

PSYCHEMEDICS CORP
Form 10-Q
April 28, 2016

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, 2016

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

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 April 25, 2016 was 5,422,541.

PSYCHEMEDICS CORPORATION

FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2016

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

| | March 31, 2016 | December 31, 2015 |
|---|---------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$2,003,701 | \$2,689,464 |
| Accounts receivable, net of allowance for doubtful accounts of \$47,731 in 2016 and \$58,684 in 2015 | 4,819,104 | 3,538,765 |
| Prepaid expenses and other current assets | 1,125,259 | 1,060,587 |
| Income tax receivable | 24,926 | 840,122 |
| Deferred tax assets | 388,104 | 327,442 |
| Total Current Assets | 8,361,094 | 8,456,380 |
| Fixed Assets, net of accumulated amortization and depreciation of \$7,162,360 in 2016 and \$6,642,501 in 2015 | 13,213,779 | 13,132,114 |
| Other assets | 790,848 | 774,474 |
| Total Assets | \$22,365,721 | \$22,362,968 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | \$1,294,976 | \$747,291 |
| Accrued expenses | 1,109,588 | 1,197,632 |
| Current portion of long-term debt | 1,741,602 | 1,619,633 |
| Total Current Liabilities | 4,146,166 | 3,564,556 |
| Long-term debt | 4,355,104 | 4,272,137 |
| Deferred tax liabilities, long-term | 2,852,745 | 2,852,745 |
| Total Liabilities | 11,354,015 | 10,689,438 |
| 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 6,090,671 shares issued in 2016 and 2015 | 30,453 | 30,453 |

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| | | |
|---|--------------|---------------|
| Additional paid-in capital | 30,196,605 | 30,021,604 |
| Accumulated deficit | (9,133,563) | (8,296,738) |
| Less - Treasury stock, at cost, 668,130 shares in 2016 and 2015 | (10,081,789) | (10,081,789) |
| Total Shareholders' Equity | 11,011,706 | 11,673,530 |
| Total Liabilities and Shareholders' Equity | \$22,365,721 | \$22,362,968 |

See accompanying notes to condensed financial statements

PSYCHEMEDICS CORPORATION

CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) / INCOME

(UNAUDITED)

| | Three Months Ended March 31, | |
|--|---------------------------------|-------------|
| | 2016 | 2015 |
| Revenues | \$ 6,667,064 | \$6,755,741 |
| Cost of revenues | 3,928,622 | 3,416,873 |
| Gross profit | 2,738,442 | 3,338,868 |
| Operating Expenses: | | |
| General & administrative | 1,252,075 | 1,144,090 |
| Marketing & selling | 1,127,654 | 1,288,481 |
| Research & development | 360,458 | 455,782 |
| Total Operating Expenses | 2,740,187 | 2,888,353 |
| Operating (loss) income | (1,745) | 450,515 |
| Interest expense, net | (34,641) | (33,327) |
| Net (loss) / income before (benefit) from / provision for income taxes | (36,386) | 417,188 |
| (Benefit) from / provision for income taxes | (12,942) | 139,666 |
| Net (loss) / income and comprehensive (loss) / income | (\$23,444) | \$277,522 |
| Basic net (loss) / income per share | \$ 0.00 | \$0.05 |
| Diluted net (loss) / income per share | \$ 0.00 | \$0.05 |
| Dividends declared per share | \$ 0.15 | \$0.15 |
| Weighted average common shares outstanding, basic | 5,422,541 | 5,375,061 |
| Weighted average common shares outstanding, diluted | 5,422,541 | 5,401,998 |

