research and development costs continue for both products for enhancements and upgrades as well as the development of Supply Chain Profit Link, C-Store Manager and two other products the Company plans to launch in FY2006.

Sales and marketing expenses were $1,337,318 and $1,158,411 for 2005 and 2004, respectively, a increase of 16%. This increase is primarily attributable to employment of Jim Horton as President and COO to develop the sales organization. During the current fiscal year the Company developed several strategic sales channels that are headed up by commissioned alliance partners. The company recognized approximately $456,000 in sales during the current fiscal year included in license and professional services revenue.

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

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

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

Financial Position, Liquidity and Capital Resources

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

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

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

In addition to our channel focus, the Company subsequent to June 30, 2005, entered into a license agreement with IMI as disclosed in our 8-K filing on August 15, 2005. Although there is no certainty, the Company believes that this working relationship with the operating companies has significant potential for

revenue generation. Joint management operating meetings will be conducted later to discuss future business opportunities

We expect that these channels will take 12 to 18 months to initiate and expect to start seeing results in Q1FY2006, although no assurance of positive results from these strategic sales channels can be given. Our working capital and other capital requirements for the foreseeable future will vary based upon a number of factors, including: (i) changes in the software industry and environment which may require additional modifications to our software and platforms; (ii) the pace at which our products are accepted by and sold into the market and the related sales and marketing effort and support requirements, and (iii) changes in existing financing arrangements. The Company is pursuing opportunities to sell its ActionManager and Fresh Market Manager products through alliances with other software vendors (CRS Retail Systems) and companies (Kurt Salmon Associates) selling to the retail industry. This selling strategy is dependent on successfully 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 has been constrained by not having a desirable level of working capital. Although the Company anticipates that it will meet its working capital requirements primarily through increased revenue, while controlling and controlling costs and expenses, no assurances can be given that the Company will be able to meet its working capital requirements. Should the Company desire to raise additional equity or debt financing, there are no assurances that the Company could do so on acceptable terms.

Inflation

The impact of inflation may cause retailers to slow spending in the technology area, which could have an impact on company sales.

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 and ActionManager applications, in the sales channels of Grocery, C-Store, Specialty Retail, Financial Service and Food Manufactures. 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 diverse business environments There is no assurance that the markets will accept the Park City Group applications in proportion to the increased marketing of these product lines, although current business activity might suggest that the market opportunity and acceptance of the Park City Group applications are positive. The Company may face significant competition that may negatively affect demand for the Park City Group applications. This includes the public's preference for competitor's new product releases or updates over the Company's releases or updates. The company is focusing our marketing effort on the development of the new expanded sales channels, this will be increasing our marketing and

operational costs.

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:

- Sales and marketing efforts as well as the co-marketing efforts of strategic partners,
- The success of the new strategic sales channels
- The length of the sales cycle for our products
- The reliability and cost-effectiveness of services, and
- 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 following risks:

- Whether or how the Company will respond to technological changes in a timely or cost-effective manner,
- Whether the products or technologies developed by 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
- Whether products and services will achieve and sustain market acceptance.

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:

- Demand for and market acceptance of new products,
- Introduction or enhancement of products and services by the Company or its competitors,
- Capacity utilization,
- Technical difficulties, system downtime,

- Fluctuations in data communications and telecommunications costs,
- Maintenance subscriber retention,
- The timing and magnitude of capital expenditures and requirements,
- Costs relating to the expansion or upgrading of operations, facilities, and infrastructure,
- Changes in pricing policies and those of competitors,
- Changes in regulatory laws and policies, and
- 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 facilities and personnel. Therefore, future operating results will be particularly sensitive to fluctuations in revenues because of these and other short-term fixed costs.

Some competitors are larger and have greater financial and operational resources that may give them an advantage in the market. Many of the Company's competitors are larger and have greater financial and operational resources. This may allow them to offer better pricing terms to customers in the industry, which could result in a loss of potential or current customers or could force 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.

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 three key man insurance policies on Mr. Fields life in the amount of $10,000,000 each. The beneficiary of each policy is (1) to the Fields Trust, (2) to Park City Group, Inc. and (3) to the Fields Trust. The third policy is a new policy which will replace the first policy as soon as all contingencies and waiting periods have been removed from

the new policy. 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. The company has experienced the loss of long term maintenance customers due to the high reliability of the product, and in some cases, the customer deciding to replace Park City Group

applications. The company continues to focus on these long term clients to provide new functionality and applications to meet their business needs. The company also expects to lose some maintenance revenue due to consolidation of industries or customer operational difficulties that lead to their reduction of size. In addition, future revenues will be negatively impacted if 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.
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' 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.

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.

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Park City Group has an unpaid promissory note due to Riverview Financial Corp.

("Riverview") in the amount of $3,296,406 with interest payable at 12% per annum.

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:

- Issuance of common stock in connection with funding agreements with third parties and future issuances of common and preferred stock by the Board of Directors, and
- The Board of Directors has the power to issue additional shares of common stock and preferred stock and the right to determine the voting, dividend, conversion, liquidation, preferences and other conditions of the shares without shareholder approval.

Stock issuances may result in reduction of the book value or market price of outstanding shares of common stock. If the Company issues any additional shares of common or preferred stock, proportionate ownership of common stock and voting power will be reduced. Further, any new issuance of common or preferred 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.

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 commons 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 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.

Critical Accounting Policies

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

We commenced operations in the software development and professional services business during 1990. The preparation of our financial statements requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and assumptions, including those related to inventory, income taxes, revenue recognition and restructuring initiatives. We anticipate that management will base its estimates and judgments on historical experience of the operations we may acquire and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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

Income Taxes. In determining the carrying value of the Company's net deferred tax assets, the Company must assess the likelihood of sufficient future taxable income in certain tax jurisdictions, based on estimates and assumptions, to realize the benefit of these assets. If these estimates and assumptions change in the future, the Company may record a reduction in the valuation allowance, resulting in an income tax benefit in the Company's Statements of Operations. Management evaluates the realizability of the deferred tax assets and assesses the valuation allowance quarterly.

