

Edgar Filing: CELLULAR TECHNICAL SERVICES CO INC - Form 10KSB

CELLULAR TECHNICAL SERVICES CO INC  
Form 10KSB  
March 31, 2006

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-KSB

(Mark One)

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

For the fiscal year ended December 31, 2005

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 0-19437

CELLULAR TECHNICAL SERVICES COMPANY, INC.

-----  
(Name of Small Business Issuer as Specified in Its Charter)

Delaware

11-2962080

-----  
(State or Other Jurisdiction of  
Incorporation or Organization)

(I.R.S. Employer Identification No.)

20 East Sunrise Highway, Suite 200, Valley Stream, NY 11581

-----  
(Address of Principal Executive Offices) (Zip Code)

Issuer's Telephone Number, Including Area Code: (516) 568-0100

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, \$.001 par value

-----  
(Title of Class)

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained herein in any form, and, no disclosure will be

Edgar Filing: CELLULAR TECHNICAL SERVICES CO INC - Form 10KSB

contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB [ X ]

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes [X] No [ ]

The Issuer had no revenue for the fiscal year ended December 31, 2005.

As of March 30, 2006 there were 4,586,757 shares of Common Stock, \$.001 par value outstanding.

As of February 14, 2006 the aggregate market value of the Registrant's Common Stock, \$.001 par value, held by non-affiliates was approximately \$11.9 million. The aggregate market value of the Company's stock was calculated using \$2.59, the closing price for its Common Stock on February 14, 2006 as reported on the over-the-counter bulletin board.

Documents incorporated by reference in Part III: The Company's definitive proxy statement to be filed in connection with the 2006 Annual Meeting of Stockholders.

Transitional Small Business Disclosure Format Yes [ ] No [X]

CELLULAR TECHNICAL SERVICES COMPANY, INC.

TABLE OF CONTENTS FOR FORM 10-KSB

PART I.....
ITEM 1. BUSINESS.....
ITEM 2. PROPERTIES.....
ITEM 3. LEGAL PROCEEDINGS.....
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.....
PART II.....
ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.....
ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS..
ITEM 7. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.....
ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE...
ITEM 8A. CONTROLS AND PROCEDURES.....
PART III.....
ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.....
ITEM 10. EXECUTIVE COMPENSATION.....
ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.....
ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.....
ITEM 13. EXHIBITS.....
ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.....

PART I

Item 1. Description of Business

Unless the context otherwise requires, all references to the "Company" or "CTS" in this Annual Report on Form 10-KSB include Cellular Technical Services Company, Inc. and any entity over which it has or shares operational control.

Special Note Regarding Forward-Looking Statements

This Annual Report on Form 10-KSB contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that reflect the Company's views with respect to future events and financial performance. The Company uses words and phrases such as "anticipate," "expect," "intend," "the Company believes," "future," and similar words and phrases to identify forward-looking statements. Reliance should not be placed on these forward-looking statements. These forward-looking statements are based on current expectations and are subject to risks, uncertainties and assumptions that could cause, or contribute to causing, actual results to differ materially from those expressed or implied in the applicable statements. Readers should pay particular attention to the descriptions of risks and uncertainties described in this report and in the Company's other filings with the Securities and Exchange Commission (the "SEC"). All forward-looking statements included in this report are based on information available to the Company on the date of this report. The Company assumes no obligation or duty to update any such forward-looking statements.

General

The Company has developed, marketed, distributed and supported a diversified mix of products and services for the telecommunications industry. Over the past 15 years, the Company developed expertise in real-time wireless call processing and created technologically advanced solutions for this industry, focusing primarily in the area of wireless communications fraud management, geo-location wireless software applications and sales of prepaid long-distance phonecard products.

On November 9, 2002, CTS ceased development efforts of its Neumobility development project, and on December 11, 2002 adopted a plan to wind down the operations of its Isis Tele-Communications, Inc. subsidiary. The Company has completed the process of winding down its Isis operations including having sold all remaining inventory and collected all non-reserved receivables. As a result, CTS has no current business. Management currently has no plan to liquidate the Company and distribute the remaining assets to stockholders. During 2004, 2005 and to date, management has been and will continue evaluating alternative businesses and acquisitions. There is no assurance that such alternative businesses and acquisitions can be identified before CTS spends all of its remaining cash balances, that it will be able to raise money on acceptable terms, if at all, to fund the acquisitions and/or the operating activities of the businesses it may acquire or seek to acquire, and that any acquired businesses will represent viable business strategies and/or will be consistent with the expectations and risk profiles of CTS' stockholders.

Management expects that during 2006 the Company will incur costs of approximately \$0.3 million, primarily related to costs of maintaining the business as a public entity and insurance. The Company does not have any current source of revenue and has no operations. Accordingly, management believes that

## Edgar Filing: CELLULAR TECHNICAL SERVICES CO INC - Form 10KSB

its cash balances as of December 31, 2005 of approximately \$3.5 million are sufficient to fund its current cash flow requirements through at least the next twelve months.