See accompanying notes to condensed financial statements

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

| | Three Months Ended March 31, | |
|--|---------------------------------|-------------|
| | 2016 | 2015 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net (loss) / income | \$(23,444) | \$277,522 |
| Adjustments to reconcile net (loss) / income to net cash provided by operating activities: | | |
| Depreciation and amortization | 529,097 | 343,115 |
| Stock-based compensation | 175,001 | 160,230 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (1,280,339) | (411,733) |
| Prepaid expenses, other current assets, and income tax receivable | 750,523 | 661,832 |
| Accounts payable | 547,685 | (426,108) |
| Accrued expenses | (458,939) | (69,504) |
| Deferred income taxes | (60,662) | (62,089) |
| Net cash provided by operating activities | 178,922 | 473,265 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of equipment and leasehold improvements | (200,538) | (128,053) |
| Cost of internally developed software | (30,091) | (66,981) |
| Other assets | (25,611) | (62,143) |
| Write-off capitalized patent costs | -- | 73,602 |
| Net cash used in investing activities | (256,240) | (183,575) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from equipment financing | 609,844 | -- |
| Payments of equipment financing | (404,908) | (349,981) |
| Cash dividends paid | (813,381) | (806,260) |
| Net cash used in financing activities | (608,445) | (1,156,241) |
| Net decrease in cash and cash equivalents | (685,763) | (866,551) |
| Cash and cash equivalents, beginning of period | 2,689,464 | 3,612,153 |
| Cash and cash equivalents, end of period | \$2,003,701 | \$2,745,602 |
| Supplemental Disclosures of Cash Flow Information: | | |
| Cash paid for income taxes | \$2,233 | \$2,870 |

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| | | |
|--|-----------|----------|
| Cash paid for interest | \$34,285 | \$33,201 |
| Purchases of equipment through accrued liabilities | \$370,895 | \$55,990 |

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 (“10-K”) for the year ended December 31, 2015, filed on February 26, 2016. 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, 2016 may not be indicative of the results that may be expected for the year ending December 31, 2016, 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 consisted exclusively of cash in the bank as of December 31, 2015 and March 31, 2016.

3. Stock-Based Compensation

The Company’s 2006 Equity Incentive Plan (“the Plan”) provides for cash based awards or the grant or issuance of stock-based awards including; options, restricted stock or stock unit awards (SUA’s). As of December 31, 2015, 70,232 shares remained available for future grant under the 2006 Plan. In February 2016, the Board approved an additional 350,000 shares available for grant, subject to shareholder approval at the 2016 annual meeting. There were no other changes to the plan from 2015 as described in the 10-K.

Activity for SUAs under the Plan for the three months ended March 31, 2016 is as follows:

| | Number of Shares | Aggregate Intrinsic Value (1) (000s) |
|-----------------------------|---------------------|---|
| Unvested, December 31, 2015 | 111,464 | |
| Granted | - | |
| Forfeited/expired | - | |
| Converted to common stock | - | |
| Unvested, March 31, 2016 | 111,464 | \$ 1,533 |

1) The aggregate intrinsic value on these tables were calculated based on the closing market value of the Company's stock on March 31, 2016 (\$13.75).

PSYCHEMEDICS CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS

(UNAUDITED)

3. Stock-Based Compensation (continued)

As of March 31, 2016, the Company also had outstanding an aggregate of 47,000 options to acquire common stock under the Plan. A summary of stock option activity for the Plan for the three months ended March 31, 2016 is as follows:

| | Number of Shares | Weighted Average Exercise Price per Share | Weighted Average Remaining Contractual Life | Aggregate Intrinsic Value (2) |
|--------------------------------|---------------------|---|---|-------------------------------------|
| Outstanding, December 31, 2015 | 47,000 | \$ 10.21 | | \$ - |
| Granted | - | - | | |
| Exercised | - | - | | |
| Cancelled | - | - | | |
| Outstanding, March 31, 2016 | 47,000 | \$ 10.21 | 9.5 years | \$ - |

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, 2016 (\$13.75) exceeded the exercise price of the underlying options, multiplied by the number of shares subject to each option.

As of March 31, 2016, a total of 578,696 shares of common stock were reserved for issuance under the 2006 Incentive Plan, subject to shareholder approval at the 2016 annual meeting. As of March 31, 2016, the unamortized fair value of awards relating to outstanding SUAs and options was \$1.0 million, which is expected to be amortized over a weighted average period of 2.6 years.

4. Basic and Diluted Net (Loss) / Income Per Share

Basic net loss per share for the three months ended March 31, 2016 was computed by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per share for such period was computed by dividing net loss by the weighted average number of common and dilutive common equivalent

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shares outstanding during the period. The number of dilutive common equivalent shares outstanding during the period was determined in accordance with the treasury-stock method. Common equivalent shares consisted 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 for the three months ended March 31, 2016 are as follows:

| | Three Months Ended | |
|---|----------------------|-------------------|
| | March 31, 2016 | March 31, 2015 |
| | (in thousands) | |
| Weighted average common shares outstanding, basic | 5,423 | 5,375 |
| Dilutive common equivalent shares | - | 27 |
| Weighted average common shares outstanding, diluted | 5,423 | 5,402 |

PSYCHEMEDICS CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS

(UNAUDITED)

4. Basic and Diluted Net Income Per Share (continued)

Options outstanding to purchase common stock were excluded from the computation of diluted net loss per share for the three months ended March 31, 2016 because the effect of including such shares would have been anti-dilutive for the period.

