

CREATIVE COMPUTER APPLICATIONS INC
Form 10QSB
May 16, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2005.

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission file number 0-12551

CREATIVE COMPUTER APPLICATIONS, INC.

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

California
(State or other jurisdiction of
incorporation or organization)

95-3353465
(I.R.S. Employer
Identification No.)

26115-A Mureau Road, Calabasas, California 91302

(Address of principal executive offices)

(818) 880-6700

(Issuer's telephone number, including area code):

Check whether the Issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the Issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 3,369,900 common shares as of April 30, 2005.

Transitional Small Business Disclosure Format (check one):

Yes

No

CREATIVE COMPUTER APPLICATIONS, INC.

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CREATIVE COMPUTER APPLICATIONS, INC.

PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS

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	March 31, 2005 (Unaudited)	December 31, 2004 (Unaudited)
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash	\$ 1,766,505	\$ 1,655,063
Receivables, net	1,406,595	1,736,768
Inventory	106,110	86,298
Prepaid expenses and other assets	323,948	256,289
Deferred tax asset	539,420	539,420
TOTAL CURRENT ASSETS	4,142,578	4,273,838
PROPERTY AND EQUIPMENT, net	391,695	345,004
INVENTORY OF COMPONENT PARTS	224,135	186,599
CAPITALIZED SOFTWARE COSTS, net of accumulated amortization of \$968,160 and \$878,021	1,567,434	1,531,573
DEFERRED TAX ASSET	254,457	254,457
	\$ 6,580,299	\$ 6,591,471
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Notes payable to bank (Note 3)	200,000	300,000
Accounts payable	467,589	377,768
Accrued liabilities:		
Vacation pay	252,025	243,060
Accrued payroll	193,265	128,227
Other	133,676	173,808
Deferred service contract income	1,426,696	1,235,032
Deferred revenue on system sales	134,547	226,111
TOTAL CURRENT LIABILITIES	2,807,798	2,684,006
SHAREHOLDERS EQUITY:		
Common shares, no par value; 20,000,000 shares authorized; 3,369,900 and 3,321,900 shares issued and outstanding	6,247,692	6,195,692
Accumulated deficit	(2,475,191)	(2,288,227)
TOTAL SHAREHOLDERS EQUITY	3,772,501	3,907,465
	\$ 6,580,299	\$ 6,591,471

See Notes to Condensed Consolidated Financial Statements.

CREATIVE COMPUTER APPLICATIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31,	
	2005	2004
	(Unaudited)	
NET SYSTEM SALES AND SERVICE REVENUE:		
System sales	\$ 587,107	\$ 894,764
Service revenue	1,238,181	1,063,936
	1,825,288	1,958,700
COSTS OF PRODUCTS AND SERVICES SOLD:		
System sales	453,350	445,634
Service revenue	414,862	407,786
	868,212	853,420
Gross profit	957,076	1,105,280
OPERATING EXPENSES		
Selling, general and administrative	828,732	722,396
Research and development	314,843	256,346
Total operating expenses	1,143,575	978,742
Operating income (loss)	(186,499)	126,538
INTEREST AND OTHER INCOME	4,727	1,274
INTEREST EXPENSE	(5,192)	(1,115)
Income (Loss) before provision for income taxes	(186,964)	126,697
PROVISION FOR INCOME TAXES		
NET INCOME (LOSS)	\$ (186,964)	\$ 126,697
EARNINGS (LOSS) PER SHARE (Note 2):		
Basic	\$ (.06)	\$.04
Diluted	(.06)	.04
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:		
Basic	3,353,900	3,318,900
Diluted	3,353,900	3,428,370

See Notes to Condensed Consolidated Financial Statements.