### Description of Products sold in 2002 and prior year and Operations through 2005

**Prepaid Long-Distance Phonocard Products:** The Company expanded into the prepaid long-distance service arena in the fourth quarter of 1999. Through its majority-owned subsidiary, Isis Tele-Communications, Inc., the Company marketed and distributed branded prepaid long-distance phonecards in denominations generally ranging from \$5 to \$20 per card. Isis also marketed prepaid wireless phones and phonecards. Isis specialized in targeted marketing programs and featured local and toll-free access numbers and aggressive domestic and international long-distance rates. Isis distributed cards through regional and national multi-level distribution channels, using direct sales, third party distributors and telemarketing. Due to continuing losses from declining margins and increased competition in this marketplace, the Company decided to close the Isis business in December 2002. Isis revenue accounted for 100 % of consolidated revenue for 2003.

**Location-Based Services: TruePosition, Inc. Investment and Neumobility(TM) Division:** The Federal Communications Commission ("FCC") is in the process of requiring all wireless carriers to deploy wireless geo-location technology to provide the location of 911 wireless calls, similar to that of wire-line 911 calls. Wireless geo-location technology

3

provides and identifies the specific geographic location (in latitude and longitude measurements) of a wireless telephone, and can eventually be applied to other wireless communications devices. In late 1999 the Company began development of a location-based wireless software product platform and mobile commerce applications. In January 2001 the Company formed a division called Neumobility(TM) for this product line. The services or applications to be delivered to mobile phones or other wireless devices included finder applications assisting users in locating others, businesses, or addresses; maps; directions; traffic reports; coupons; and many other similar services. Revenue from these services was designed to help wireless carriers offset the costs of providing the location data within their networks and to increase data airtime usage. The Company ceased its development efforts of the Neumobility platform and applications in November 2002 due to slow market development and low future revenue projections which did not justify continued investment at that time.

Additionally, during the fourth quarter of 1999, the Company made a strategic investment in KSI, a provider of development-stage wireless geo-location technology. In August 2000, TruePosition, Inc., a subsidiary of Liberty Media Corporation, acquired KSI. The Company's total investment valued at cost in TruePosition, Inc. common stock at December 31, 2001 was \$1,754,000. In December 2002 the Company received certain valuation information from TruePosition indicating a range of values for TruePosition. Based upon its review of available information and communications with Liberty Media, the Company concluded there had been an other-than-temporary decline in estimated fair value of its investment, and reduced the recorded carrying value of this investment from its cost basis of \$1,754,000 to zero, representing its best estimate of the current fair value of the Company's investment in the net equity of TruePosition. TruePosition's operations have required significant infusions of cash by Liberty Media to date, and have not generated significant profits. The

## Edgar Filing: CELLULAR TECHNICAL SERVICES CO INC - Form 10KSB

Company's investment in TruePosition common stock has been diluted by these advances, which were converted to preferred stock in late 2002. It is possible that in the future the Company may receive proceeds from the sale of this investment but no such amount can be estimated at this time.

**The Blackbird Platform Products:** The Company's Blackbird Platform product line included a suite of radio frequency based platform solutions focusing on wireless fraud prevention. It involved various forms of "pre-call" verification to ensure that the use of an analog wireless telephone was legitimate before the device was allowed to connect to a carrier's analog wireless communications network. Blackbird Platform products were initially installed in over 2,000 cell sites in the US by wireless carriers in 1996-1998. As digital wireless communication was adopted, analog fraud decreased, and carriers gradually removed the Blackbird Platform products from service. The final contract expired December 31, 2001, and no revenue was received from the Blackbird Platform product line after that date, nor is any further revenue expected from it.

### The Company's Strategy

As a result of the foregoing, the Company currently has no business operations. As such, the Company's principal business purpose at this time is to locate and consummate a merger or acquisition with a private entity. Because of the Company's current status, in the event the Company does successfully acquire or merge with an operating business opportunity, it is likely that the Company's present stockholders may experience substantial dilution.

No representation is made, nor is any intended, that the Company will be able to carry on future business activities successfully. Further, there can be no assurance that the Company will have the ability to acquire or merge with an operating business, business opportunity or property that will be of material value to the Company or its stockholders. To date, the Company has not succeeded in concluding any such future business partnership and there can be no assurance that the Company will be successful in doing so during 2006.

The Company will not restrict its search to any specific geographical location, and the Company may participate in a business venture of virtually any kind or nature. The Company anticipates that it may only be able to participate in a limited number of potential business ventures, due primarily to its limited financing. This lack of diversification should be considered a substantial risk to the Company.

The Company may seek a business opportunity with one or more firms which have recently commenced operations, or which wish to utilize the public marketplace in order to raise additional capital in order to expand into new products or markets, to develop a new product or service, or for other corporate purposes. A business opportunity may involve the acquisition of or by, or merger with, a company which does not need substantial additional cash but which desires to establish a public trading market for its Common Stock. A company which seeks the Company's participation in attempting to consolidate its operations through a merger, reorganization, asset acquisition, or some other form of combination may desire to do so to avoid what it may deem to be adverse consequences of undertaking a public offering itself.