Goodwill and Other Long-Lived Asset Valuations. In June 2001, the FASB issued SFAS 141, "Business Combinations", and SFAS 142, "Goodwill and Other Intangible Assets", effective for fiscal years beginning after December 15, 2001 with early adoption permitted for companies with fiscal years beginning after March 15, 2001. We adopted the new rules on accounting for goodwill and other intangible assets during the first quarter of fiscal 2004. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the statements. Other intangible assets will continue to be amortized over their useful lives.

Revenue Recognition. The Company's revenues are derived from the sale of software, maintenance of software, professional consulting services and software hosting services. Revenue from the sale of software is recognized at the time the software is shipped to the customer. The company also defers a portion of the software license fee equal to the cost of maintenance for the warranty period on all license sales that are either to a new customer or are a new product being sold to and existing customer. Customers who purchases additions licenses for software they already have and are paying maintenance on waive the warranty period. Revenue from maintenance of software, professional consulting services and software hosting services is recognized during the month the services are preformed.

Stock-Based Compensation. The Company accounts for its employee stock-based compensation plans using the intrinsic value method, as prescribed by APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Accordingly, the Company records deferred compensation costs related to its employee stock options when the current market price of the underlying stock exceeds the exercise price of each stock option on the measurement date (usually the date of grant). The Company records and measures deferred compensation for stock options granted to non-employees, other than members of the Company's Board of Directors, using the fair value based method. Deferred compensation is expensed on a straight-line basis over the vesting period of the related stock option. During 2005 and 2004, the Company did not grant any stock options to employees or members of the Company's Board of Directors with exercise prices below the market price on the measurement date.

An alternative method to the intrinsic value method of accounting for stock-based compensation is the fair value based method prescribed by Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." If the Company used the fair value based method, the Company would be required to record deferred compensation based on the fair value of the stock option at the date of grant as computed

using an option-pricing model, such as the Black-Scholes option pricing model. The deferred compensation calculated under the fair value based method would then be amortized over the vesting period of the stock option

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

On August 12, 2005, the Company dismissed Tanner LC as its principal accountant to audit its financial statements. There have been no disagreements between Tanner and the Company on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to the satisfaction of Tanner, would have caused it to make a reference to the subject matter of any such disagreement within its report. We filed a Form 8-K to report on the above described change of accountants. Attached as an exhibit to each of such filings was a letter from Tanner LC stating that it agreed with the statements we made in such filings relating to our change of auditor. Also on August 12, 2005 the Company hired HJ & Associates, LLC as its principal accountant.

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, 2005. Based on this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports submitted under the Securities and Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission ("SEC") rules and forms, including to ensure that information required to be disclosed by the Company is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

While the Company believes that the disclosure controls currently in place are adequate to prevent material misstatements, the Company has found significant internal control deficiencies in its accounting for property, plant and equipment. In conducting a self-assessment and in preparation for compliance for Section 404 of the Sarbanes-Oxley Act of 2002, the Company has identified deficiencies in the correlation of serial numbers presented on Pre-1999, fully depreciated computer and other related equipment and its relationship to internal tracking of long-standing, and aged Property, Plant and Equipment. Due to the fact that these specific assets have been fully depreciated, the Company has concluded that no material misstatement or material weakness exists; however, the Company has concluded that it is necessary to invest in a

more formal fixed asset tracking platform to ensure consistencies going forward in tracking aged Property, Plant & Equipment that are still available for use and PPE that has been disposed of.

(b) Changes in internal controls over financial reporting.

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

Item 8B. Other Information

Not applicable

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PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance With Section 16(a) of the Exchange Act

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	Age	Position - Committee
Randall K. Fields	58	Chief Executive Officer Chairman of the Board and Director
*Peter Jensen	Deceased	Chief Financial Officer and Secretary
**William Dunlavy	50	Chief Financial Officer and Secretary
***James Horton	51	President
Thomas W Wilson	73	Director and Compensation Committee Chairman
****William R. Jones	70	Director and Audit Committee Chairman
Bernard F. Brennan	67	Director
*****Edward C. Dmytryk	59	Director and Audit Committee Chairman
******Anthony E. Meyer	44	Director

*Appointed CFO on 6/3/03 - Deceased 8/21/04
**Appointed CFO on 8/23/04

***Appointed President 9/1/04
****Resigned 1/4/05
*****Appointed Audit Committee Chairman 10/1/2004
****** Resigned 11/14/04

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

Peter Jensen served as Chief Financial Officer from June 3, 2003 to August 21, 2004. Mr. Jensen unexpectedly passed away on August 21, 2004.

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

James Horton has been appointed President and Chief Operating Officer as of September 2004. Mr. Horton joined Park City Group in 2004. He was most recently a Vice President and senior officer at Kurt Salmon Associates. Jim has extensive experience in the retail industry. He began his career with Ernst and Young consultants, was the National Director of Retail consulting for KPMG. Mr. Horton's resume includes being the President of World Wide Chain Store Systems, a retail/wholesale distribution application software company that had been installed in many of the largest retail and wholesale companies. His more than 25 years of retail operation experience coupled with both a BS in Accounting and an MBA from West Virginia University has assisted him in becoming a featured presenter in worldwide industry conferences at the Food Marketing Institute, the National Retail Federation and the International Business Leaders Advisory Council.

Thomas W. Wilson, Jr. has been a director since August, 2001. From 1995 to 1999, Mr. Wilson was the Chairman of the Board Information Resources, Inc., a Chicago, Illinois-based provider of point-of-sale information based business solutions to the consumer packaged goods industry. From 1998 to 1999, Mr. Wilson was the Interim Chief Executive Officer of Information Resources, Inc. From 1966 to 1990, Mr. Wilson was employed in various capacities with McKinsey & Co., a

management consulting company. In 1968, Mr. Wilson was elected a Partner of McKinsey and Co., and in 1972 he was elected a Senior Partner. Mr. Wilson received a Bachelor of Arts Degree from Dartmouth College and a Masters of Business Administration Degree from the Wharton School of the University of Pennsylvania.

William R. Jones was a director since August, 2001. Mr. Jones resigned from the Board of Directors on January 4, 2005

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.

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

Anthony E. Meyer was a director since October, 2002. Mr. Meyers resigned from the Board of Directors November 14, 2004.