5. Fair Value Measurements

The Company has financial instruments, such as accounts receivable, accounts payable, and accrued expenses, which are stated at carrying amounts that approximate fair value because of the short maturity of those instruments. The carrying amount of the Company's long-term debt approximates fair value as the interest rate on the debt approximates the estimated borrowing rate currently available to the company.

6. Subsequent Events

On April 26, 2016, the Company declared a quarterly dividend of \$0.15 per share for a total of \$813 thousand, which will be paid on May 18, 2016 to shareholders of record on May 6, 2016.

7. Commitments and Contingencies

The Company is subject to legal proceedings and claims which arise in the ordinary course of its business. The Company believes that based upon information available to the Company at this time, the expected outcome of these matters would not have a material impact on the Company's results of operations or financial condition.

8. Debt and Other Financing Arrangements

On March 20, 2014, the Company entered into an equipment financing arrangement ("Loan Agreement") with Banc of America Leasing & Capital, LLC, which it amended on September 15, 2015. The terms of this arrangement are

detailed in the 10-K.

On March 23, 2016, under the Loan Arrangement, the Company executed a note in the amount of \$609 thousand, for total borrowings of \$8.7 million. The weighted average interest rate for all notes related to the Loan Agreement for the quarter ended March 31, 2016 was 2.41%, and represented \$34,631 of interest expense as compared to a rate of 2.17% and interest expense of \$33,327 for the comparable period in 2015. As of March 31, 2016, the interest rate was 2.43% and there was \$6.1 million of outstanding debt related to the loan. As of March 31, 2016, the Company had \$0.1 million of debt financing available under the Loan Agreement. The Company was in compliance with all loan covenants as of March 31, 2016.

PSYCHEMEDICS CORPORATION**NOTES TO CONDENSED FINANCIAL STATEMENTS****(UNAUDITED)****8. Debt and Other Financing Arrangements (continued)**

The annual principal repayment requirements for debt obligations as of March 31, 2016 were as follows (in 000's):

| | |
|--|---------|
| 2016 | \$1,306 |
| 2017 | 1,742 |
| 2018 | 1,742 |
| 2019 | 990 |
| 2020 | 287 |
| 2021 | 30 |
| Total long-term debt | 6,097 |
| Less current portion of long-term debt | (1,742) |
| Total long-term debt, net of current portion | \$4,355 |

9. Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases, which introduces the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous guidance. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. The new standard will become effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impacts the adoption of this accounting guidance will have on its financial statements.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of the accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification of related amounts within the statement of cash flows. The new standard will become effective beginning with the first quarter of 2017, with early adoption permitted. The Company is currently evaluating the impacts the adoption of this accounting guidance will have on its financial statements.

Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FACTORS THAT MAY AFFECT FUTURE RESULTS

From time to time, information provided by the Company or statements made by its employees may contain "forward-looking" information which involves risks and uncertainties. In particular, statements contained in this report which are not historical facts (including, but not limited to, the Company's expectations regarding earnings, earnings per share, revenues, operating cash flows, dividends, future business, growth opportunities, new accounts, customer base, test volume, sales and marketing strategy, business strategy, general and administrative expenses, marketing and selling expenses, research and development expenses, anticipated operating results, foreign drug testing laws and regulations, including effective dates of such laws and regulations, required investments in plant, property and equipment, strategies with respect to governmental agencies and regulations, cost savings, capital expenditures, liquidity of investments and anticipated cash requirements) may be "forward-looking" statements. The Company's actual results may differ from those stated in any "forward-looking" statements. Factors that may cause such differences include, but are not limited to, risks associated with employee hiring practices of the Company's principal customers, development of markets for new products and services offered by the Company, costs associated with capacity expansion, government regulation (including, but not limited to, Food and Drug Administration regulations and foreign government regulation including Brazilian commercial drivers license drug test regulations), risks associated with the delay in the implementation of new regulations, competition and general economic conditions. With respect to the continued payment of cash dividends, factors include, but are not limited to, available surplus, cash flow, capital expenditure reserves required, debt service obligations, and other factors that the Board of Directors of the Company may take into account.