4

The Company anticipates that the selection of a business opportunity in which to participate will be complex and extremely risky. Because of general economic

## Edgar Filing: CELLULAR TECHNICAL SERVICES CO INC - Form 10KSB

conditions, rapid technological advances being made in some industries, and shortages of available capital, management believes that there are firms seeking even the limited additional capital which the Company will have and/or the benefits of a publicly traded corporation. Such perceived benefits of a publicly traded corporation may include facilities or improving the terms on which additional equity financing may be sought, providing liquidity for the principals of a business, creating a means for providing incentive stock options or similar benefits to key employees, providing liquidity (subject to restrictions of applicable statutes) for all stockholders, and other factors. Potentially available business opportunities may occur in many different industries and at various stages of development, all of which will make the task of comparative investigation and analysis of such business opportunities extremely difficult and complex.

The Company has limited capital with which to provide the owners of business opportunities with any significant cash or other assets. There may be significant post-merger or acquisition registration costs in the event such persons wish to register a portion of their shares for subsequent sale. The Company may also incur significant legal and accounting costs in connection with the acquisition of a business opportunity including the costs of preparing Forms 8-K and/or SEC registration statements, agreements and related reports and documents.

### Evaluation of Opportunities

The analysis of new business opportunities will be undertaken by or under the supervision of the Company's Chairman of the Board and CEO. The Company intends to concentrate on identifying prospective business opportunities which may be brought to its attention through present contacts of the Company's officers and directors, such as but not limited to attorneys, accountants, financial advisors, bankers, businessmen and others. From time to time, such contacts may refer their clients, acquaintances and others to the Company. In analyzing prospective business opportunities, the Company will consider such matters as the available technical, financial, and managerial resources; working capital and other financial requirements; history of operation, if any; prospects for the future; nature of present and expected competition; the quality and experience of management services which may be available and the depth of that management; the potential for further research, development, or exploration; specific risk factors not now foreseeable but which then may be anticipated to impact the proposed activities of the Company; the potential for growth or expansion; the potential for profit; the perceived public recognition or acceptance of products, services, or trades; name identification; and other relevant factors. Management of the Company will meet personally with management and key personnel of the firm sponsoring the business opportunity, if such exists, as part of its investigation, and may visit and inspect material facilities, obtain independent analysis or verification of certain information provided, check references of management and key personnel, and take other reasonable investigative measures to the extent of the Company's limited financial resources and management expertise.

It may be anticipated that any opportunity in which the Company participates will present certain risks. Many of these risks cannot be adequately identified prior to selection of the specific opportunity, and stockholders of the Company must, therefore, depend on the ability of management to identify and evaluate such risks. In the case of some of the opportunities available to the Company, it may be anticipated that the promoters thereof have been unable to develop an economically viable business or that such business is in its development stage and there is a risk, even after the Company's participation in the activity and the related expenditure of the Company's funds, that the combined enterprises will still be unable to become economically viable or advance beyond the development stage. Certain opportunities may involve new and untested products, processes, or market strategies which may not succeed. Such risks will be

## Edgar Filing: CELLULAR TECHNICAL SERVICES CO INC - Form 10KSB

assumed by the Company and, therefore, its stockholders.

### Acquisition of Opportunities

In implementing a structure for a particular business acquisition, the Company may become a party to a merger, consolidation, reorganization, joint venture, or licensing agreement with another corporation or entity. It may also purchase stock or assets of an existing business. It should be noted that the Company has limited capital with which to make any acquisitions. Accordingly, it is likely that the consideration utilized to make any acquisitions will primarily consist of equity securities.

In the event that an acquisition transaction is made utilizing primarily equity securities (as is expected to be the case), the percentage ownership of present stockholders will be diluted, the extent of dilution depending upon the amount so issued. Persons acquiring shares in connection with any acquisition of a business may obtain an amount of equity securities sufficient to control the Company. In addition, the Company's directors may, as part of the terms of the acquisition transaction, resign and be replaced by new directors. Any merger or acquisition effected by the Company can be expected to have a significant dilutive effect on the percentage of shares held by the Company's stockholders. Further, if the

5

Company were to issue substantial additional securities in any acquisition transaction, such issuance might have an adverse effect on the trading market in the Company's securities in the future.

It is anticipated that any securities issued in any such reorganization would be issued in reliance on exemptions from registration under applicable federal and state securities laws. In some circumstances, however, as a negotiated element of a transaction, the Company may agree to register such securities either at the time the transaction is consummated, under certain conditions, or at specified times thereafter. The issuance of substantial additional securities and their potential sale into any trading market in the Company's securities may have a depressive effect on such market.

The Company intends to structure a merger or acquisition in such a manner as to minimize Federal and State tax consequences to the Company and to any target company. Under Section 368 of the Internal Revenue Code of 1986, as amended (the "Code"), a statutory merger or consolidation is an exempt transaction and may be tax-free if effected in accordance with State law. A tax-free reorganization may require the Company to issue a substantial number of its securities in exchange for the securities or assets of a target firm. Accordingly, the proportional interests of the stockholders of the Company prior to such transaction or reorganization may be substantially less than the proportional interest of such stockholders in the reorganized entity. Even if a merger or consolidation is undertaken in accordance with the Code, there is no assurance that Federal and State tax regulations will not change in the foreseeable future and result in the Company incurring a significant tax liability.

The manner in which the Company participates in an opportunity will depend on the nature of the opportunity, the respective needs and desires of the Company and other parties, the management of the opportunity, and the relative negotiating strength of the Company and such other management.