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

Compliance with Section 16(a)

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

Code of Ethics

The company has not yet adopted a code of ethics that applies to all officers, directors, and employees of the Company. The company is addressing this issue in its October 2005 Board Meeting.

Committees of the Board of Directors

Our board of directors has an audit committee, a compensation committee and a nominating and corporate governance committee, each of which has the

composition and responsibilities described below:

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

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

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

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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, 2005 and whose annual compensation exceeded $100,000 during such year (collectively the "Named Executive Officers").

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long-Term Comp	
Name and Principal Position	Year/ Period	Salary ($)	Bonus ($)	Other Annual Compensation ($)	Restricted Stock Awards($)	Secur Under Option (
Randall K. Fields Chairman and CEO	2005	317,500*	-	61,037 (1)	50,000	
	2004	317,500*	4,377	46,760 (1)	50,000	
	2003	330,000	6,477	41,185 (1)	24,167	
James Horton President and COO	2005	270,833**	-	-	-	
William Dunlavy CFO	2005	198,958	-	-	-	
	2004	100,000	4,377	-	50,000	
	2003	103,750	31,477	575 (2)	24,167	
Shaun Broadhead Director of Research & Development	2005	100,000	-	-	50,000	
	2004	100,000	4,377	-	50,000	
	2003	108,750	6,477	675 (3)	24,167	
Carolyn Doll Vice President of Marketing	2005	100,000	-	-	50,000	
	2004	100,000	4,377	-	50,000	
	2003	105,000	6,477	600 (4)	24,167	
Aaron Prevo Vice-President of Professional Services	2005	29,583***	-	-	-	

+ On the 11th day of August 2006, the company effected a 1 for 50 reverse stock split. All information set forth gives effect to such reverse stock split.

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

** Mr. Horton joined the Company in September 2004

*** Mr. Prevo joined the Company in April 2005

(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 for 2003, as well as payments for unused accrued vacation and sick leave of $39,577 for 2003; Premiums paid on Life Insurance policy of $46,622 and $27,614 for 2005 and 2004, respectively, Company car related expenses of $13,003 and $14,880 for 2005 and 2004, respectively; and medical premiums of $1,412

(2) These amounts represent the employer contribution to the Company's 401(k) Plan for the benefit of Mr. Dunlavy;
(3) These amounts represent employer contributions to the Company's 401(k) Plan for the benefit of Mr. Broadhead;
(4) These amounts include employer contributions to the Company's 401(k) Plan for the benefit of Ms. Doll.

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Stock Options Granted in the Last Fiscal Year

The following table sets forth information on grants of options to purchase shares of our common stock in fiscal year 2004 to our officers and directors.

Individual Grants

Name	Number of Securities Underlying Options Granted	% of Total Options Granted to Employees in Fiscal Year	Exercise Price ($/Sh)(1)	Expiration Date
James Horton	8,336	9.7%	$3.50	06/30/2015
William Dunlavy	6,772	7.9%	$3.50	06/30/2015
Aaron Prevo	1,312	1.5%	$3.50	06/30/2015

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

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

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Securities Underlying Unexercised Options at December 31, 2004		Value of U Money Opti December 3
			Exercisable	Unexercisable	Exercisabl

None

Employment Agreement

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

- An annual base compensation of $350,000,
- Use of a company vehicle,
- Employee benefits that are generally provided to Park City Group, Inc. employees, and
- 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 compensation to $317,500.

Park City Group has an employment agreement with its President and chief operating officer, James Horton, dated effective September 1, 2004. This agreement provides Mr. Horton with the following compensation:

- o An annual base compensation of $325,000,
- o An annual bonus based on the percent of his base pay that is equal to the revenue growth of the Company provided that the company's revenue grows at least 25% and that the pretax profits grow at an equal or greater percent, 1/2 of this bonus will be paid in cash and 1/2 will be paid in stock,
- o Employee benefits that are generally provided to Park City Group, Inc. employees, and
- o Stock options equal to 3 to 1 for each share of stock purchased at a cost of $3.50 or the current market price, which ever is higher, through September 30, 2005 with an exercise price of $3.50 or the current market price, which ever is higher,
- o Stock options equal to 2 to 1 for each share of stock purchased at a cost of $3.50 or the current market price, which ever is higher, $3.50 or the current market price, which ever is higher, there after.

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

- o An annual base compensation of $225,000,
- o An annual bonus based on the percent of his base pay that is equal to the revenue growth of the Company provided that the company's revenue grows at least 25% and that the pretax profits grow at an equal or greater percent, 1/2 of this bonus will be paid in cash and 1/2 will be paid in stock,
- o Employee benefits that are generally provided to Park City Group, Inc. employees, and

- o Stock options equal to 3 to 1 for each share of stock purchased at a cost of $3.50 or the current market price, which ever is higher, through September 30, 2005 with an exercise price of $3.50 or the current market price, which ever is higher,

- o Stock options equal to 2 to 1 for each share of stock purchased at a cost of $3.50 or the current market price, which ever is higher, $3.50 or the current market price, which ever is higher, there after.

Park City Group has an employment agreement with its Vice President of Professional Services, Aaron Prevo, dated effective April 11, 2005. This agreement provides Mr. Prevo with the following compensation:

- o An annual base compensation of $130,000,

- o Will participate in the senior management bonus program,
- o Employee benefits that are generally provided to Park City Group, Inc. employees, and
- o Stock options equal to 2 to 1 for each share of stock purchased at a cost of $3.50 or the current market price, which ever is higher, $3.50 or the current market price, which ever is higher.

Director Compensation

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

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

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

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

Indemnification for Securities Act Liabilities

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, 2005, a total of 108,930 of such options were outstanding with exercise prices ranging from $1.50 to $7.00 per share.

At June 30, 2005 a total of 943,829 warrants to purchase shares of common stock were outstanding. Of those warrants, 649,306 were issued in connection with certain debt financings; 128,571 were issued in connection with an equity investment by an officer; and 165,952 were issued based on antidilution provisions associated with shares and warrants issued with certain transactions. These warrants have exercise prices ranging from $2.00 to $5.00 per share and expire between December 31, 2005 and August 26, 2009.

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.