Given these uncertainties, you should not place undue reliance on these forward-looking statements. Forward-looking statements represent the Company's estimates and assumptions only as of the date of this Report. The Company expressly disclaim any duty to provide updates to forward-looking statements, and the estimates and assumptions associated with them, after the date of this Report, in order to reflect changes in circumstances or expectations, or the occurrence of unanticipated events, except to the extent required by applicable securities laws. All of the forward-looking statements are qualified in their entirety by reference to the factors discussed above and under "Risk Factors" set forth in Part I Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as well as the risks and uncertainties discussed elsewhere in this Report. The Company qualifies all of its forward-looking statements by these cautionary statements. The Company cautions you that these risks are not exhaustive. The Company operates in a continually changing business environment and new risks emerge from time to time.

OVERVIEW

Revenues for the first quarter of 2016 were \$6.7 million, a decrease of 1% from first quarter 2015 revenue of \$6.8 million. The Company operated near break-even level for the first three months of 2016, recording a loss of \$23 thousand compared to a gain of \$278 thousand for the same period in 2015. The decrease in earnings was a result of ongoing capacity expansion and ramp up costs in anticipation of future testing volumes from an opportunity in which the Brazilian government has mandated drug testing for professional drivers. While some testing from this Brazil opportunity started in March, the law was not fully implemented as of March 31, 2016. The Company had \$2.0 million of cash as of March 31, 2016. The Company has borrowed \$8.7 million through an equipment financing arrangement for the purchase of additional equipment related to expanding capacity. At March 31, 2016, the balance on the notes underlying the equipment financing agreement totaled \$6.1 million. The Company distributed \$813 thousand or \$0.15 per share of cash dividends to its shareholders in the three months ended March 31, 2016. The Company has paid 78 consecutive quarterly cash dividends.

RESULTS OF OPERATIONS

Revenues were \$6.7 million for three months ended March 31, 2016 compared to revenues of \$6.8 million for the three months ended March 31, 2015, representing a decrease of 1%. The decrease in revenues for the three months ended March 31, 2016 was a result of a decrease in average revenue per sample of 2%, partially offset by an increase in testing volume of 1%.

Gross profit was \$2.7 million for the three months ended March 31, 2016, compared to \$3.3 million for the same period in 2015, representing a decrease of 18%. Direct costs increased by \$512 thousand or 15% for the three months ended March 31, 2016 compared to the same period in 2015, mainly due to capacity expansion and ramp up costs. As a result of ongoing capacity expansion and ramp up costs, the gross profit margin declined to 41% for the three months ended March 31, 2016 from 49% for the comparable period of 2015.

General and administrative (“G&A”) expenses were \$1.3 million for the three months ended March 31, 2016 compared to \$1.1 million for the same period in 2015. As a percentage of revenue, G&A expenses were 19% for the three months ended March 31, 2016, compared to 17% for the same period in 2015.

Marketing and selling expenses were \$1.1 million for the three months ended March 31, 2016, compared to \$1.3 million for the same period in 2015. Total marketing and selling expenses represented 17% of revenue for the three months ended March 31, 2016, compared to 19% for the same period in 2015. The decrease was driven primarily by a reduction in headcount.

Research and development (“R&D”) expenses for the three months ended March 31, 2016 were \$360 thousand compared to \$456 thousand for the comparable period of 2015, a decrease of 21%. R&D expenses represented 5% and 7% of revenue for the three months ended March 31, 2016 and 2015, respectively. The decrease in R&D expenses was primarily attributable to a \$74 thousand patent expense taken in 2015 from prior capitalized patents which were abandoned by the Company compared to \$5 thousand in 2016.

Provision for income taxes During the three months ended March 31, 2016 the Company recorded a tax benefit of \$13 thousand, representing an effective tax rate of 36%. During the three months ended March 31, 2015 the Company recorded a tax provision of \$140 thousand, representing an effective tax rate or 33% The Company monitors the effective tax rate, and currently expects the annual 2016 rate to be between 31% and 33%.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2016, the Company had approximately \$2.0 million of cash. The Company's operating activities generated net cash of \$179 thousand for the three months ended March 31, 2016. Investing activities used \$256 thousand of cash while financing activities used \$608 thousand of cash during the first three months of 2016.