## Edgar Filing: CELLULAR TECHNICAL SERVICES CO INC - Form 10KSB

The Company will participate in a business opportunity only after the negotiation and execution of appropriate written agreements. Although the terms of such agreements cannot be predicted, generally such agreements will require specific representations and warranties by all of the parties thereto, will specify certain events of default, will detail the terms of closing and the conditions which must be satisfied by each of the parties prior to such closing, will outline the manner of bearing costs if the transaction is not closed, will set forth remedies on default, and will include miscellaneous other terms.

It is anticipated that the investigation of specific business opportunities and the negotiation, drafting and execution of relevant agreements, disclosure documents, and other instruments will require substantial management time and attention and substantial costs for accountants, attorneys, and others. If a decision is made not to participate in a specific business opportunity, the costs theretofore incurred in the related investigation would likely not be recoverable. Furthermore, even if an agreement is reached for the participation in a specific business opportunity, the failure to consummate that transaction may result in the loss to the Company of the related costs incurred.

Further, companies subject to Section 13 or 15(d) of the Exchange Act must furnish certain information about significant acquisitions, including certified financial statements for the company or companies acquired covering at least two years. Consequently, if targeted acquisition prospects do not have, or are unable to obtain, the requisite certified financial statements, such acquisitions by the Company would appear to be inappropriate.

### Competition

The Company is aware that there are many other public companies with limited assets that are also searching for operating businesses and other business opportunities as potential acquisition or merger candidates. The Company will be in direct competition with these other public companies in its search for business opportunities. In addition, the Company expects to encounter substantial competition in its efforts to attract business opportunities from business development companies, venture capital partnerships and corporations, venture capital affiliates of large industrial and financial institutions, small business investment companies and wealthy individuals. Competition in the search for business opportunities is principally based upon experience in connection with identifying and effecting business acquisitions, financial and personnel resources and technical expertise. Many of these entities have significantly greater experience, financial and personnel resources, and managerial and technical capabilities than the Company and in all likelihood will be in a better position than the Company to obtain access to attractive business opportunities. In view of the Company's limited financial resources and personnel, the Company will be at a significant competitive disadvantage in identifying possible business opportunities and successfully completing a business combination.

Although the Company is subject to regulation under the Exchange Act, management believes the Company will not be subject to regulation under the Investment Company Act of 1940, insofar as the Company will not be engaged in the business of investing or trading in securities. Such Act defines an "investment company" as an issuer which is or holds itself out as being engaged primarily in the business of investing, reinvesting or trading of securities. The Company could be expected to incur significant registration and compliance costs if required to register under the Investment Company



## Edgar Filing: CELLULAR TECHNICAL SERVICES CO INC - Form 10KSB

Act of 1940. Accordingly, management will continue to review the Company's activities from time to time with a view toward reducing the likelihood the Company could be classified as an "investment company".

In the event the Company acquires or merges with a business or business opportunity in certain industries, the Company expects that its business will be subject to various regulations. For example, the telecommunications industry is subject to the provisions of the Telecommunications Act of 1996 and FCC regulations there under, as well as applicable laws and regulations of the various states administered by the relevant state authorities. Certain aspects of the Internet industry are also subject to the Telecommunications Act of 1996 and regulations of the FCC. There can be no assurance that the Company would be able to comply with any such regulations. In addition, regulations may be enacted in the future which may have a material adverse effect on the business of the Company.

### Product Development

For the years ended December 31, 2005, and 2004, the Company incurred no research and development expenditures. The Company ceased research and development efforts in November 2002 with the announcement that it would stop development efforts on its Neumobility product line.

### Sales, Marketing and Distribution

The Company currently has no sales and marketing personnel as all personnel previously employed at its Neumobility division or Isis subsidiary were terminated in late 2002.

### Proprietary Rights

The Company currently owns 14 issued United States patents relating to its former products. The Company's strategy has been to protect its technology and other proprietary rights through patents, copyrights, trademarks, nondisclosure agreements, license agreements and other forms of protection. The Company also actively pursued patent protection for technology and processes involving its products that it believed to be proprietary and to provide a potential competitive advantage for the Company. In addition, the Company has also licensed patents from third parties in an effort to maintain flexibility in the development and use of its technology. The Company also attempted to protect its proprietary rights through the use of nondisclosure agreements with its employees and consultants, and license agreements with customers, which contain restrictions on disclosure, use and transfer of proprietary information. The Company further employs various physical security measures to protect its software source codes, technology and other proprietary rights. See also "Business Risks -- Proprietary Rights" below.

### Employees

As of December 31, 2005, the Company had one part time employee and no full time employees. The Company's employee is not covered by a collective bargaining agreement. The Company may find it necessary to periodically hire part-time clerical, technical or consulting help on an as-needed basis. See also "Business Risks- Dependence on Personnel" below.

### Business Risks

The Company operates in a dynamic and rapidly changing business environment that involves substantial risk and uncertainty. The following discussion addresses some of the risks and uncertainties that could cause, or contribute to causing,

## Edgar Filing: CELLULAR TECHNICAL SERVICES CO INC - Form 10KSB

actual results to differ materially from those expressed or implied in this report or any other disclosures or statements, oral or written, made by or on behalf of the Company. Readers should pay particular attention to the descriptions of risks and uncertainties described below.