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Item 11. Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Certain Beneficial Owners

The following table sets forth certain information with respect to the beneficial ownership of the Company's Common Stock as of October 13, 2005, for each person or entity that is known to beneficially own more than 5 percent of the Common Stock. As of October 13, 2005, there were 5,657,079 shares of Common Stock outstanding. NOTE: On the 11th day of August 2006, the company effected a 1 for 50 reverse stock split. All information set forth below gives effect to such reverse stock split.

Title of Class	Name and Address of Beneficial Owner	Amount of Beneficial Ownership		Nature Owners
Common	Randall K. Fields, Park City, Utah	707,225	(2)	Dir
Common	Riverview Financial Corp., Park City, Utah (1) Park City, Utah	2,283,955		Dir
Common	Thomas W. Wilson, Westport, Connecticut	337,194	(3)	Dir
Common	Bernard F. Brennan, Ponte Vedra Beach, Florida	339,321	(4)	Dir
Common	AW Fields Acquisition, LLC, New York, New York	341,667		Dir
	Total	4,009,362		

(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 October 13, 2005, for each of the directors, each of the Named Executive Officers, and all directors and executive officers as a group. As of October 13, 2005, there were 5,657,079 shares of Common Stock outstanding. NOTE: On the 11th day of August 2006, the company effected a 1 for 50 reverse stock split. All information set forth below gives effect to such reverse stock split.

Title of Class	Name, Position and Address of Beneficial Owner	Amount of Beneficial Ownership (1)	Nature of Ownership

Common	Randall K. Fields, CEO, Chairman and Director Park City, Utah	2,991,180 (5)	Direct an Indirect
Common	Edward C. Dmytryk, Director Ocala, Florida	38,033 (6)	Direct
Common	Thomas W. Wilson Jr., Director Westport, Connecticut	337,194	Direct
Common	Bernard F. Brennan, Director Ponte Vedra Beach, Florida	339,321	Direct
Common	William Dunlavy, CFO Park City, Utah	48,842 (7)	Direct
Common	James Horton, President and COO Acworth, Georgia	182,544 (8)	Direct
Common	Shaun Broadhead, Director of Research and Development Heber, Utah	55,444 (9)	Direct
Common	Carolyn Doll, VP of Marketing Heber, Utah	52,444 (10)	Direct
Common	Aaron Prevo, VP of Professional Services Layton, Utah	1,968 (11)	Direct
Common	Executive Officers & Directors as a Group	4,046,970	

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* Less than 1%.

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(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 warrants to purchase 233,804 shares of common stock.
(3) Includes warrants and options to purchase 142,157 shares of common stock.
(4) Includes warrants and options to purchase 132,042 shares of common stock.
(5) Includes 2,283,955 shares of common stock owned by Riverview Financial Corp., which is 100% owned by Randall K. Fields.
(6) Includes options to purchase 17,500 shares of common stock.
(7) Includes options to purchase 16,772 shares of common stock.
(8) Includes warrants and options to purchase 136,908 shares of common stock.
(9) Includes options to purchase 7,000 shares of common stock.
(10) Includes options to purchase 4,000 shares of common stock.
(11) Includes options to purchase 1,312 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. See note 8 and note 17 to the audited financial statements.

Item 12. Certain Relationships and Related Transactions

The Company has a note payable to Riverview Financial Corporation (Riverview), in the principal amount of $3,296,406 at June 30, 2005 with accrued interest of $841,995. The chief executive of Riverview is also the chief executive of the Company. In June 2004, the Company issued 49,600 shares of common stock to Riverview to subordinate to the extended Whale Investments note. See note 8 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 2005. Riverview was issued 17,143 shares of common stock as an inducement to make the loan. The note was extended in June 2004 to December 2005. See note 8 to the audited financial statements.

The Company's CEO has made loans to the Company to cover short term cash needs pursuant to a line of credit promissory note payable. Repayments are made as funds are available, with a due date of June 15, 2005 and interest is at 12%. There was no balance due under the line of credit at June 30, 2004. 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 bore interest at 18%, payable monthly, and was due in December 2005, as extended. Whale Investment, Ltd. is controlled by an individual who was already a shareholder of the Company at the time of the loan. The extended note was due December 2005 and the Company paid to Whale Investments $40,000 in cash and 20,000 in common stock valued at $80,000 as consideration for the extension. In August 2005 the loan and accrued interest was paid off. See note 16 to the audited financial statements.

The Company has payables to employees of $182,146 at June 30, 2005 for un-reimbursed business expenses, including $118,407 due to officers of the company.

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Item 13. Exhibits

Exhibits, Financial Statements and Schedules

The Consolidated Financial Statements of the Company and its subsidiaries are filed as part of this Report:

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheet as of June 30, 2005
- Consolidated Statement of Operations for the years ended June 30, 2005 and 2004
- Consolidated Statement of Stockholders' Deficit for the years ended June 30, 2005 and 2004
- Consolidated Statement of Cash Flows for the years ended June 30, 2005 and 2004
- Notes to Consolidated Financial Statements

Exhibit 31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C Section 1350
Exhibit 32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C Section 1350

(1) Incorporated herein by reference from Registrant's Form 8-K dated April 21, 2005

(2) Incorporated herein by reference from Registrant's Form 8-K dated August 11, 2005

(3) Incorporated herein by reference from Registrant's Form 8-K dated August 12, 2005

(4) Incorporated herein by reference from Registrant's Form 10-KSB filed on October 13, 2005

Balance of Registrant's Form 8-K's incorporated in Forms 10QSB previously filed.

Item 14. Principal Accounting Fees and Services

The aggregate fees billed for professional services by HJ & Associates, LLC and Tanner LC in fiscal year 2005 and 2004 for these various services were:

Type of Fees	2005	2004
Audit Fees	$56,450	$55,700
Audit-Related Fees	-	-
Tax Fees	8,400	8,400
All Other Fees	-	900
Total	$64,850	$65,000

In the above table, in accordance with the SEC's definitions and rules, "audit fees" are fees the Company has paid or expects to pay HJ & Associates, LLC and Tanner LC for professional services for the audit of the Company's consolidated financial statements included in Form 10-KSB and review of financial statements included in Form 10-QSBs, and for services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements; "audit-related fees" are fees for assurance and related services that are

reasonably related to the performance of the audit or review of the Company's financial statements; "tax fees" are fees for tax compliance, tax advice and tax planning; and "all other fees" are fees for any services not included in the first three categories.

