CREATIVE COMPUTER APPLICATIONS INC
Form 10QSB
January 14, 2002

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended November 30, 2001.

o **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	**95-3353465**
(State or other jurisdiction of incorporation or organization)	(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:

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 Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ý No o

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 3,231,025 common shares as of December 31, 2001.

Transitional Small Business Disclosure Format (check one):

Yes o No ý

CREATIVE COMPUTER APPLICATIONS, INC.

FORM 10-QSB

I N D E X

PART I - Financial Information:

PART II - Other Information:

CREATIVE COMPUTER APPLICATIONS, INC.

PART 1 - FINANCIAL INFORMATION

CONDENSED CONSOLIDATED BALANCE SHEETS

		November 30, 2001 (Unaudited)		August 31, * 2001
ASSETS				
CURRENT ASSETS:				
Cash	$	484,528	$	661,008
Receivables, net		1,524,859		1,209,872
Inventories		248,050		233,737
Prepaid expenses and other assets		106,110		142,219
Deferred tax asset		639,500		639,500
TOTAL CURRENT ASSETS		3,003,047		2,886,336
PROPERTY AND EQUIPMENT, net		361,129		398,179
INVENTORY OF COMPONENT PARTS		291,496		306,496
CAPITALIZED SOFTWARE COSTS, net of accumulated amortization of $1,105,393 and $999,331		1,344,690		1,337,472
INTANGIBLES, net		88,295		104,744
DEFERRED TAX ASSET		569,293		591,000
OTHER ASSETS		13,340		13,796
	$	5,671,290	$	5,638,023
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Notes payable to bank (Note 4)	$	259,351	$	239,351
Accounts payable		273,594		216,087
Accrued liabilities:				
Vacation Pay		164,180		159,290
Other		243,052		275,790
Deferred service contract income		825,379		831,873
Deferred revenue		436,403		474,091
Capital lease obligation, current portion		22,750		22,750
TOTAL CURRENT LIABILITIES		2,224,709		2,219,232
CAPITAL LEASE		17,424		23,111

TOTAL LIABILITIES		2,242,133		2,242,343
SHAREHOLDERS' EQUITY:				
Common shares, no par value; 20,000,000 shares authorized; 3,231,025 and 3,221,025 shares outstanding		6,111,664		6,108,164
Accumulated deficit		(2,682,507)		(2,712,484)
TOTAL SHAREHOLDERS' EQUITY		3,429,157		3,395,680
	$	5,671,290	$	5,638,023

*** As presented in the audited consolidated financial statements**

See Notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATION

	Three Months Ended November 30, 2001	2000
	(unaudited)	
NET SYSTEM SALES AND SERVICE REVENUE (Note 3)		
System sales	$ 772,546	$ 315,363
Service revenue	954,769	908,081
	1,727,315	1,223,444
COST OF PRODUCTS AND SERVICES SOLD		
System sales	470,005	382,323
Service revenue	366,557	440,529
	836,562	822,852
Gross profit	890,753	400,592
OPERATING EXPENSES:		
Selling, general and administrative	653,852	621,568
Research and development	184,847	204,140
	838,699	825,708
Operating income (loss)	52,054	(425,116)
INTEREST AND OTHER INCOME	4,140	8,393
INTEREST EXPENSE	(4,510)	(4,726)
Income (loss) before taxes on income	51,684	(421,449)
INCOME TAX PROVISION	21,707	-
NET INCOME (LOSS)	$ 29,977	$ (421,449)
EARNINGS (LOSS) PER SHARE (Note 2):		
Basic	$ .01	$ (.13)
Diluted	$ .01	$ (.13)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING		
Basic	3,224,358	3,173,575

Diluted	3,224,358	3,173,575

See Notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Increase (Decrease) in Cash

	Three Months Ended November 30, 2001	2000
	(unaudited)	
OPERATING ACTIVITIES:		
Net income (loss)	$ 29,977	$ (421,449)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	181,211	180,158
Provision for doubtful accounts	-	9,213
Deferred taxes	21,707	-
Changes in operating assets and liabilities:		
Receivables	(314,987)	(203,706)
Inventories	687	15,072
Prepaid expenses and other assets	36,565	3,036
Accounts payable	57,507	(42,731)
Accrued liabilities and deferred revenues	(72,030)	288,714
Net cash used in operating activities	(59,363)	(171,693)
INVESTING ACTIVITIES		
Purchases of property and equipment	(21,650)	(25,749)
Capitalized software costs	(113,280)	(96,000)
Net cash used in investing activities	(134,930)	(121,749)
FINANCING ACTIVITIES:		
Borrowings on notes payable	100,000	50,000
Payments on notes payable	(80,000)	(30,000)
Payments on capital lease obligations	(5,687)	62,924
Proceeds from issuance of stock	3,500	-
Net cash provided by financing activities	17,813	82,924
NET DECREASE IN CASH	(176,480)	(210,518)
Cash, beginning of period	661,008	618,063

Cash, end of period	$	484,528	$	407,545

See notes to Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. In the opinion of management, 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 November 30, 2001 the results of its operations for the three months ended November 30, 2001 and 2000, and cash flows for the three months ended November 30, 2001 and 2000. These results have been determined on the basis of generally accepted accounting principles 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, 2001.