**NO CURRENT BUSINESS OPERATIONS:** With no current business operations, the Company's principal business purpose at this time is to locate and consummate a merger or acquisition. There is no assurance the Company's intended merger or acquisition activities will be successful, result in revenue or profit to the Company or result in an increase in the value of its stock. The likelihood of success of the Company must be considered in light of the risks, expenses, difficulties and delays frequently encountered in connection with the operation and development of a new business. There is nothing at this time upon which to base an assumption that any business or business opportunity the Company acquires will prove successful, and there is no assurance that it will be able to operate profitably.

**HISTORY OF NET LOSSES; ACCUMULATED DEFICIT:** The Company incurred net losses of approximately \$0.2 million in 2005, \$0.4 million in 2004 and forecasts spending approximately \$0.3 million in 2006 with no revenue. As of December 31, 2005, the Company had an accumulated deficit of \$28.2 million, the majority of which accumulated during the three years ended December 31, 1998. Since the closures in late 2002 of the Isis subsidiary and Neumobility division, the Company has no current operations. Since then, the Company has been focusing on other business opportunities in its attempt to locate and consummate a merger or acquisition. There can be no assurance, however, that the Company will be

7

able to acquire any business or business opportunity or that any business or business opportunity the Company acquires will prove successful or will be able to operate profitably. There can be no assurance that the Company's operations will be profitable on a quarterly or annual basis in the future. Past revenue levels should not be considered indicative of future operating results. Operating results for future periods are subject to numerous risks and uncertainties, including those specified elsewhere in this report. If the Company is not successful in addressing such risks and uncertainties, the Company's business, financial condition and results of operations will be materially adversely affected.

**NEED FOR ADDITIONAL FINANCING:** The Company's needs for additional financing will depend upon a number of factors, including, but not limited to, the timing and success of potential strategic alliances or acquisitions of businesses, technologies or assets. The Company believes that existing cash reserves will provide sufficient cash to fund its operations for at least the next two years. However, if the Company is unable to achieve positive cash flow or achieves sales growth requiring working capital beyond current amounts, the Company may be required to seek additional financing sooner than currently anticipated or may be required to curtail some of its activities. There can be no assurance that additional financing will be available on acceptable terms, or at all. The Company's failure to obtain such additional financing, if needed, could have a material adverse effect on the Company's business, financial condition and results of operations.

**VOLATILITY OF STOCK PRICE; LIMITED TRADING MARKET:** The market for the Company's common stock is highly volatile and has had limited trading volumes in recent quarters. The trading price of the Company's common stock has been and could

## Edgar Filing: CELLULAR TECHNICAL SERVICES CO INC - Form 10KSB

continue to be subject to wide fluctuations in response to investors' perception of the Company's ability to make an acquisition, changes in the Company's stock market listing status, as well as other events or factors. See "Business Risks -- No Current Business Operations" above and "Nasdaq Listing Requirements" below. Statements or changes in opinions, ratings, or earnings estimates made by brokerage firms or industry analysts relating to the markets in which the Company has competed have resulted, and could in the future result, in an adverse effect on the market price of the Company's common stock. In addition, the stock market has from time to time experienced extreme price and volume fluctuations which often have been unrelated to the operating performance of specific companies. These broad market fluctuations may adversely affect the market price of the Company's common stock.

Only a limited trading market for the Company's common stock currently exists. The market price of the common stock, which currently is listed on the Over The Counter Bulletin Board ("OTCBB") under the symbol CTSC.OB, has, in the past, fluctuated substantially over time and may in the future be highly volatile. In addition, the Company believes that relatively few market makers make a market in the Company's common stock. The actions of any of these market makers could substantially impact the volatility of the Company's common stock.

**PENNY STOCK RULES:** The Company's common stock currently trades on the OTCBB. The stock may be subject to other rules including an SEC rule that imposes additional sales practice requirements on broker/dealers who sell such securities to persons other than established customers and accredited investors (generally institutions with assets in excess of \$5,000,000 or individuals with net worth in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 jointly with their spouses). For transactions covered by the rule, the broker/dealer must make a special suitability determination for the purchaser and have received the purchaser's written agreement to the transaction prior to the sale. Consequently, the rule may affect the ability of stockholders to sell their shares in the secondary market. In addition, SEC rules impose additional sales practice requirements on broker/dealers who sell penny securities. These rules require a summary of certain essential items. The items include the risk of investing in penny stocks in both public offerings and secondary marketing; terms important to an understanding of the function of the penny stock market, such as "bid" and "offer" quotes, a dealers "spread" and broker/dealer compensation; the broker/dealer compensation, the broker/dealer's duties to its customers, including the disclosures required by any other penny stock disclosure rules; the customer's rights and remedies in cases of fraud in penny stock transactions; and the NASD's toll free telephone number and the central number of the North American Securities Administrators Association, for information on the disciplinary history of broker/dealers and their associated persons. The additional burdens imposed upon broker/dealers by such requirements may discourage broker/dealers from effecting transactions in the common stock, which could severely limit the market for the Company's common stock

**COMPETITION FOR BUSINESS OPPORTUNITIES:** The Company is aware that there are many other companies with limited assets that are also searching for operating businesses and other business opportunities as potential acquisition or merger candidates. The Company will be in direct competition with these other companies in its search for business opportunities. In addition, the Company expects to encounter substantial competition in its efforts to attract business opportunities from business development companies, venture capital partnerships and corporations, venture capital affiliates of large industrial and financial institutions, small business investment companies and wealthy individuals. Competition in the search for business opportunities is principally based upon experience in connection with identifying

and effecting business acquisitions, financial and personnel resources and technical expertise. Many of these entities have significantly greater experience, financial and personnel resources, and managerial and technical capabilities than the Company and may be in a better position than the Company to obtain access to attractive business opportunities. In view of the Company's limited financial resources and personnel, the Company will continue to be at a significant competitive disadvantage in identifying possible business opportunities and successfully completing a business combination and there can be no assurance the Company will be able to acquire a business opportunity on terms favorable to the Company.

