UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended

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

For the transition period from September 1, 2004 to December 31, 2004.

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:

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 February 15, 2005.

Transitional Small Business Disclosure Format (check one):

Yes ý No o

FORM 10-QSB

I N D E X

PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS

		December 31, 2004 (Unaudited)
ASSETS		
CURRENT ASSETS:		
Cash	$	1,655,063
Receivables, net		1,736,768
Inventory		86,298
Prepaid expenses and other assets		256,289
Deferred tax asset		539,420
TOTAL CURRENT ASSETS		4,273,838
PROPERTY AND EQUIPMENT, net		345,004
INVENTORY OF COMPONENT PARTS		186,599
CAPITALIZED SOFTWARE COSTS, net of accumulated amortization of $878,021		1,531,573
DEFERRED TAX ASSET		254,457
	$	6,591,471
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Notes payable to bank (Note 3)	$	300,000
Accounts payable		377,768
Accrued liabilities:		
Vacation pay		243,060
Accrued payroll		128,227
Other		173,808
Deferred service contract income		1,235,032
Deferred revenue on system sales		226,111
TOTAL CURRENT LIABILITIES		2,684,006
SHAREHOLDERS EQUITY:		
Common shares, no par value; 20,000,000 shares authorized; 3,321,900 shares issued and outstanding		6,195,692
Accumulated deficit		(2,288,227)
TOTAL SHAREHOLDERS EQUITY		3,907,465
	$	6,591,471

See Notes to Condensed Consolidated Financial Statements.

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

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Four Months Ended December 31, 2004	2003
	(Unaudited)	
NET SYSTEM SALES AND SERVICE REVENUE:		
System sales	$ 844,069	$ 541,019
Service revenue	1,547,173	1,457,182
	2,391,242	1,998,201
COSTS OF PRODUCTS AND SERVICES SOLD:		
System sales	610,294	607,784
Service revenue	542,151	540,751
	1,152,445	1,148,535
Gross profit	1,238,797	849,666
OPERATING EXPENSES		
Selling, general and administrative	1,099,279	992,595
Research and development	406,214	342,824
Total operating expenses	1,505,493	1,335,419
Operating loss	(266,696)	(485,753)
INTEREST AND OTHER INCOME	4,589	1,761
INTEREST EXPENSE	(2,020)	(1,888)
Loss before provision for income taxes	(264,127)	(485,880)
PROVISION FOR INCOME TAXES		
NET LOSS	$ (264,127)	$ (485,880)
LOSS PER SHARE (Note 2):		
Basic	$ (.08)	$ (.15)
Diluted	(.08)	(.15)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:		
Basic and Diluted	3,319,650	3,318,900

See Notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Increase (Decrease) in Cash

	Four Months Ended December 31, 2004		Four Months Ended December 31, 2003	
	(Unaudited)			
OPERATING ACTIVITIES				
Net loss	$	(264,127)	$	(485,880)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Depreciation and amortization		42,416		44,489
Provision for doubtful accounts		34,432		10,000
Amortization of capitalized software costs		136,330		141,456
Increase (decrease) from changes in:				
Receivables		(48,860)		456,525
Inventories		44,651		34,807
Prepaid expenses and other assets		10,559		22,652
Accounts payable		191,899		(23,146)
Accrued liabilities		(31,518)		(43,895)
Deferred service contract income		59,523		72,506
Deferred revenue on system sales		(18,771)		(209,154)
Net cash provided by operating activities		156,534		20,360
INVESTING ACTIVITIES				
Additions to property and equipment		(203,606)		(25,301)
Additions to capitalized software costs		(175,242)		(180,500)
Net cash used in investing activities		(378,848)		(205,801)
FINANCING ACTIVITIES				
Borrowings on notes payable		300,000		
Payments on capital lease obligations				(361)
Net cash provided by (used in) financing activities		300,000		(361)
NET INCREASE (DECREASE) IN CASH		80,686		(185,802)
CASH, beginning of period		1,574,377		1,075,323
CASH, end of period	$	1,655,063	$	889,521

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 December 31, 2004, the results of its operations for the four months ended December 31, 2004 and 2003, and cash flows for the four months ended December 31, 2004 and 2003. 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.

This is a transitional report that is being filed since the Company has changed its fiscal year from August 31 to December 31, and therefore the results of operations for the four months ended December 31, 2004 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.