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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.

PARK CITY GROUP, INC.
(Registrant)

Date: September 13, 2006

By /s/ Randall K. Fields
Principal Executive Officer & CEO
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 Randall K. Fields	Chief Executive Officer, Chairman of the Board and Director (Principal Executive Officer)	September 13, 2006
/s/ William Dunlavy William Dunlavy	Chief Financial Officer and Secretary (Principal Financial Officer)	September 13, 2006
/s/ Edward C. Dmytryk Edward C. Dmytryk	Director	September 13, 2006
/s/ Thomas W. Wilson, Jr. Thomas W. Wilson, Jr.	Director	September 13, 2006
/s/ Bernard F. Brennan Bernard F. Brennan	Director	September 13, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders of
Park City Group, Inc and Subsidiaries
Park City, Utah

We have audited the accompanying consolidated balance sheet of Park City Group, Inc. and Subsidiaries as of June 30, 2005, and the related consolidated statements of operations, stockholders' deficit and cash flows for the year then ended. 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 audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Park City Group, Inc. and Subsidiaries as of June 30, 2005, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ HJ & Associates, LLC

HJ & Associates, LLC
Salt Lake City, Utah
October 12, 2005, except for Note 18, for which the date
is September 13, 2006

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Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated statement of operations, stockholders' deficit and cash flows of Park City Group, Inc. and Subsidiaries for the year ended June 30, 2004. 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 audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of their operations and their cash flows of Park City Group, Inc. and subsidiaries for the year ended June 30, 2004, in conformity with accounting principles generally accepted in the United States of America.

/s/ Tanner LC

Tanner LC
Salt Lake City, Utah
August 12, 2004

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Park City Group, Inc. & Subsidiaries
Consolidated Balance Sheet
June 30, 2005
(Restated)

Assets	
Current assets:	
Cash	$ 209,670
Receivables, net of allowance for doubtful accounts of $56,000	356,339
Prepaid expenses and other current assets	37,060
Total current assets	603,069
Property and equipment, net of accumulated depreciation and amortization	109,512
Other assets:	
Deposits and other assets	25,000
Capitalized software costs, net of accumulated amortization of $731,167	332,349
Total other assets	357,349
Total assets	$ 1,069,930
Liabilities and Stockholders' Deficit	
Current liabilities:	
Accounts payable	$ 628,398
Accrued liabilities	1,164,964
Deferred revenue	883,425

Current portion of capital lease obligations	23,159
Notes payable, net of discount of $54,976	1,945,024
Related party notes payable, net of discount of $12,375	332,625
Related party lines of credit	619,743
Total current liabilities	5,597,338
Long-term debt:	
Long-term debt to related party, net of discounts of $122,992	3,173,414
Capital lease obligations, less current portion	2,127
Total long-term debt	3,175,541
Total liabilities	8,772,879
Commitments and contingencies	
Stockholders' deficit:	
Preferred stock, $.01 par value, 30,000,000 shares authorized no shares issued,	-
Common stock, $.01 par value, 50,000,000 shares authorized, 5,651,118 issued and outstanding	56,511
Additional paid-in-capital	12,806,743
Accumulated deficit	(20,566,203)
Total stockholders' deficit	(7,702,949)
Total liabilities and stockholders' deficit	$ 1,069,930

See accompanying notes to consolidated financial statements.

Park City Group, Inc. & Subsidiaries
Consolidated Statement of Operations
For the Years Ended June 30, 2005 and 2004

	2005 (Restated)	20 (Rest
Revenues:		
Software licenses	$ 479,615	$ 3,2

Maintenance and support	2,416,675	2,2
Consulting and other	735,522	5
Total revenues	3,631,812	6,0
Cost of revenues	1,448,726	1,3
Gross margin	2,183,086	4,6
Operating expenses:		
Research and development	1,019,411	1,1
Sales and marketing	1,337,318	1,1
General and administrative expenses	2,055,940	1,6
Total operating expenses	4,412,669	4,0
Income (loss) from operations	(2,229,583)	6
Other income (expense):		
Gain on forgiveness of debt	-	1
Gain on settlement of payable	-	
Interest expense	(1,178,454)	(1,5
Total other income (expense)	(1,178,454)	(1,3
Loss before income taxes	(3,408,037)	(6
Income tax (expense) benefit	-	
Net loss	$ (3,408,037)	$ (6
Weighted average shares	5,489,000	4,7
Basic loss per share	$ (0.62)	$

See accompanying notes to consolidated financial statements.

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Park City Group, Inc. & Subsidiaries
Consolidated Statement of Stockholders' Deficit
For the Years Ended June 30, 2005 and 2004 (Restated)

Common Stock	Additional Paid-In	Treasury	Accumulated

	Shares	Amount	Capital	Stock	Deficit
Balance, July 1, 2003	4,274,812	$ 42,748	$8,540,855	$(30,000)	$(16,482,923)
Common stock issued for:					
Compensation	111,073	1,111	295,834	-	-
Services	65,567	656	222,381	-	-
Settlement	60,422	604	157,739	-	-
Debt refinancing	168,205	1,682	513,004	-	-
Debt Conversions	534,912	5,349	1,949,659	-	-
Exercise of Options	159,333	1,593	317,074	-	-
Cancel of treasury stock	-	-	(30,000)	30,000	-
Net loss	-	-	-	-	(675,243)
Balance, June 30, 2004	5,374,323	53,743	11,966,546	-	(17,158,166)
Common stock issued for:					
Compensation	173,817	1,738	470,517	-	-
Services	14,320	143	39,617	-	-
Settlement	41,300	413	164,787	-	-
Debt refinancing	4,500	45	15,705	-	-
Equity investment	42,857	429	149,571	-	-
Net loss	-	-	-	-	(3,408,037)
Balance, June 30, 2005	5,651,118	$ 70,904	$12,806,743	$ -	$(20,566,203)

See accompanying notes to consolidated financial statements.