**STRATEGIC RELATIONSHIPS AND PARTNERSHIPS:** The Company may need to establish and maintain strategic relationships including joint ventures with respect to technology, joint sales and marketing relationships and alliances for new product development and for the creation of new markets. The Company's success may depend on strategic relationships to offer products and services to a larger customer base than can be reached through direct sales efforts. The Company cannot give assurance that it will be able to expand or enter into new relationships or that any such relationships will be on commercially reasonable terms. If the Company is unable to develop strategic relationships, it could lose the benefits anticipated from such relationships.

**GOVERNMENT REGULATION; LEGAL UNCERTAINTIES; PERSONAL DATA:** Although the Company is subject to regulation under the Exchange Act, management believes the Company will not be subject to regulation under the Investment Company Act of 1940, insofar as the Company will not be engaged in the business of investing or trading in securities. Such Act defines an "investment company" as an issuer which is or holds itself out as being engaged primarily in the business of investing, reinvesting or trading of securities. The Company could be expected to incur significant registration and compliance costs if required to register under the Investment Company Act of 1940. Accordingly, management will continue to review the Company's activities from time to time with a view toward reducing the likelihood the Company could be classified as an "investment company."

Although the Company's operations are not currently directly regulated, future operations of the Company may become subject to a variety of United States and foreign governmental laws, regulations and other requirements. The terms of any existing laws, regulations or other requirements, or any changes thereto, may inhibit the growth of certain industries, limit the number of potential customers for the Company's future products and services and/or impede the Company's ability to offer competitive services to its chosen marketplaces or otherwise have a material adverse effect on the Company's business, financial condition and results of operations.

The Company may be subject to claims arising out of content and materials posted in chat rooms or bulletin boards. The Company's commercial liability insurance may not provide adequate protection against these types of claims.

Any new legislation or regulation or new applications of existing laws or regulations could have a material adverse effect on the Company's business, financial condition and results of operations.

**TAXATION:** In any acquisition or merger the Company may undertake, attention will be focused upon federal and state tax consequences to both the Company and the "target" company. Presently, under Section 368 of the Code, a statutory merger or consolidation is an exempt transaction and may be tax-free if effected in accordance with State law. While the Company expects to undertake any merger or acquisition so as to minimize federal and state tax consequences to both the

## Edgar Filing: CELLULAR TECHNICAL SERVICES CO INC - Form 10KSB

Company and the "target" company, there is no assurance that such business combination will meet the statutory requirements of a reorganization or that the parties will obtain the intended tax-free treatment upon a transfer of stock or assets. Additionally, there can be no assurance that the Company's net operating loss carryforwards will be fully available to offset any future taxable income generated by the Company. A nonqualifying reorganization could result in the imposition of both federal and state taxes which may have substantial adverse effect on the Company.

**POSSIBLE USE OF DEBT FINANCING; DEBT OF AN ACQUIRED BUSINESS:** There are currently no limitations relating to the Company's ability to borrow funds to increase the amount of capital available to the Company to effect a business combination or otherwise finance the operations of an acquired business. The amount and nature of any borrowings by the Company will depend on numerous considerations, including the Company's capital requirements, the Company's perceived ability to meet debt service on such borrowings, and then-prevailing conditions in the financial markets, as well as general economic conditions. There can be no assurance that debt financing, if required or otherwise sought, will be available on terms deemed to be commercially acceptable and in the best interest of the Company. The inability of the Company to borrow funds required to effect or facilitate a business combination, or to provide funds for an additional infusion of capital into an acquired business, may have a material adverse effect on the Company's financial condition and future prospects. Additionally, to the extent that debt financing ultimately proves to be available, any borrowings may subject the Company to various risks traditionally associated with incurring of indebtedness, including the risks of interest rate fluctuations and insufficiency of cash flow to pay principal and interest. Furthermore, an acquired business may already have previously-incurred debt financing and, therefore, the risks inherent thereto, as discussed above.

9

**ISSUANCE OF SHARES IN MERGER OR ACQUISITION:** Any acquisition effected by the Company may result in the issuance of additional Common Stock or Preferred Stock without stockholder approval and may result in substantial dilution in the percentage of the Company's securities held by the Company's then-stockholders. Moreover, the Common Stock or Preferred Stock issued in any such merger or acquisition transaction may be valued on an arbitrary or non arm's-length basis by management of the Company, resulting in an additional reduction in the percentage of securities held by the Company's then-stockholders.