Earnings per share has been computed as follows:

		Four Months Ended December 31, 2004		**Four Months Ended December 31, 2003**
NET LOSS	$	(264,127)	$	(485,880)
Basic weighted average number of common shares outstanding		3,319,650		3,318,900
Dilutive effect of stock options				
Diluted weighted average number of common shares outstanding		3,319,650		3,318,900
Basic loss per share	$	(.08)	$	(.15)
Diluted loss per share	$	(.08)	$	(.15)

For the four months ended December 31, 2004 and 2003, options to purchase 402,000 and 345,000 shares of common stock at a per share price ranging from $.72 to $1.76 were not included in the computation of diluted loss per share because inclusion would have been anti-dilutive.

Note 3. The Company s line of credit with its bank provides for $1,000,000 on a revolving basis through February 1, 2006. On December 31, 2004, the total amount due to the bank was $300,000.

Note 4. As allowed by 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:

		Four Months Ended December 31, 2004		Four Months Ended December 31, 2003
Net loss, as reported	$	(264,127)	$	(485,880)
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		(22,267)		(22,447)
Net loss, pro forma	$	(286,394)	$	(508,327)
Basic net loss per share, as reported	$	(.08)	$	(.15)
Basic net loss per share, pro forma	$	(.09)	$	(.15)
Diluted net loss per share, as reported	$	(.08)	$	(.15)
Diluted net loss per share, pro forma	$	(.09)	$	(.15)

The Company issues all of its options at fair market value at the time of grant; therefore, no expense has been recorded under the intrinsic value method for the four months ended December 31, 2004 and 2003. As required by SFAS 123, the Company provides the following disclosure of estimated values for these awards: The fair value of each option was estimated on the date of grant using a Black-Scholes option-pricing model with the following weighted average assumptions for 2004 and 2003: risk free interest rates ranging from 3.4% to 6.1%, expected lives of 5 years; volatility ranging from 67% to 126% and no assumed dividends. The weighted-average grant-date fair value of options granted during 2004 and 2003 was estimated to be $.91 and $1.25, respectively. There were no options granted in the four months ended December 31, 2004.

Note 5. In accordance with the bylaws of the Company, officers and directors are indemnified for certain events or occurrences arising as a result of the officer or director s serving in such capacity. The term of the indemnification period is for the lifetime of the officer or director. The maximum potential amount of future payments the Company could be required to make under the indemnification provisions of its bylaws is unlimited. However, the Company has a director and officer liability insurance policy that reduces its exposure and enables it to recover a portion of any future amounts paid. As a result of its insurance policy coverage, the Company believes the estimated exposure for the indemnification provisions of its bylaws is minimal and, therefore, the Company has not recorded any related liabilities.

The Company enters into indemnification provisions under agreements with various parties in the normal course of business, typically with customers and landlords. Under these provisions, the Company generally indemnifies and holds harmless the indemnified party for losses suffered or incurred by the indemnified party as a result of the Company s activities or, in some cases, as a result of the indemnified party s activities under the agreement. These indemnification provisions often include indemnifications relating to representations made by the Company with regard to intellectual property rights. These indemnification provisions generally survive termination of the underlying agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification provisions cannot be estimated. The Company maintains general liability, errors and omissions, and professional liability insurance in order to mitigate such risks. The Company has not incurred material costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes the estimated exposure under these agreements is minimal. Accordingly, the Company has not recorded any related liabilities.

Note 6. New Accounting Pronouncements - In December 2004 the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No. 123 (revised 2004), *Share-Based Payment (SFAS No. 123(R))*. SFAS No. 123(R) requires compensation cost relating to unvested share-based payment transactions that are outstanding as of the effective date and newly issued transactions to be recognized in the financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. SFAS No. 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. SFAS No. 123(R) replaces SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123), and supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (Opinion 25). SFAS No. 123, as originally issued in 1995, established fair-value-based method of accounting for share-based payment transactions with employees. However, that Statement permitted entities the option of continuing to apply the guidance in Opinion 25, as long as the footnotes to financial statements disclosed what net income would have been had the fair-value-based method been used. As disclosed in footnote 2, the Company elected the option of disclosure only under SFAS No. 123. Public entities will be required to apply SFAS No. 123(R) as of the first interim or annual reporting period that begins after June 15, 2005. The Company is currently evaluating the impact of this statement.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets An Amendment of APB Opinion No. 29, which eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. The Company is required to adopt SFAS No. 153 for nonmonetary asset exchanges occurring in the first quarter of 2006 and its adoption is not expected to have a significant impact on the Company s results of operations or financial condition.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs An Amendment of ARB No. 43, Chapter 4, which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). The Company is required to adopt SFAS No. 151 in 2006 and its adoption is not expected to have a significant impact on the Company s results of operations or financial condition.