Cash provided by operating activities of \$179 thousand reflected net loss of \$23 thousand adjusted for depreciation and amortization of \$529 thousand and stock-based compensation of \$175 thousand. This was affected by the following changes in assets and liabilities: an increase in accounts receivable of \$1.3 million, a decrease in prepaid expenses, other current assets and income tax receivable of \$751 thousand, an increase in accounts payable of \$548 thousand, a decrease in accrued expenses of \$459 thousand and a decrease for deferred income taxes of \$61 thousand.

Cash used in investing activities included equipment and leasehold improvements of \$201 thousand which were purchased during the first quarter of 2016. We anticipate spending \$0.5 million to \$1.0 million in additional capital purchases for the remainder of 2016.

Cash used by financing activities of \$608 thousand included cash dividends to shareholders of \$813 thousand and \$405 thousand from payments on long term debt, offset by received \$610 thousand of additional equipment financing. On April 26, 2016, the Company declared a quarterly dividend of \$0.15 per share for an estimated total of \$813 thousand, which will be paid on May 18, 2016 to shareholders of record on May 6, 2016.

Contractual obligations and other commercial commitments as of March 31, 2016 were as follows:

| | Less Than One Year (in thousands) | 1-3 Years | 4-5 Years | After 5 Years | Total |
|------------------|---|--------------|--------------|------------------|---------|
| Debt principal | \$1,742 | \$3,483 | \$872 | \$ - | \$6,097 |
| Operating leases | 895 | 957 | 647 | - | 2,499 |
| Total | \$2,637 | \$4,440 | \$1,519 | \$ - | \$8,596 |

At March 31, 2016, the Company's principal sources of liquidity included an aggregate of approximately \$2.0 million of cash and \$92 thousand under the equipment financing arrangement available for future equipment purchases. The

Company had \$4.2 million and \$6.4 million of working capital as of March 31, 2016 and 2015, respectively. Management currently believes that such funds, together with cash generated from operations, should be adequate to fund anticipated working capital and capital equipment requirements for the next 12 months. Depending upon the Company's results of operations and capital needs, the Company may use various financing sources to raise additional funds.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Sensitivity. The long-term debt agreement entered into in March 2015 and amended in September 2016, is subject to the 30 day Libor rate, which changes the Company's interest rate on a monthly basis. The Company does not expect any changes in this rate to materially affect the Company's performance.

Based on our ability to access our cash and cash equivalents, our expected operating cash flows and our other sources of cash; we do not anticipate that any lack of liquidity will materially affect our ability to operate our business.

Item 4. Controls and Procedures

As of the end of the period covered by this report, our Chief Executive Officer and our Vice President - Finance performed an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Vice President - Finance concluded that the Company's disclosure controls and procedures were effective for ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and disclosed within the time periods specified in the SEC's rules and forms, and that its disclosure controls and procedures were also effective to ensure that information required to be disclosed in the reports that it files or submits under the Exchange Act is accumulated and communicated to management, including the Company's principal executive and principal financial officers, to allow timely decisions regarding required disclosure. There were no significant changes in the Company's internal controls over financial reporting or in other factors that could significantly affect these internal controls over financial reporting subsequent to the date of the most recent evaluation.

PART II OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in our 2015 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

There were no purchases of treasury stock in the first three months of 2016.

Item 6. Exhibits

See Exhibit Index included in this Report

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Psychemedics Corporation

Date: April 28, 2016 By: /s/ Raymond C. Kubacki
Raymond C. Kubacki
Chairman and Chief Executive Officer
(principal executive officer)

Date: April 28, 2016 By: /s/ Neil L. Lerner
Neil L. Lerner

Vice President - Finance
(principal accounting officer)

PSYCHEMEDICS CORPORATION

FORM 10-Q

March 31, 2016

EXHIBIT INDEX

- 10.1 Equipment Security Note dated March 23 payable to Banc of America Leasing & Capital, LLC,
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Principal Accounting Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Principal Accounting Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase
- 101.LAB XBRL Taxonomy Extension Label Linkbase
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase
- 101.DEF XBRL Taxonomy Extension Definition Linkbase