

PSYCHEMEDICS CORP
Form 10-Q
May 10, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

Quarterly report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2013

or

Transition report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934
for the transition period from _____ to _____

Commission file number: 1-13738

PSYCHEMEDICS CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware **58-1701987**
(State or Other Jurisdiction of **(I.R.S. Employer Identification No.)**

Incorporation or Organization)

125 Nagog Park

Acton, MA

01720

(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number including area code: (978) 206-8220

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company
(Do not check if smaller reporting Company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes No

The number of shares of Common Stock of the Registrant, par value \$0.005 per share, outstanding at May 7, 2013 was 5,294,351.

PSYCHEMEDICS CORPORATION

FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2013

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PSYCHEMEDICS CORPORATION**CONDENSED BALANCE SHEETS****(UNAUDITED)**

	March 31, 2013	December 31, 2012
ASSETS		
Current Assets:		
Cash and cash equivalents	\$2,512,665	\$3,065,785
Accounts receivable, net of allowance for doubtful accounts of \$123,445 in 2013 and \$121,583 in 2012	4,871,764	4,620,768
Prepaid expenses and other current assets	1,009,269	823,274
Income tax receivable	345,578	854,212
Deferred tax assets	252,573	209,877
Total Current Assets	8,991,849	9,573,916
Fixed Assets, net of accumulated amortization and depreciation of \$4,598,240 in 2013 and \$4,395,605 in 2012	4,331,392	4,201,409
Other assets	384,736	345,293
Total Assets	\$13,707,977	\$14,120,618
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$754,597	\$669,789
Accrued expenses	773,605	1,413,541
Total Current Liabilities	1,528,202	2,083,330
Deferred tax liabilities, long-term	814,619	814,619
Total Liabilities	2,342,821	2,897,949
Commitments and Contingencies (Note 7)		
Shareholders' Equity:		
Preferred-stock, \$0.005 par value, 872,521 shares authorized, no shares issued or outstanding	—	—
Common stock, \$0.005 par value; 50,000,000 shares authorized 5,941,715 shares issued and outstanding in 2013 and 5,940,558 shares issued and outstanding in 2012	29,709	29,703
Additional paid-in capital	28,571,765	28,460,764

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Accumulated deficit	(7,154,529)	(7,186,009)
Less - Treasury stock, at cost, 668,130 shares in 2013 and 2012	(10,081,789)	(10,081,789)
Total Shareholders' Equity	11,365,156	11,222,669
Total Liabilities and Shareholders' Equity	\$13,707,977	\$14,120,618

See accompanying notes to condensed financial statements

PSYCHEMEDICS CORPORATION**CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME****(UNAUDITED)**

	Three Months Ended March 31,	
	2013	2012
Revenues	\$6,432,442	\$6,243,855
Cost of revenues	2,945,171	2,578,735
Gross profit	3,487,271	3,665,120
Operating Expenses:		
General & administrative	993,711	995,441
Marketing & selling	1,126,658	1,124,825
Research & development	164,710	168,048
Total Operating Expenses	2,285,079	2,288,314
Operating income	1,202,192	1,376,806
Other income	91,413	510
Net income before provision for income taxes	1,293,605	1,377,316
Provision for income taxes	471,260	549,825
Net income and comprehensive income	\$822,345	\$827,491
Basic net income per share	\$0.16	\$0.16
Diluted net income per share	\$0.16	\$0.16
Dividends declared per share	\$0.15	\$0.15
Weighted average common shares outstanding, basic	5,272,647	5,235,422
Weighted average common shares outstanding, diluted	5,292,686	5,244,042

See accompanying notes to condensed financial statements

PSYCHEMEDICS CORPORATION**CONDENSED STATEMENTS OF CASH FLOWS****(UNAUDITED)**

	Three Months Ended March 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$822,345	\$827,491
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	207,053	137,062
Stock-based compensation	105,684	113,669
Deferred income taxes	(42,696)	(45,923)
Changes in assets and liabilities:		
Accounts receivable	(250,996)	(308,143)
Prepaid expenses, other current assets, and income tax receivable	322,639	384,518
Accounts payable	84,808	(361,587)
Accrued expenses	(639,936)	(580,153)
Net cash provided by operating activities	608,901	166,934
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment and leasehold improvements	(152,510)	(68,173)
Cost of internally developed software	(180,108)	(130,057)
Other assets	(43,861)	(21,816)
Net cash used in investing activities	(376,479)	(220,046)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from exercise of stock options	5,323	-
Cash dividends paid	(790,865)	(785,313)
Net cash used in financing activities	(785,542)	(785,313)
Net decrease in cash and cash equivalents	(553,120)	(838,425)
Cash and cash equivalents, beginning of period	3,065,785	5,564,233
Cash and cash equivalents, end of period	\$2,512,665	\$4,725,808
Supplemental Disclosures of Cash Flow Information:		
Cash paid for income taxes	\$-	\$83,800

See accompanying notes to condensed financial statements

PSYCHEMEDICS CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS

(UNAUDITED)

1. Interim Financial Statements

The accompanying unaudited interim financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission for reporting on Form 10-Q. Accordingly, certain information and footnote disclosure required for complete financial statements are not included herein. It is recommended that these financial statements be read in conjunction with the financial statements and related notes of Psychemedics Corporation (“the Company,” “our Company,” “our” or “we”) as reported in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012, filed on March 8, 2013. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of financial position, results of operations, and cash flows at the dates and for the periods presented have been included. The results of operations for the three months ended March 31, 2013 may not be indicative of the results that may be expected for the year ending December 31, 2013, or any other period.

2. Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of 90 days or less to be cash equivalents. Cash equivalents consist of cash savings and a bank money market account.

3. Stock-Based Compensation

2006 Equity Incentive Plan

The Company’s 2006 Incentive Plan provides for the grant or issuance to officers, directors, employees and consultants of options with terms of up to ten years, restricted stock, stock unit awards (SUA’s), issuances of stock bonuses or other stock-based awards, covering up to 500,000 shares of common stock. As of March 31, 2013, 224,719 shares remained available for future grant under the 2006 Incentive Plan.

The SUAs vest over a period of two years for non-employee board members and four years for employees and are convertible into an equivalent number of shares of the Company’s common stock provided that the director or employee receiving the award remains continuously employed throughout the vesting period. The Company records

compensation expense related to the SUAs on a straight-line basis over the vesting term of the SUAs. Employees are issued shares upon vesting, net of tax withholdings, unless the employee chooses to receive all shares and pay for the associated employment taxes. No other types of equity-based awards have been granted or issued under the 2006 Incentive Plan.

PSYCHEMEDICS CORPORATION**NOTES TO CONDENSED FINANCIAL STATEMENTS****(UNAUDITED)****3. Stock-Based Compensation (continued)**

A summary of activity for SUAs under the Company's 2006 Incentive Plan for the three months ended March 31, 2013 is as follows:

	Number of Shares	Aggregate Intrinsic Value (1) (000s)
Unvested, December 31, 2012	137,475	
Granted	-	
Forfeited/expired	4,650	
Converted to common stock	-	
Unvested, March 31, 2013	132,825	\$ 1,585
Available for grant, March 31, 2013	224,719	

(1) The aggregate intrinsic value on this table was calculated based on the closing market value of the Company's stock on March 31, 2013 (\$11.93).

Expired Plans

As of March 31, 2013, the Company also had outstanding an aggregate of 186,788 options to acquire common stock under plans that had previously expired. A summary of stock option activity for the Company's expired stock option plans for the three months ended March 31, 2013 is as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (2) (000s)
Outstanding, December 31, 2012	199,838	\$ 13.62		
Granted	-	-		

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Exercised	(5,150)	-		
Terminated/Expired	(7,900)	\$ 13.60		
Outstanding, March 31, 2013	186,788	\$ 13.74	1.9 years	\$ 39
Exercisable, March 31, 2013	186,788	\$ 13.74	1.9 years	\$ 39
Available for grant, March 31, 2013	-			

The aggregate intrinsic value on this table was calculated based on the amount, if any, by which the closing market (2) value of the Company's stock on the March 31, 2013 (\$11.93) exceeded the exercise price of the underlying options, multiplied by the number of shares subject to each option.

PSYCHEMEDICS CORPORATION**NOTES TO CONDENSED FINANCIAL STATEMENTS****(UNAUDITED)****3. Stock-Based Compensation (continued)****All Stock-Based Compensation Plans**

As of March 31, 2013, a total of 544,332 shares of common stock were reserved for issuance under the various stock option and stock-based plans. As of March 31, 2013, the unamortized fair value of awards relating to outstanding SUAs and options was \$843 thousand, which is expected to be amortized over a weighted average period of 2.6 years.

4. Basic and Diluted Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing net income by the weighted average number of common and dilutive common equivalent shares outstanding during the period. The number of dilutive common equivalent shares outstanding during the period has been determined in accordance with the treasury-stock method. Common equivalent shares consist of common stock issuable upon the exercise of outstanding options and common stock issuable upon the vesting of outstanding, unvested SUAs.

Basic and diluted weighted average common shares outstanding are as follows:

	Three Months Ended	
	March 31, 2013	March 31, 2012
	(in 000's)	
Weighted average common shares outstanding, basic	5,273	5,235
Dilutive common equivalent shares	20	9
Weighted average common shares outstanding, dilutive	5,293	5,244

For the three months ended March 31, 2013 and 2012, options to purchase 200 thousand and 205 thousand common shares, respectively, were outstanding but not included in the diluted weighted average common share calculation as the effect would have been anti-dilutive.

5. Fair Value Measurements

ASC 820, *Fair Value Measurements and Disclosures* (“ASC 820”), provides guidance for using fair value to measure assets and liabilities. It also responds to investors’ requests for expanded information about the extent to which companies’ measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. ASC 820 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, and does not expand the use of fair value in any new circumstances.