Note 7. Subsequent Events On January 10, 2005, the Company entered into a letter of intent to merge with StorCOMM, Inc. of Jacksonville, Florida, a private company providing Picture Archive Communication Systems (PACS) and Clinical Image Management Systems for the medical imaging market (the StorCOMM Merger). CCA will be the surviving entity and StorCOMM shareholders will own one-half of the merged entity. The transaction is subject to the completion and execution of a definitive merger agreement and shareholder approval. It is expected that the post merger company will offer integrated applications and services to a broad sector of the healthcare provider market. The merger is expected to be completed by the spring of 2005.

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

This Quarterly Report on Form 10-QSB contains forward-looking statements, which reflect management s current views about future events and financial results. Management makes these statements in reliance on the safe harbor created by the Private Securities Litigation Reform Act of

1995. Forward-looking statements include views on future financial results, financing sources, product development, capital requirements, market growth and the like, and are generally identified by phrases such as anticipates, believes, estimates, expects, intends, plans and sin words. Forward-looking statements are merely predictions and therefore inherently subject to uncertainties and other factors which could cause the actual results to differ materially from the forward-looking statement. These uncertainties and other factors include, among other things:

Unexpected technical and marketing difficulties inherent in major product development efforts such as those described about CyberLAB 7.0.

The potential need for changes in our long-term strategy in response to future developments.

Future advances in clinical information technology and procedures, as well as potential changes in government regulations and healthcare policies, both of which could adversely affect the economics of the products offered by CCA.

Rapid technological change in the microelectronics and software industries

Increasing competition from current as well as future competitors, and

The ability to complete the StorCOMM Merger.

Set forth below are other significant uncertainties and factors affecting forward-looking statements. The readers should understand that uncertainties and other factors identified in this Quarterly Report on Form 10-QSB are not a comprehensive list of all the uncertainties and other factors that may affect forward-looking statements. We do not undertake any obligation to update or revise any forward-looking statements or the list of uncertainties and other factors that could affect those statements.

Overview

This is a transitional report that is being filed since the Company has changed its fiscal year from August 31 to December 31, and therefore the results of operations for the four months ended December 31, 2004 are not necessarily indicative of the results expected for any other period or for the entire year. CCA generates revenues primarily from the sale of its Clinical Information Systems (CIS), which includes the licensure of proprietary application software, the licensure of third party 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 users 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.

Because of the nature of its business, CCA makes significant investments in research and development for new products and enhancements to existing products. Historically, CCA has funded its research and development programs through cash flow primarily generated from operations. Management anticipates that future expenditures in research and development will either continue at current levels or may increase for the foreseeable future, and will be funded primarily out of the Company s cash flow.

CCA s results of operations for the four months ended December 31, 2004 were marked by an increase in sales and a smaller loss over the comparable period one year ago. The Company s increase in revenues was due to a number of factors. The primary factor was a transition to a new version of our core product, CyberLAB® 7.0 that impacted new sales and upgrades of clients on the previous version of this product. CyberLAB 7.0 was introduced to the marketplace in January of 2004 and is now live in ten sites and eight new sites are in the process of being implemented. The response to the new version has been very positive. Other factors contributing to the increase in sales were associated with new sales and marketing activities, which generated significant interest among new buyers as well as the existing client base. It is anticipated that the migration to CyberLAB 7.0 will require clients to acquire additional hardware and professional services from the Company in order to deploy the new software. Generally, sales cycles for CIS products are lengthy and on average exceed one year from inception to closure. Because of the complexity of the sales process, a number of factors can delay the closing of transactions that are beyond the control of the Company.

In order to address compliance issues brought about by the HIPAA regulations, the Company completed the development of enhancements to its products and upgraded hundreds of client sites with the HIPAA related enhancements during the 2003 fiscal year. This posed considerable challenges to CCA s organization and caused delays in the development and eventual release of CyberLAB 7.0.

Results of Operations

The following table sets forth certain line items in our condensed consolidated statement of operations as a percentage of total revenues for the periods indicated:

	Four Months Ended December 31, 2004	Four Months Ended December 31, 2003
Revenues:		
System sales	35.3%	27.1%
Service revenues	64.7%	72.9%
Total revenues	100.0	100.0
Costs of products and services sold:		
System sales	25.5	30.4
Service revenues	22.7	27.1
Total costs of products and services	48.2	57.5
Gross profit	51.8	42.5
Operating expenses:		
Selling, general and administrative	46.0	49.7
Research and development	17.0	17.1
Total operating expenses	63.0	66.8
Operating loss	(11.2)	(24.3)
Loss before provision for income taxes	(11.1)	(24.3)
Provision for income taxes		
Net loss	(11.1)	(24.3)