The results of operations for the three months ended November 30, 2001 are not necessarily indicative of the results expected for any other period or for the entire year.

Note 2. 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. For the three months ended November 30, 2001, the Company did not include any potential diluted securities, as inclusion would be anti-dilutive.

Note 3. The Company adopted Staff Accounting Bulletin 101, Revenue Recognition , (SAB 101) at the beginning of the 2001 fiscal year. SAB 101 provides interpretive guidance on the recognition, presentation and disclosure of revenue in financial statements. The Company accounts for its software revenue recognition in accordance with Statement of Position 97-2, Software Revenue Recognition , (SOP 97-2). SOP 97-2 requires companies to recognize revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the vendor s fee is fixed and determinable, and (iv) collectability is probable. The SOP also requires companies to allocate the fee on a multiple element contract between the various elements based on vendor-specific objective evidence of fair value. SAB 101 expands on the issues not explicitly covered in the SOP. The Company elected early adoption of SAB 101 for the first fiscal quarter beginning September 1, 2000. The impact of SAB 101 were timing issues related to the recognition of revenue from the sale of hardware and software associated with the Company s Clinical Information Systems that moved the time of revenue recognition out approximately ninety to one hundred and eighty days.

Note 4. The Company renewed its line of credit with its bank on April 10, 2001. The new line provides for $500,000 on a revolving basis through February 1, 2002, and contains certain loan covenants and financial ratio requirements. On November 30, 2001, the total amount due to the bank was $259,351. The Company was in compliance with all of the covenants and financial ratios required by its bank as of November 30, 2001.

Item 2. **Management's Discussion and Analysis of Results of Operations and Financial Condition**

This following section of the report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve risks and uncertainties so that the actual results may vary materially.

CCA generates revenues primarily from the sale of its Clinical Information Systems, which includes the licensure of proprietary application software, and the sale of servers upon which the application software operates. In connection with its sales of CIS products, the Company provides implementation services for the installation, integration, and training of end user s personnel. The Company generates sales of ancillary software and hardware, including its data acquisition products, to its CIS clients and to third parties. The Company also generates recurring revenues from the provision of comprehensive post implementation services to its CIS clients, pursuant to extended service agreements.

Since its inception, the Company has provided enterprise systems consisting of its application software, servers, and other computer hardware components that it sells to end users. Beginning in the first fiscal quarter ended November 30, 1999, the Company began to develop an application service provider (ASP) activity in its wholly owned subsidiary Xymed.com. The Company intended to offer its proprietary application software to clients on a monthly subscription basis, as well as data center services and application software support. However as a result of current market conditions, a lack of market acceptance for ASP services, and the difficulty in obtaining financing for such enterprises, the Company has decided not to pursue the ASP program at this time.

Beginning the second quarter of fiscal 2000, and continuing into fiscal 2001, the Company experienced decreased sales of its clinical information system products. Management believes that the decrease was primarily attributable to an industry wide slump related to post Y2K issues, the Balanced Budget Act, and concerns about the pending regulations associated with the Health Insurance Portability and Accountability Act (HIPAA). In addition, the Company s revenue recognition policies were changed in accordance with SAB 101. Beginning the third quarter of fiscal 2001, and continuing into fiscal 2002, the Company began to experience a turnaround in sales of its CIS products. The Company initiated staffing and other expense cuts in order to mitigate its operating losses when it started to experience a downturn in sales in fiscal 2000. Management believes the industry and the market for CIS products is recovering, but is cautious about its core business activities until it has a clearer vision ahead. Accordingly, management has continued to respond to the uncertain market conditions by keeping a tight reign on staffing and other expenses. In addition to the post Y2K slowdown, the entire industry has been concerned with the potential effects of HIPAA on all healthcare systems.

In order to address issues brought about by the HIPAA regulations, the Company is currently developing enhancements to its application products so that they will meet the requirements for the compliance issues. Provisions of HIPAA are intended to ensure patient confidentiality for all health care related information. The requirements of HIPAA apply to any entity storing and/or transmitting patient identifiable information on electronic media. This affects virtually all health care organizations, from physicians and insurance companies to health care support organizations. Certain safeguards will be required to accurately insure the security of patient data. This will include more robust audit trails and tiered/structured password security when accessing patient data. The increase in patient centered data that must be retained under the HIPAA guidelines will require that systems electronically store much larger amounts of data. CCA plans on providing its client base with application enhancements that will assist its clients in adhering to HIPAA regulations well before the final date that the new regulations go into effect. Management also believes that the application enhancements will require that many of its clients will need to upgrade their systems in order to effectively manage greater amounts of data, which will afford the Company opportunities to sell upgrades and provide professional services.

Results of Operations

Sales for the first quarter of fiscal 2002 ended November 30, 2001 increased by $503,871 or 41% compared to the same quarter of fiscal 2001. The Company has experienced an increase in sales of Clinical Information Systems (CIS) products, which began in fiscal 2001. Additionally, the Company s pipeline of new CIS transactions has begun to build back to historical levels.