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Park City Group, Inc. & Subsidiaries
Consolidated Statement of Cash Flows
For the Years Ended June 30, 2005 and 2004

	Year Ended June 30, 2005	Year June 3
Cash flows from Operating Activities:		
Net loss	$ (3,408,037)	$ (
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	337,851	
Bad debt expense	358,158	
Stock issued for services and compensation	677,215	
Amortization of discounts on debt	177,506	
Gain on settlement of payable	-	
Gain on forgiveness of debt	-	(
Decrease (increase) in:		
Trade receivables	428,661	(
Prepaid and other assets	169,109	

Increase (decrease) In:		
Accounts payable	301,227	
Accrued liabilities	(108,377)	
Deferred revenue	(228,490)	(
Advances payable	-	(
Accrued interest, related party	500,859	
Net cash (used in) provided by operating activities	(794,318)	
Cash flows from investing activities:		
Purchase of property and equipment	(35,345)	
Proceeds from disposal of property	3,400	
Net cash used in investing activities	(31,945)	
Cash flows from financing activities:		
Net increase (decrease) in line of credit - related party	619,743	
Proceeds from exercise of options	150,000	
Payment to extend note payable	(9,000)	
Proceeds from debt	-	
Payments on notes payable and capital leases	(37,627)	
Net cash provided by financing activities	723,116	
Net increase (decrease) in cash	(103,147)	
Cash at beginning of year	312,817	
Cash at end of year	$ 209,670	$

See accompanying notes to consolidated financial statements.

Park City Group, Inc. & Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2005 and June 30, 2004

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 2,192,472 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.

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.

The financial statements presented herein reflect the consolidated financial position of PCG and FTI as of June 30, 2005, and operations of PCG and FTI for the years ended June 30, 2005 and 2004. All inter-company transactions and balances have been eliminated in consolidation.

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 multiple locations to assist in the management of business operations on a daily basis and communicate results of operations in a timely manner. In addition the company has built a consulting practice for business improvement that centers around the companies proprietary software products. The principal markets for the Company's products are retail companies, financial services, Branded food manufacturers and display manufacturing 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 and Significant Customers

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, 2005, net accounts receivable includes amounts due from customers totaling $356,339.

During the year ended June 30, 2005, the Company received approximately $486 thousand of its revenue from new customers and approximately $3.1 million in revenue from existing customers for continued support and additional license sales.

During 2005, the Company had sales to major customers that exceeded 10 percent of revenues are as follows:

Customer A	$489,045
Customer B	$374,249

The Company did not have any major customers that exceeded 10 percent of revenues during 2004.

The Company also has an account receivable from a major customer as of June 30, 2005 as follows:

Customer C	$122,753

Allowance for Doubtful Accounts Receivable

The Company offers credit terms on the sale of the Company's products to a significant majority of the Company's customers and require no collateral from these customers. The Company performs ongoing credit evaluations of the Company's customers' financial condition and maintains an allowance for doubtful accounts receivable based upon the Company's historical experience and a specific review of accounts receivable at the end of each period. As of June 30, 2005, the allowance for doubtful accounts was $56,000.

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Depreciation and Amortization

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

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

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

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. Until revenue recognition requirements are met, the cash payments received are treated as deferred revenue.

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.

ASP Services are sold, on a contractual bases, for one or more years. These fees are collected in advance of the services being performed and the revenue is recognized ratably over the respective months, as services are provided.

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. During 2005 and 2004, $265,876 of the capitalized development costs were amortized into expense each year.

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.

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 52,638,012 shares of common stock at prices ranging from $1.50 to $7.00 per share were outstanding at June 30, 2005, but were not included in the diluted loss per share calculation because the effect would have been anti-dilutive.

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

	June 30, 2005	June 30, 2004
Weighted average	5,489,000	4,711,000
Dilutive effect of options and warrants	-	-
Weighted average shares outstanding assuming dilution	5,489,000	4,711,000

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 fair 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 as amended by SFAS No. 148, the Company's net loss would have been as follows:

	Year Ended June 30, 2005	Year Ended June 30, 2004
Net loss		
As reported	$(3,408,037)	$(672,243)
Pro forma	(4,038,715)	(724,743)
Loss per common share-basic and diluted-as reported	$ (0.62)	$ (0.14)
Loss per common share-basic and diluted-pro forma	$ (0.74)	$ (0.15)

The weighted-average grant-date fair value of options granted during year ended June 30, 2005 was $3.00 per share. The fair value for the options granted in 2005 were estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

Risk-free interest rate	1.63% - 3.73%
Expected life (in years)	2 - 10
Expected volatility	404.47%
Expected dividend yield	0.00%

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The following table summarizes information about fixed stock options and warrants outstanding at June 30, 2005:

	Options and Warrants Outstanding at June 30, 2005			Options a Exercisable a
Range of exercise prices	Number Outstanding at June 30, 2005	Weighted average remaining contractual life(years)	Weighted average exercise price	Numbe Exercisable a June 30, 200
$1.50 - $2.50	739,911	2.62	$ 1.99	735,93
$3.50 - $4.00	302,849	2.67	3.52	302,84
$7.00	10,000	1.36	7.00	10,00
	1,052,760	2.62	2.48	1,048,78

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. Liquidity

As shown in the consolidated financial statements, the Company incurred losses for the years ended June 30, 2005 and 2004 and had current liabilities in excess of current assets at June 30, 2005. The Company generated cash from operations for the year ending June 30, 2004, however the Company used cash in operations for the year ending June 30, 2005.

The Company believes that cash flow from sales, as well as the ability and commitment of its majority shareholder to contribute funds necessary to continue to operate, will allow the Company to fund its currently anticipated working capital, capital spending and debt service requirements during the year ended

June 30, 2006. Currently the Company has experienced a high level of sales as mentioned in Footnote 16. The IMI sale combined with maintenance and booked consulting contracts represents a cash flow in excess of $7,500,000. The company has retired the senior debt from these proceeds as indicated in Footnote 16, and believes that the remaining cash will allow the Company to meet all of their cash needs for Fiscal Year 2006. The financial statements do not reflect any adjustments should the Company's operations not be achieved.