Sales for the four months ended December 31, 2004 increased to $2,391,242, as compared to $1,998,201 for the comparable period ended December 31, 2003, an overall increase of approximately $393,041 or 19.7%. When analyzed by product category, sales of CIS products increased by $256,793 or 53.4%, sales of data acquisition products increased by $47,925 or 87.9%, and service revenues increased by $89,991 or 6.2% when compared to the same period one year ago. Such increases were partially offset by a slight decrease in other revenues of $1,668 or 29.9%. The increase in sales of CIS products was primarily attributable to the favorable acceptance in the marketplace and by the current client base of the new version of CyberLAB 7.0. The increase in service revenues is attributable to a greater number of client accounts under contract and an increase in the average fees charged for such contracts. Service revenues are expected to continue to increase as and when the Company s installed base of CIS installations increases. The increase in the sales of data acquisition products is primarily attributable to a greater number of units shipped to CCA customers, however, management believes going forward, there will be reduced sales of data acquisition products as there has been a technological shift to software based clinical instrument interfaces. Management does not believe the data acquisition product business is a material part of CCA s business today and will not be in the future as the Company s emphasis is being placed on its CIS products and related services.

The Company continues to expand its direct sales and marketing activities, directing its focus towards larger clients and multi-product sales as well as selling new products into its installed client base. Although its pipeline of working CIS transactions continues to improve, management views the near term outlook for the continued sale of CIS products cautiously. The Company s future operating results will 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, and the temporary delays in the closing of new CIS sales. In addition, the Company s revenues associated with CIS sales may be delayed due to client related issues such as client staff availability for training, IT infrastructure readiness, and the performance of third party contractors, all of which are issues outside of the control of CCA.

Cost of sales for the four months ended December 31, 2004 increased slightly by $3,910 or 0.3% as compared to the period one year ago. The overall increase in cost of sales was primarily attributable to an increase in material costs of $14,077 or 11.0% and an increase in labor costs of $9,282 or 1.6%. These costs were partially offset by a decrease in other costs of $19,449 or 4.5%. The increase in material costs was attributable to an increase in upgrades of hardware by the installed client base by those clients that have migrated to CyberLAB 7.0. The increase in labor costs was a result of additions to the support and implementation staff. The decrease in other costs of sales was attributable to decreased expenses related to telephone costs as a result of better rates negotiated under a new contract for telephone and data services. Cost of sales as a percentage of sales was 48% as compared to 57% for the comparable period one year ago. The overall percentage decrease in cost of sales, as a percentage of sales, was attributable to the overall increase in sales of CIS products and the cost reductions as discussed above. The Company could potentially experience quarterly variations in gross margin as a result of the factors discussed above.

Selling, general, and administrative expenses increased by $106,684 or 10.8% for the four months ended December 31, 2004 as compared to the same period of 2003. The increases in selling, general, and administrative expenses were primarily attributable to approximately $8,400 in expenses related to implementation fees for upgrading certain modules of the accounting system, approximately $15,000 in expenses for legal and accounting expense, approximately $11,900 for consultant expenses related to Sarbanes-Oxley Act Section 404 compliance requirements, approximately $35,000 related to the write off of a client account deemed uncollectible, and additional expenses related to marketing activities. Management anticipates that it will incur increases in auditing and consultant expenses in fiscal 2005 that are related to Sarbanes-Oxley Act Section 404 compliance requirements. It is also likely to incur additional expenses in 2005 related to the StorCOMM Merger. During fiscal 2005, the Company will also acquire and implement a new customer relationship management system to replace its aged help desk application, a portion of the costs of which will be expensed. Management also anticipates increases in insurance costs in the current fiscal year.

Research and development expenses increased by $63,390 or 18.5% during the four months ended December 31. 2004 as compared to the same period of 2003. The increase is attributable to increases in salaries, other personnel related expenses, and the addition of new personnel in product engineering. For the comparable periods, the Company capitalized software costs of $175,242 and $180,500, respectively, which are generally amortized over the estimated useful life, not to exceed five years. Such costs were attributable to enhancements and new modules for the Company s CIS products, and new applications under development.

For the four months ended December 31, 2004 and 2003, the Company did not record a tax provision due to the pretax net loss. At December 31, 2004, the Company evaluated the net deferred tax asset, taking into consideration operating results, and determined that a valuation allowance should be maintained. The Company believes that it is more likely than not that the net deferred tax asset of $793,877 will be realized in future periods.

As a result of the factors discussed above, the Company incurred a net loss of $264,127 and $485,880, respectively, for the four months ended December 31, 2004 and 2003. The Company s basic and diluted loss per share was $.08 and $.15, respectively, for the four months ended December 31, 2004 and 2003.