When analyzed by product category, sales of CIS increased $492,921 or 296% and service revenues increased $46,688 or 5%. These increases were partially offset by a decrease in sales of data acquisition products of $35,738 or 24%. The increase in revenues associated with the Company s CIS products was primarily attributable to the improved market conditions discussed above. The decrease in the sale of data acquisition products is primarily attributable to a lesser number of units shipped to OEM customers. The increase in service revenues was attributable to a greater number of customer sites on contract and higher average revenues per account. As a result of the Company closing larger CIS transactions, the annual service costs associated with such transactions are proportionally greater. Service revenues are expected to continue to increase as and when the Company s installed base of CIS installations increases.

The Company continues to expand its sales and marketing activities, directing its focus towards larger clients and multi-product sales. The Company has also initiated strategic joint marketing partnerships with other companies, which has improved the Company s market penetration. Although its pipeline of working CIS transactions has begun to improve, management views the near term outlook for the continued sale of CIS products cautiously during the first half of the 2002 fiscal year. In addition, the Company s future operating results could continue to be subject to quarterly variations based upon a wide variety of factors, including the volume mix and timing of orders received during any quarter or annual periods, and the temporary delays in the closing of new CIS sales.

Cost of sales for the first quarter of fiscal 2002 increased by $13,710 or 2%, as compared to the same quarter of fiscal 2001. The increase in cost of sales was attributable to an increase in material costs of $77,782 or 285%, an increase in other costs of $12,498 or 4%, partially offset by a decrease in labor costs of $76,570 or 17%. The increase in material costs was primarily attributable to an increase in CIS sales during the period. Cost of sales as a percentage of sales was 48% for the current quarter as compared to 67% for the comparable fiscal 2001 quarter. This decrease was primarily attributable to increased revenues recognized, and the Company maintaining a tight reign on expenses.

Selling and administration expenses increased by $32,284 or 5% for the current quarter compared to the same quarter of fiscal 2001. The increase was primarily attributable to an increase in marketing expenses related to the Company s new marketing activities, including the establishment of an in-house telemarketing program. Additional marketing expenses have been budgeted for new promotional materials and marketing consultants aimed at increasing CCA s market penetration.

Research and Development expense decreased $19,293 or 9% for the current quarter as compared to the same quarter of fiscal 2001. The decrease is attributable to an increase in capitalized software related to the Company s ongoing investment in new products and product enhancements. The Company continues to expend considerable resources on new product development and product enhancements to current products, including new modules associated with HIPAA compliance functionality. Overall, the Company expects to continue to incur a similar amount of expenditures in research and development for the 2002 fiscal year, as in fiscal 2001.

As a result of the aggregate factors discussed above, the Company earned net income of $29,977 or basic and diluted earnings per share of $0.01 for the first fiscal quarter ended November 30, 2001 compared to a net loss of $421,449 or basic and diluted loss per share of $0.13 in the comparable quarter one year ago.

Capital Resources and Liquidity

As of November 30, 2001, the Company s working capital amounted to $778,338 compared to $667,104 at August 31, 2001. The ratio of the Company s current assets to current liabilities was approximately 1.3 to 1 at November 30, 2001 and at August 31, 2001.

The Company renewed its line of credit with its bank on April 10, 2001. The credit facility provides for $500,000 on a revolving basis through February 1, 2002, and contains certain loan covenants and financial ratio requirements. On November 30, 2001, the total amount due the bank was $259,351. The Company was in compliance with all of the covenants and financial ratios required by its bank as of November 30, 2001.

The Company believes that its cash flow from operations together with its bank credit facilities should be sufficient to fund its working capital requirements for the next 12 months.

Seasonality, Inflation and Industry Trends

The Company sales are generally lower in the summer and higher in the fall and winter. Inflation has had no material effect on the Company business since the Company has been able to adjust the prices of its products and services. Management believes that most phases of the healthcare segment of the computer industry will continue to be highly competitive and that potential healthcare reforms including those promulgated by HIPAA may have a long-term positive impact on its business. In addition, management believes that the industry will be marked with more significant technological advances, which will improve the quality of service and reduce costs. The Company is poised to meet these challenges by continuing to employ new technologies when they become available, diversifying its product offerings, improving and expanding its services, and by constantly enhancing its software applications.

Capital Resources and Liquidity

PART II - OTHER INFORMATION

Items 1 through 5. NOT APPLICABLE

Item 6. Exhibits and Reports on Forms 8-K

(a) Exhibit 11 - Statement re: computation of per share earnings.

(b) There were no reports filed on Form 8-K during the quarter ended November 30, 2001.

SIGNATURES

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

CREATIVE COMPUTER APPLICATIONS, INC.

(Company)

Date	January 14, 2002	/S/ Steven M. Besbeck Steven. M. Besbeck, President Chief Executive Officer, Chief Financial Officer
Date	January 14, 2002	/S/ Anahita Villafane Anahita Villafane, Controller and Chief Accounting Officer