3. Receivables

Trade accounts receivable consist of the following at June 30, 2005:

Trade accounts receivable	$ 412,339
Allowance for doubtful accounts	(56,000)
	$ 356,339

4. Property and Equipment

Property and equipment are stated at cost and consist of the following at June 30, 2005:

Computer equipment	$ 1,408,546
Furniture and equipment	207,251
Leasehold improvements	85,795
	1,701,592
Less accumulated depreciation and amortization	(1,592,080)
	$ 109,512

5. Intangible Asset

Intangible assets consists of the following at June 30, 2005

Capitalized software costs	$ 1,063,516
Less accumulated amortization	(731,167)
	$ 332,349

6. Accrued Liabilities

Accrued liabilities consist of the following at June 30, 2005:

Accrued interest	$ 848,258
Other payroll liabilities	156,300
Accrued vacation	112,722
Other accrued liabilities	32,684
Accrued board compensation	15,000

$ 1,164,964

7. Related party line of credit

In May 2003 the Company arranged an unsecured, revolving line of credit with its CEO. Advances bear interest at 12%, and are repaid as funds availability permits. The line of credit originally expired June 15, 2005. In June 2005 the expiration date on this revolving line of credit was extended to June 15, 2007, and the balance at June 30, 2005 is $619,743.

8. Long-term and related party notes payable

The Company had the following long-term notes payable at June 30, 2005:

Note payable to Riverview bearing interest at 12% compounding, due July 31, 2007, unsecured, net of discount of $122,992	3,173,414
Capital lease obligation on computer equipment, due in monthly installments of $2,124 decreasing through February 2007, imputed interest rates of 10.9%	25,286
	3,198,700
Less current portion of capital lease obligation	(23,159)
	$3,175,541

Maturities of long-term debt at June 30, 2005 are as follows:

Year	Amount
2006	$ 23,159
2007	2,127
2008	3,173,414
	$3,198,700

Capital Leases: Amortization expense related to capitalized leases is included in depreciation expense and was $25,926 and $23,066 for the years ended June 30, 2005 and 2004, respectively. Accumulated depreciation was $54,301 at June 30, 2005. This amortized depreciation expenses relates to $98,121 of equipment purchased under capital lease agreements of which $47,666 is still under capital lease at June 30, 2005.

9. Deferred Revenue

Deferred revenue consisted of the following at June 30, 2005:

License Sales	$ 17,817
Consulting Services	18,950

Maintenance and Support	846,658
	$883,425

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 June 30, 2005	Year Ended June 30, 2004
Income tax benefit at statutory rates	$ 1,329,000	$ 263,000
Change in valuation allowance	(1,298,000)	(251,000)
Other	(31,000)	(31,000)
	$ -	$ -

The deferred income tax benefit for the years ended June 30, 2005 and 2004 is as follows:

	June 30, 2005	June 30, 2004
Short Term		
Allowance for bad debts	$ 22,000	$ 2,000
Accrued vacation	44,000	38,000
Deferred revenue	345,000	434,000
Valuation allowance	(411,000)	(474,000)
Deferred tax asset	$ -	$ -
Long Term		
Depreciation	$ 52,000	$ 46,000
Net Operating loss carry forward	4,250,000	2,895,000
Valuation allowance	(4,302,000)	(2,941,000)
Deferred tax asset	$ -	$ -

As of June 30, 2005, the Company had available net operating losses (NOL) for federal and state tax purposes of approximately $10,899,000. 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	3,254,000	2023
2004	660,000	2024
2005	3,475,000	2025
	$10,899,000	

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11. Supplemental Disclosure of Cash Flow Information

Interest paid during the years ended June 30, 2005 and 2004 was $460,085 and $481,783, respectively. No income taxes were paid during the years ended June 30, 2005 or 2004.

Non-Cash Transactions Disclosure

In connection with the note payable funding from Whale Investment, Ltd. issued in December 2002, the Company incurred a finders fee which was paid with 76,190 shares of common stock and a warrant to purchase 142,857 shares of common stock. The 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 term of the note payable, as extended. 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 term of the note payable, as extended. During June 2004, the Company issued 20,000 shares of common stock valued at $80,000 and paid $40,000 to extend this note payable to December 2005, and the $120,000 in total extension fee was recorded as a debt discount, none of which was amortized as of June 30, 2004. Of this new discount of $120,000, as well as the remaining $44,928 of the warrant discount $109,952 was amortized into interest expense during 2005. The remaining finder's fee was also amortized into expense during 2005 in the amount of $29,952. (see note 16).

During 2003, an additional 17,143 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. The 17,143 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 term of the advances. For the periods ended June 30, 2005 and 2004, the Company amortized $8,571 and $4,286 of the common shares discount into interest expense, respectively. In December 2004, the Company paid $9,000 and issued 4,500 shares of common stock for extension of the note payable to December 2005. The 4,500 shares have a fair value of $15,750, and the total amount of $24,750 was recorded as a discount and will be amortized over the remaining life of the note as extended. $12,375 of the new discount was amortized to interest expense in 2005.

The Company issued 140,000 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 was 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, and the remaining $131,250 was amortized into interest expense in 2004. In April 2004, $1,100,000 of accrued interest on the Riverview note payable was converted into 314,286 shares of common stock. In June 2004, the Company issued 49,680 shares of common stock

valued at $173,885 to extend the Riverview note payable to July 2007. The $173,885 was recorded as a debt discount, and amortized over the remaining life of the note. $50,893 of this discount was amortized to interest expense in 2005.

During the years ended June 30, 2005 and 2004, the Company issued 173,817 and 111,073 shares of common stock, respectively, as payment for compensation to employees, management, and directors in lieu of cash of $296,945 and $472,255, respectively.

During 2005, $35,345 of property and equipment was purchased through a capital lease.

12. Commitments and Contingencies.

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, 2005 and 2004 was $114,000 and $208,486, respectively. The Company is currently negotiating a new office space lease agreement, and is currently paying $9,500 on a month-to-month basis in its existing location until a new office space lease agreement is finalized.

13. 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. The company currently does not match employee contributions. There were no expenses for the years ended June 30, 2005 and 2004.

14. 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 $2.50 per share. During the year ended June 30, 2005, 64,209 shares were issued with a fair value of $169,842.

Beginning October 1, 2003, employees received 10% of their compensation in common stock of the Company. The 10% was deferred from employees salary and paid quarterly in stock based on the after tax portion of the deferred compensation. The plan was suspended in September 2004 and then reinstated for the period March through May 2005. During the year ended June 30, 2005, 58,448 shares were issued with a fair value of $121,581.