Capital Resources and Liquidity

The Company s primary need for capital has been to invest in software development, and in computers and related equipment for its internal use. The Company invested $175,242 and $180,500 during the four months ended December 31, 2004 and 2003 in software development. These expenditures related to the new browser version of the Company s LIS product, CyberLAB 7.0, and other product enhancements. The Company anticipates expending additional sums during fiscal 2005 on product enhancements to all its products and the further development of the new browser version of the Company s CyberLAB 7.0 product. During the four months ended December 31, 2004, the Company invested an aggregate of $203,606 in additions to fixed assets, primarily consisting of computers and software related to the new customer relationship management system, which is replacing its aged help desk application, as compared to an investment of $25,301 in the four months ended December 31, 2003.

As of December 31, 2004, the Company s working capital amounted to $1,589,832. The Company s current ratio was 1.6 at December 31, 2004. At December 31, 2004, the Company s credit facilities with its bank consisted of a revolving line of credit of $1,000,000, of which there was $300,000 outstanding. The bank credit agreement expires on February 1, 2006. The Company may seek additional debt or equity financing in connection with the StorCOMM Merger.

Cash flows from operating activities were $156,534 for the four months ended December 31, 2004 compared to $20,360 for the comparable period ended December 31, 2003. The increase in cash flow from operating activities was primarily attributable to the reduction in net loss from operations in four months ended December 31, 2004 compared to the same period of 2003 offset by the net change in receivables, accrued payables, and deferred revenues.

Net cash used in investing activities totaled $378,848 for the four months ended December 31, 2004, compared to $205,801 used in investing activities during the comparable period of 2003. The increase in cash used in investing activities was due to increased investment in property and equipment.

Cash flows from financing activities amounted to $300,000 during four months ended December 31, 2004, compared to cash used of $361 in the same period of 2003. The change resulted primarily from borrowings from the Company s revolving line of credit with the bank.

The Company s primary source of working capital has been generated from earnings, and from borrowings on its line of credit. The Company produced cash flows amounting to $156,534 from operations along with cash provided from financing activities of $300,000 to fund its operations in the four months ended December 31, 2004. Management believes that its sales pipeline is adequate to produce sufficient operating cash flow in the 2005 fiscal year, and that its projected cash flow from operations, together with its bank credit facilities, should be sufficient to fund its working capital requirements for its 2005 fiscal year. However, an unanticipated decline in sales or continued delays in closing new transactions, delays in implementations where payments are tied to delivery and/or performance of services, or cancellations of contracts could have a negative effect on cash flow from operations and could in turn create short-term liquidity problems. If such events were to occur, the Company may have to seek alternative financing.

Seasonality, Inflation and Industry Trends

The Company s sales are generally higher in the winter and spring. Inflation has not had a material effect on the Company s business since the Company has been able to adjust the prices of its products and services in response to inflationary pressures. 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. With respect to the compliance issues brought about by HIPAA, the Company has invested heavily in new application modules to assist its clients in meeting their regulatory goals. Management believes that the new modules will be key selling points and will provide a competitive advantage. In addition, management believes that the healthcare information technology 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.

Critical Accounting Policies and Estimates

Management s discussion and analysis of CCA s financial condition and results of operations are based upon the condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an on-going basis, management evaluates estimates, including those related to the valuation of inventory and the allowance for uncollectible accounts receivable. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements:

Inventory

The Company s inventory is comprised of a current inventory account that consists of items that are held for resale and a long-term inventory account that consists of items that are held for repairs and replacement of hardware components that are serviced by the Company under long-term Extended Service Agreements with its clients. Current inventory is valued at the lower of cost to purchase or the current estimated market value of the inventory items. Inventory is evaluated on a continual basis and adjustments to recorded costs are made based on management s estimate of future sales value, or in the case of the long-term component inventory, on managements estimation of the usage of specific inventory items and net realizable value. Management reviews inventory quantities on hand and makes determination of the excess or obsolete items in the inventory, which, are specifically reserved. In addition, adjustments are made for the difference between the cost of the inventory and the estimated market value and charged to operations in the period in which the facts that give rise to the adjustments become known. At December 31, 2004, the inventory reserve was approximately $150,000.

Accounts Receivable

Accounts receivable balances are evaluated on a continual basis and allowances are provided for potentially uncollectible accounts based on management s estimate of the collectability of customer accounts. If the financial condition of a customer were to deteriorate, resulting in an impairment of their ability to make payments, an additional allowance may be required. Allowance adjustments are charged to operations in the period in which the facts that give rise to the adjustments become known. The accounts receivable balance at December 31, 2004 was $1,736,768, net of an allowance for doubtful accounts of approximately $47,500.