**DEPENDENCE ON PERSONNEL; ADEQUATE STAFFING LEVELS AND MANAGEMENT OF GROWTH:**

As the Company has no current business operations, its current staffing level of one part-time employee is adequate to manage the day to day operations. If the Company merges with or acquires another business, the staffing levels will be reassessed.

**INTERNATIONAL OPERATIONS:** To the extent that the Company acquires or merges with an entity which pursues sales opportunities for its products and services in international markets, the Company is and will remain subject to all the risks inherent in international sales activities, such as lengthy sales cycles, high costs of sales, changes in export, import, tariff and other trade regulations, currency exchange rates, foreign tax laws and other legal, economic and political conditions. There can be no assurance that the occurrence of any of the foregoing will not have a material adverse effect on the Company's business, financial condition and results of operations. Further, the laws of certain

## Edgar Filing: CELLULAR TECHNICAL SERVICES CO INC - Form 10KSB

foreign countries do not protect the Company's intellectual property to the same extent as the laws of the United States. See "Proprietary Rights" (below). In certain international markets, the Company may need to modify its products or develop new or additional products to adapt to the different standards utilized in such markets. There can be no assurance that the Company's marketing efforts and technological enhancements will result in successful commercialization or market acceptance or penetration in such international markets. If the Company is unable to adequately anticipate and respond to marketing or technological requirements in the international marketplace, the Company's business, financial condition and results of operations could be materially adversely affected.

**PROPRIETARY RIGHTS:** In past years the Company has depended in part on its ability to protect its technology, processes, trade secrets and other proprietary rights from unauthorized disclosure and use and operate the same without infringing the proprietary rights of third parties. The Company's strategy has been to protect its technology and other proprietary rights through patents, copyrights, trademarks, nondisclosure agreements, license agreements and other forms of protection.

Patents issued and patent applications filed relating to products used in the Company's prior markets are numerous, and the patent positions of companies in these industries, including the Company, are generally uncertain and involve complex legal and factual issues. Accordingly, there can be no assurance that any pending or future patent application of the Company or its licensors will result in issuance of a patent or that, when a patent is issued, that the scope of protection of the patent will be sufficiently broad to protect the Company's technology or provide a competitive advantage for the Company. There can be no assurance that any issued patent will not be challenged, invalidated or circumvented. Litigation or regulatory proceedings, which could result in substantial cost and uncertainty to the Company, may be necessary to enforce patent or other proprietary rights of the Company or to determine the scope and validity of a third-party's proprietary rights. There can be no assurance that the Company will succeed or will have the resources necessary to succeed in any such litigation or regulatory proceedings.

Although the Company believes that the technology in its prior products was independently developed and that its products did not infringe patents known to be valid or violate other proprietary rights of third parties, it is possible that such infringement of existing or future patents or violation of proprietary rights may occur. There can be no assurance that the Company is aware of all third-party proprietary rights that may materially affect the Company's past products and services. United States patent applications, for example, are confidential while pending at the United States Patent and Trademark Office, and the laws of many foreign countries do not protect proprietary rights to the same extent as the laws of the United States. There can be no assurance that third parties will not assert infringement claims with respect to the Company's past products or services, or that any such claims will not result in litigation or regulatory proceedings or require the Company to modify its products or enter into licensing arrangements, regardless of the merits of such claims. See "Business Risks -- Risk of Litigation" below. No assurance can be given that the Company will have the resources necessary to successfully defend against any such infringement claims or that any necessary licenses could be obtained in a timely manner, upon commercially reasonable terms, or at all. The Company's failure to successfully defend against any such claims or obtain any such license could result in substantial cost and uncertainty to the Company and have a material adverse effect on the Company's business, financial condition or results of operations.

RISK OF LITIGATION: From time to time, the Company may be a party to legal proceedings, which may or may not be in the ordinary course of business and which may have a material adverse effect on the Company's business, financial condition or results of operations. See also "Item 3 -- Legal Proceedings" below.

Item 2. Description of Property

The Company is currently utilizing the Chairman's office located in a building of which he is a one-third owner, at 20 East Sunrise Highway, Valley Stream, NY 11581, as its Corporate Office, at no charge.

Item 3. Legal Proceedings

From time to time, the Company is involved with or could be subject to involvement with legal actions and claims which arise in the ordinary course of business which management believes will be resolved without a material adverse effect on the Company's business, financial condition or results of operations. The Company is not currently aware of any legal proceedings, threatened litigation, or asserted claims.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders of the Company, through solicitation of proxies or otherwise, during the fourth quarter of the fiscal year covered by this Annual Report.

11

PART II

Item 5. Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities

The following table sets forth, for each quarter during the period from January 1, 2004 through December 31, 2005 the reported high and low sales prices of the Company's Common Stock on the Over The Counter Bulletin Board ("OTCBB") (Symbol: "CTSC.OB").

	Sales Price	
	High	Low
	----	---
2004		
----		
First Quarter	0.78	0.72
Second Quarter	0.80	0.72
Third Quarter	0.80	0.73
Fourth Quarter	0.76	0.68
2005		
----		
First Quarter	1.05	0.75
Second Quarter	1.95	0.76

## Edgar Filing: CELLULAR TECHNICAL SERVICES CO INC - Form 10KSB

Third Quarter	2.94	1.55
Fourth Quarter	2.26	1.75

As of December 31, 2005, the number of holders of record of the Company's Common Stock was 207, and the number of beneficial stockholders was estimated to be in excess of 3,000.