Officers and Directors Stock Compensation. In February 2004 to be effective January 2004, the Board of Directors approved the following compensation for directors who are not employed by the Company.

- Annual cash compensation of $10,000 payable at the rate of $2,500 per quarter. The Company has the right to pay this amount in the form of shares of common stock of the Company.
- Annual options to purchase $20,000 of the Company restricted common stock at the market value of the shares on the date of the grant, which is to be the first day the stock market is open in January of each year.
- Reimbursement of all travel expenses related to performance of Directors duties on behalf of the Company.

As of June 30, 2005 there were outstanding to directors fully vested options outstanding to purchase 55,000 common shares at $2.00 - $7.00 per share, and expiring at various dates through December 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 has issued options to purchase 113,333 shares of common stock at prices of $5.50 - $12.00, all of which were exercised or expired as of 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 20,000 and was subsequently amended to 40,000 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.

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A schedule of the options and warrants at June 30, 2005 is as follows:

		Number of Options	Warrants	Price per Share
Outstanding at	July 1, 2003	369,167	1,255,891	$2.00-72.00
	Granted	44,460	-	$1.50-2.50
	Exercised	(113,333)	(46,000)	$2.00
	Reclassify	(233,333)	233,333	$3.50
	Called	-	-	-
	Cancelled	-	-	-
	Expired	(780)	(6,000)	$2.50-72.00
Outstanding at	June 30, 2004	66,181	1,437,224	$1.50-37.50
	Granted	85,980	128,571	$1.50-3.50
	Exercised	-	-	-
	Called	-	-	-
	Cancelled	(21,020)	(10,500)	$1.50-4.00
	Expired	(22,210)	(611,465)	$2.50
Outstanding at	June 30, 2005	108,931	943,830	$1.50-7.00

15. Related Party Transactions

The Company has a note payable to Riverview Financial Corporation (Riverview), in the principal amount of $3,296,403 at June 30, 2005 with accrued interest of $841,995. 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 140,000 shares of common stock in November 2002 in consideration for an extension of the due date to January 2004. In April 2004, $1,100,000 of accrued interest on the Riverview note payable was converted into 314,286 shares of common stock. In June 2004, the Company issued 49,680 shares of common stock valued at $173,885 to extend the Riverview note payable to July 2007.

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 17,143 shares of common stock as an inducement to make the loan. In December 2004 Riverview was paid $9,000 and issued 4,500 shares to extend the note to December 2005.

The Company's CEO has made loans to the Company to cover short term cash needs pursuant to a promissory note payable. Repayments are made as funds are available, with a due date of June 15, 2007, as amended. Interest is at 12%. See note 7.

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 2005, as amended. Whale Investment, Ltd. is controlled by an individual who was already a shareholder of the Company at the time of the loan. See note 11 and note 16.

The Company has payables to employees of $182,146 at June 30, 2005 for un-reimbursed business expenses, including $118,407 due to officers of the company.

Also see note 11.

16. Subsequent Events

In August 2005 the Company entered into a Software License Agreement with Cannon Equipment Company. In consideration for a $3,000,000 license fee, the Company granted Cannon a perpetual, non-exclusive, non-transferable license to the Company's Supply Chain Profit Link Software. In addition the Company entered into a Consulting Services Agreement with Cannon whereby the Company will provide certain consulting services to Cannon on an hourly basis. The Consulting Services Agreement calls for a $500,000 retainer to be paid by Cannon to the Company to be offset against services rendered under the Consulting Agreement. The Company and Cannon also entered into a Right of First Offer Agreement. The Company will provide Cannon a right of first offer to purchase shares of the Company's common stock offered by the Company prior to December 31, 2005 and a

thirty-day exclusive right to negotiate the purchase of shares offered after December 31, 2005. The term of this agreement is one year.

In August 2005 the Company retired its note payable to Whale Investments in the amount of $2,000,000 plus accrued interest of $30,000.

In September of 2005 the Company authorized to pay Senior Management 3 options for every share purchased at $3.50 for one year. Starting October of 2006 Senior Management will get 2 options for every share purchased from the Company at market price or $3.50 which ever is higher.

17. Recent Accounting Pronouncements

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

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

In March 2005, the FASB issued FASB Interpretation No. 47 (FIN 47) "Accounting for Conditional Asset Retirement Obligations, an Interpretation of FASB

Statement No. 143." This Interpretation clarifies that a conditional retirement obligation refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The liability should be recognized when incurred, generally upon acquisition, construction or development of the asset. FIN 47 is effective no later than the end of the fiscal years ending after December 15, 2005. The company is in the process of evaluating the impact of FIN 47 but does not expect the adoption to have a material impact on the financial statements.

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18. Explanation of Restatement

In connection with the filing of an amendment to the Company's June 30, 2005 Form 10KSB/A and an amended SB-2 registration statement, the financial statements and references thereto have been amended and updated to reflect the effect of a 1:50 reverse stock split effective August 11, 2006 pursuant to SAB Topic 4:C. At the time of the reverse split, the Articles of Incorporation were amended to reflect authorized common shares from 500,000,000 to 50,000,000. These changes had the following effect on the consolidated financial statements:

Effects on the Consolidated Balance Sheet

	As Reported	Restatements	
Stockholders' deficit:			
Preferred stock, $.01 par value, 30,000,000 shares authorized no shares issued,	-	-	
Common stock, $.01 par value, 50,000,000 shares, authorized, 5,651,118 issued and outstanding	$ 2,825,561	$ (2,769,050)	$
Additional paid-in-capital	10,037,693	2,769,050	
Accumulated deficit	(20,566,203)	-	
Total stockholders' deficit	$ (7,702,949)	$ -	$

Effects on the Consolidated Statement of Operations for the Years Ended June 30, 2005 and 2004

	2005 As Reported	Restatements	2005 As Restated	2004 As Reported	Restatement
Net loss	$(3,408,037)	-	$(3,408,037)	$(675,243)	
Weighted average shares	274,430,000	(268,941,000)	5,489,000	235,563,000	(230,852,00

Basic loss per share	$(0.01)	$(0.61)	$(0.62)	$(0.00)	$(0.1

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