Revenue Recognition

Revenues are derived primarily from the sale of CIS products and the provision of services. The components of the system sales revenues are the licensing of computer software, installation, and the sale of computer hardware and sublicensed software. The components of service revenues are software support and hardware maintenance, training, and implementation services. The Company recognizes revenue in accordance with the provisions of Statement of Position (SOP) No. 97-2, Software Revenue Recognition, as amended by SOP No. 98-4, SOP 98-9 and clarified by Staff Accounting Bulletin (SAB) 104 Revenue Recognition in Financial Statements. SOP No 97-2, as amended, generally requires revenue earned on software arrangements involving multiple-elements to be allocated to each element based on the relative fair values of those elements. The Company allocates revenue to each element in a multiple-element arrangement based on the element s respective fair value, with the fair value determined by the price charged when that element is sold and specifically defined in a quotation or contract. The Company determines the fair value of the maintenance portion of the arrangement based on the renewal price of the maintenance charged to clients, professional services portion of the arrangement, other than installation services, based on hourly rates which the Company charges for these services when sold apart from a software license, and the hardware and sublicense of software based on the prices for these elements when they are sold separately from the software. At December 31, 2004, deferred revenue was $226,111.

Post Implementation software and hardware maintenance services are marketed under monthly and annual arrangements and are recognized as revenue ratably over the contracted maintenance term as services are provided. Deferred revenue related to CIS sales is comprised of deferrals for license fees, hardware, and other services for which the implementation has not yet been completed and revenues have not been recognized. At December 31, 2004, deferred service contract income was $1,235,032.

Software Development Costs

Costs incurred internally in creating computer software products are expensed until technological feasibility has been established upon completion of a program design. Thereafter, applicable software development costs are capitalized and subsequently reported at the lower of amortized cost or net realizable value. Capitalized costs are amortized based on current and expected future revenue for each product with minimum annual amortization equal to the straight-line amortization over the estimated economic life of the product, not to exceed five years. For the four months ended December 31, 2004 and 2003, the Company capitalized $175,242 and $180,500, respectively. At December 31, 2004, the balance of capitalized software costs were $1,531,573, net of accumulated amortization of $878,021.

Income Taxes

The Company uses the asset and liability method to account for income taxes, including recognition of deferred tax assets for the anticipated future tax consequences attributable to differences between financial statement amounts and their respective tax bases. Income tax expense is recognized currently for taxes payable. The Company reviews its deferred tax assets for recovery. A valuation allowance is established when the Company believes that it is more likely than not that some portion of its deferred tax assets will not be realized. Changes in valuation allowances from period to period are included in the Company s tax provision in the period of change.

Risk Factors

In evaluating the Company, various risk factors and other information should be carefully considered. The risks and uncertainties described below are not the only ones that impact the Company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also have an adverse impact on us. Among other things, this discussion contains forward-looking statements that are based on certain assumptions about future risks and uncertainties. We believe that our assumptions are reasonable. Nonetheless, it is likely that at least some of these assumptions will not come true.

CCA faces intense competition from both established entities and new entries in the market that may adversely affect our revenues and profitability

There are many companies with active research and development programs both in and outside of the healthcare information technology industry. Many of these companies have considerable experience in areas of competing interest to us. Additionally, we cannot determine if other firms are conducting potentially competitive research, which could result in the development and introduction of products that are either comparable or superior to the products we sell. Further, new product introductions, product enhancements and the use of other technologies by our competitors could lead to a loss of market acceptance and cause a decline in sales or gross margins.

CCA s success depends on its ability to attract, retain and motivate management and other skilled employees

CCA s success depends upon the continued services of key management and skilled personnel. Competition for qualified personnel is intense and there are a limited number of people with knowledge of, and experience in, our industry. We do not have employment agreements with most of our key employees. However, we generally enter into agreements with our employees regarding patents, confidentiality and related matters. We do not maintain life insurance polices on our employees. Our loss of key personnel, especially without advance notice, or our inability to hire or retain qualified personnel, could have a material adverse effect on sales and our ability to maintain our technological edge. We cannot guarantee that we will continue to retain our key management and skilled personnel, or that we will be able to attract, assimilate and retain other highly qualified personnel in the future.

Any failure to successfully introduce future products into the market could adversely affect our business

The commercial success of future products depends upon their acceptance by the medical community. Our future product plans include capital-intensive clinical information systems. We believe that these products can significantly reduce labor costs, improve patient care and offer other distinctive benefits to the medical community. However, there is often market resistance to products that require significant capital expenditures or which eliminate jobs through automation. We can make no assurance that the market will accept our future products and systems, or that sales of our future products and systems will grow at the rates expected by our management.