CREATIVE COMPUTER APPLICATIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Increase (Decrease) in Cash

	Three Months Ended March 31,	
	2005	2004
	(Unaudited)	
OPERATING ACTIVITIES		
Net Income (loss)	\$ (186,964)	\$ 126,697
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	34,397	27,776
Amortization of capitalized software costs	90,139	107,775
Increase (decrease) from changes in:		
Receivables	330,173	(343,872)
Inventories	(57,348)	9,931
Prepaid expenses and other assets	1,967	19,465
Accounts payable	89,821	92,056
Accrued liabilities	33,871	101,958
Deferred service contract income	191,664	157,999
Deferred revenue on system sales	(91,564)	61,085
Net cash provided by operating activities	436,156	360,870
INVESTING ACTIVITIES		
Additions to property and equipment	(81,088)	(17,925)
Additions to capitalized acquisition costs	(69,626)	
Additions to capitalized software costs	(126,000)	(148,625)
Net cash used in investing activities	(276,714)	(166,549)
FINANCING ACTIVITIES		
Payments on notes payable	(100,000)	
Exercise of stock options	52,000	
Net cash used in financing activities	(48,000)	
NET INCREASE IN CASH	111,442	194,321
CASH, beginning of period	1,655,063	889,521
CASH, end of period	\$ 1,766,505	\$ 1,083,842

See notes to Condensed Consolidated Financial Statements.

CREATIVE COMPUTER APPLICATIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 1-Presentation of Financial Statements

In the opinion of management of Creative Computer Applications, Inc. (the Company or CCA), the accompanying unaudited condensed consolidated financial statements reflect all adjustments (which include only normal recurring accruals) necessary to present fairly the Company's financial position as of March 31, 2005, the results of its operations for the three months ended March 31, 2005 and 2004, and cash flows for the three months ended March 31, 2005 and 2004. These results have been determined on the basis of accounting principles generally accepted in the United States of America and practices applied consistently with those used in preparation of the Company's Annual Report on Form 10-KSB for the fiscal year ended August 31, 2004 and the Transitional Report on Form 10-QSBT for the period ended December 31, 2004. This is the Company's first quarterly report for the period ended March 31, 2005 since it changed its fiscal year-end to December 31.

The results of operations for the three months ended March 31, 2005 are not necessarily indicative of the results expected for any other period or for the entire year.

Note 2-Earnings per Share

The Company accounts for its earnings per share in accordance with SFAS No.128, which requires presentation of basic and diluted earnings per share. Basic earnings per share is computed by dividing income or loss available to common shareholders by the weighted average number of common shares outstanding for the reporting period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts, such as stock options, to issue common stock were exercised or converted into common stock.

Earnings per share has been computed as follows:

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
NET INCOME (LOSS)	\$ (186,964)	\$ 126,697
Basic weighted average number of common shares outstanding	3,353,900	3,318,900
Dilutive effect of stock options		109,470
Diluted weighted average number of common shares outstanding	3,353,900	3,428,370

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Basic earnings (loss) per share	\$	(.06)	\$.04
Diluted earnings (loss) per share	\$	(.06)	\$.04

For the three months ended March 31, 2005 and 2004, options to purchase 354,000 and 30,000 shares of common stock at per share prices ranging from \$.72 to \$1.76 were not included in the computation of diluted earnings (loss) per share because inclusion would have been anti-dilutive.

Note 3-Debt Obligations

The Company's line of credit with its bank provides for \$1,000,000 on a revolving basis through February 1, 2006. On March 31, 2005, the total amount due to the bank was \$200,000.

Note 4-Stock-Based Compensation

As allowed by Statement of Financial Accounting Standards No. 123 (SFAS 123), the Company has adopted the intrinsic value method of accounting for employee stock options under the principles of APB Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and discloses the pro forma effect on net income (loss) and income (loss) per share as if the fair value based method had been applied. For equity instruments, including stock options, issued to non-employees, the fair value of the equity instruments or the fair value of the consideration received, whichever is more readily determinable, is used to determine the value of services or goods received and the corresponding charge to operations.

The following table illustrates the effect on net income (loss) and income (loss) per share as if the Company had applied the fair value recognition provision of SFAS No. 123 to stock-based employee compensation:

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Net Income (loss), as reported	(186,964)	126,697
Add: Stock-based compensation expense included in reported net income, net of related tax effects		
Less: total stock based employee compensation expense determined under fair value based method for all awards		