If CCA fails to meet changing demands of technology, we may not continue to be able to compete successfully with competitors

The market for CCA s products and systems is characterized by rapid technological advances, changes in customer requirements and frequent new product introductions and enhancements. Our future success depends upon our ability to introduce new products that keep pace with technological developments, enhance current product lines and respond to evolving client requirements. Our failure to meet these demands could result in a loss of our market share and competitiveness and could harm our revenues and results of operations.

Any failure or inability to protect our technology and confidential information could adversely affect our business

Trade Secrets. We have trade secrets, unpatented technology and proprietary knowledge related to the sale, promotion, design, operation, and development of our products. We generally enter into confidentiality agreements with our employees and consultants. However, we cannot guarantee that our trade secrets, unpatented technology or proprietary knowledge will not become known or be independently developed by competitors. If any of this proprietary information becomes know to third parties, we may have no practical recourse against these parties.

Copyrights. We claim copyrights in our software and also claim trademark rights in the United States and other foreign countries where we sell our products. However, we can make no assurance that we will be able to obtain enforceable copyright and trademark protection, nor that this protection will provide us a significant commercial advantage.

CCA operates in a consolidating industry which creates barriers to market penetration

The healthcare information technology industry in recent years has been characterized by consolidation by both healthcare providers who are our clients and by those companies that we compete against. Large hospital chains and groups of affiliated hospitals prefer to negotiate comprehensive contracts for all of their system needs with larger vendors who offer broader product lines and services. The convenience offered by these large vendors are administrative and financial incentives that we cannot offer our clients.

CCA s products may be subject to government regulation in the future that could impair our operations

CCA s products could be subject to stringent government regulation in the United States and other countries in the future. These regulatory processes can be lengthy, expensive and uncertain. Additionally, securing necessary clearances or approvals may require the submission of extensive data and other supporting information. Failure to comply with applicable requirements could result in fines, recall, total or partial suspension of distribution, or withdrawal of existing product. If any of these things occur, it could have a material adverse impact on our business.

Changes in government regulation of the healthcare industry could adversely affect CCA s business.

Federal and state legislative proposals are periodically introduced or proposed that would affect major changes in the healthcare system, nationally, at the state level or both. Future legislation, regulation or payment policies of Medicare, Medicaid, private health insurance plans, health maintenance organizations and other third-party payors could adversely affect the demand for our current or future products and our ability to sell our products on a profitable basis. Moreover, healthcare legislation is an area of extensive and dynamic change, and we cannot predict future legislative changes in the healthcare field or their impact on our industry or our business.

Defective products may subject CCA to liability

CCA s products are used to gather information for professionals to make medical decisions, diagnosis, and treatment. Accordingly, the manufacture and sale of our products entails an inherent risk of product liability arising from an inaccurate, or allegedly inaccurate, test or procedure result. We currently maintain product liability insurance coverage for up to $2.0 million per incident and up to an aggregate of $4.0 million per year. Although management believes this liability coverage is sufficient protection against future claims, there can be no assurance of the sufficiency of these policies. We have not received any indication that our insurance carrier will not renew our product liability insurance at or near current premiums; however, we cannot guarantee that this will continue to be the case.

Health Insurance Portability and Accountability Act (HIPAA)

Our business is substantially impacted by the requirements of HIPAA and our products must maintain the confidentiality of a patents medical records and information. These requirements also apply to most of our clients. We believe our products meet the standards of HIPAA and may require our clients to upgrade their systems, but our clients preoccupation with HIPAA may adversely impact sales of our products, and the costs of compliance with HIPAA could have an impact on our product margins and selling, general and administrative expenses incurred by us and could negatively impact our net income.

Loss of the services of our key personnel could adversely affect our business

Our future success and growth depend on the continued services of our key management and employees, including Steve Besbeck, Bruce Miller, and James Helms. The loss of the services of any of these individuals or any other key employee could materially affect our business. Our future success also depends on our ability to identify, attract and retain additional qualified personnel. Competition for employees in our industry is intense and we may not be successful in attracting or retaining them.

We depend on our computer and communications system

We rely on our management information systems to operate our business and to track our operating results. Our management information systems will require modification and refinement as we grow and our business needs change. If we experience a significant system failure or if we are unable to modify our management information systems to respond to changes in our business needs, then our ability to properly run our business could be adversely affected.

Our evaluation of internal controls and remediation of potential problems will be costly and time consuming and could expose weakness in our financial reporting

While we believe that we currently have adequate internal control procedures in place, we are still exposed to potential risks from recent legislation requiring companies to evaluate controls under Section 404 of the Sarbanes-Oxley Act of 2002. We are evaluating our internal controls system in order to allow management to report on, and our independent auditors to attest to, our internal controls over financial reporting, as required in Section 404 of the Sarbanes-Oxley Act of 2002. Stock price may be affected if a material weakness is found.

We may be unable to complete the StorCOMM Merger

We have entered into a Letter of Intent to merge with StorCOMM. The transaction is subject to the completion and execution of a definitive merger agreement and shareholder approval. The merger is risky and may be subject to a lengthy process to close and it could divert management s time and focus from operating our business. We may seek additional debt or equity financing in connection with the merger. Additional financing may not be available to us on acceptable terms or at all. We may not be able to close the transaction on the timetable we anticipate, if at all. If we are unable to complete the merger, we may incur significant non-recoverable expenses that may have a material adverse effect on our financial position. If we do complete the transaction, it could result in unanticipated operating difficulties and expense and the anticipated benefits of the transaction may not materialize.

Future sales of our common stock could adversely affect our stock price

Future sales of substantial amounts of shares of our common stock in the public market, or the perception that these sales could occur, may cause the market price of our common stock to decline. In addition, we may be required to issue additional shares upon exercise of previously granted options that are currently outstanding. Increased sales of our common stock in the market after exercise of our currently outstanding stock options could exert significant downward pressure on our stock price. These sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price we deem appropriate.

New Accounting Pronouncements

In December 2004 the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No. 123 (revised 2004), *Share-Based Payment (SFAS No. 123(R))*. SFAS No. 123(R) requires compensation cost relating to unvested share-based payment transactions that are outstanding as of the effective date and newly issued transactions to be recognized in the financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. SFAS No. 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. SFAS No. 123(R) replaces SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123), and supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (Opinion 25). SFAS No. 123, as originally issued in 1995, established fair-value-based method of accounting for share-based payment transactions with employees. However, that Statement permitted entities the option of continuing to apply the guidance in Opinion 25, as long as the footnotes to financial statements disclosed what net income would have been had the fair-value-based method been used. As disclosed in footnote 2, the Company elected the option of disclosure only under

SFAS No. 123. Public entities will be required to apply SFAS No. 123(R) as of the first interim or annual reporting period that begins after June 15, 2005. The Company is currently evaluating the impact of this statement.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets An Amendment of APB Opinion No. 29, which eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. The Company is required to adopt SFAS No. 153 for nonmonetary asset exchanges occurring in the first quarter of 2006 and its adoption is not expected to have a significant impact on the Company s results of operations or financial condition.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs An Amendment of ARB No. 43, Chapter 4, which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). The Company is required to adopt SFAS No. 151 in 2006 and its adoption is not expected to have a significant impact on the Company s results of operations or financial condition.

Item 3 **Controls and Procedures**

(a) Evaluation of Disclosure Controls and Procedures. The Company s Chief Executive Officer and its Chief Accounting Officer, with the participation of the Company s management, carried out an evaluation of the effectiveness of the Company s disclosure controls and procedures pursuant to Exchange Act Rules 13a-15(e). Based upon that evaluation, the Chief Executive Officer and the Chief Accounting Officer believes that as of the end of the period covered by this report, the Company s disclosure controls and procedures are adequate and effective in making known to them material information relating to the Company (including its consolidated subsidiary) required to be included in the report.

(b) Changes in Internal Controls. There were no significant changes in the Company s internal controls or in other factors that could significantly affect the Company s disclosure controls and procedures subsequent to the Evaluation Date, nor any significant deficiencies or material weaknesses in such disclosure controls and procedures requiring corrective actions.

The Company maintains a system of internal controls designed to provide reasonable assurance that transactions are executed in accordance with management s general or specific authorization; transactions are recorded as necessary (1) to permit preparation of financial statements in conformity with generally accepted accounting principles, (2) to maintain accountability for assets, and (3) to ensure that access to assets is permitted only in accordance with management s general or specific authorization; and the recorded accountability for access is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

PART II - OTHER INFORMATION

Items 1 through 5. NOT APPLICABLE

Item 6. Exhibits

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

(b) Exhibit 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2 Certification of Chief Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.2 Certification of Chief Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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 February 24, 2005

/S/ Steven M. Besbeck
Steven. M. Besbeck, President
Chief Executive Officer, Chief
Financial Officer

Date February 24, 2005

/S/ Anahita Villafane
Anahita Villafane,
Controller and Chief Accounting
Officer