There were no dividends paid or other distributions made by the Company with respect to its Common Stock during 2005 or 2004 and the Company has no plans for any such payments in the future.

### Equity Compensation Plan Information

The following table provides information about the Company's equity compensation plans as of December 31, 2005:

Plan Category	A Number of securities to be issued upon exercise of outstanding options, warrants and rights	B Weighted average exercise price of outstanding options, warrants and rights securities reflected in column (A)	Number of available under equ (excludin reflected
Equity compensation plans approved by security holders	174,600	\$8.13	
Equity compensation plans not approved by security holders	--	--	
Total	174,600	\$8.13	

12

### Item 6. Management's Discussion and Analysis or Plan of Operation.

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of the Company's results of operations and financial condition. The discussion should be read in conjunction with the financial statements and notes thereto. Unless the context otherwise requires, all references to the "Company" herein include Cellular Technical Services Company, Inc. and any entity over which it has or shares operational control.

#### Special Note Regarding Forward-Looking Statements

This Annual Report on Form 10-KSB contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that reflect the Company's views with respect to future events and financial performance. The Company uses words and phrases such as "anticipate," "expect," "intend," "the Company believes," "future," and similar words and phrases to identify forward-looking statements. Reliance should not be placed on these forward-looking statements. These forward-looking statements are based on current expectations and are subject to risks, uncertainties and assumptions that could cause, or contribute to causing actual results to differ materially from those expressed or implied in the applicable statements. Readers should pay



## Edgar Filing: CELLULAR TECHNICAL SERVICES CO INC - Form 10KSB

particular attention to the descriptions of risks and uncertainties described in this report and in the Company's other filings with the Securities and Exchange Commission. All forward-looking statements included in this report are based on information available to the Company on the date of this report. The Company assumes no obligation or duty to update any such forward-looking statements.

### Critical Accounting Policies and Estimates

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's 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 the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to revenue recognition, product returns, bad debts, inventories, investments, intangible assets, contingencies and litigation. The Company bases its 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. A more detailed discussion on the application of these and other accounting policies can be found in Note A in the Notes to the Consolidated Financial Statements in Item 7 of this Annual Report on Form 10-KSB. Actual results may differ from these estimates under different assumptions or conditions.

### Basis of Accounting

On November 9, 2002, the Company ceased development efforts of Neumobility, and on December 11, 2002 adopted a plan to wind down the operations of Isis and liquidate the related net assets, which it has done. As a result, the Company currently has no business. Management has no plan to liquidate the Company and distribute the remaining assets to stockholders. Further, management believes that its cash balances as of December 31, 2005 of approximately \$3.6 million are sufficient to fund its current cash flow requirements through at least the next twelve months.

Based on management plans, these financial statements have been prepared under the "going concern" assumption which presumes that the Company will continue its existence for the foreseeable future and is not subject to imminent liquidation.

### Revenue Recognition

The company generated no revenues during 2005 and 2004.

### Long-Term Investment

The Company accounts for its investment in TruePosition, Inc. under the cost method, as the Company does not have the ability to exercise significant influence. Under the cost method of accounting, an investment in a private company is carried at cost and adjusted only for other-than-temporary declines in fair value, distributions of earnings and additional investments. The Company periodically evaluates whether the declines in fair value of its investment are other-than-temporary. This evaluation consists of review of qualitative and quantitative factors by members of senior management

## Edgar Filing: CELLULAR TECHNICAL SERVICES CO INC - Form 10KSB

as well as market prices of comparable public companies. The Company receives periodic financial statements to assist in reviewing relevant financial data and to assist in determining whether such data may indicate other-than-temporary declines in fair value below the Company's accounting basis. When the Company determines the fair value of the investment had an other-than-temporary decline, an impairment write-down is recorded.

### Overview

The Company has developed, marketed, distributed and supported a diversified mix of products and services for the telecommunications industry. Over the past 15 years, the Company developed expertise in real-time wireless call processing and has created technologically advanced solutions for this industry, focusing primarily in the area of wireless communications fraud management, geo-location wireless software applications and sales of prepaid long-distance phonecard products.

On November 9, 2002, CTS ceased development efforts of Neumobility, and on December 11, 2002 adopted a plan to wind down the operations of Isis, which it has done. As a result, as of December 31, 2005 CTS has no current business. Management currently has no plan to liquidate the Company and distribute the remaining assets to stockholders. During 2005, 2004 and to date, management has been and will be evaluating alternative businesses and acquisitions. There is no assurance that such alternative businesses and acquisitions can be identified before CTS spends all of its remaining cash balances, that CTS will be able to raise money at acceptable terms, if at all, to fund the acquisitions and/or the operating activities of the businesses it may acquire, and that the acquired businesses will represent viable business strategies and/or will be consistent with the expectations and risk profiles of CTS' stockholders.

Management expects that during 2006 the Company will incur costs of approximately \$0.3 million, primarily related to costs of maintaining the business as a public entity and insurance. The Company does not have any current source of revenue and has no operations. Accordingly, management believes that its cash balances as of December 31, 2005 of approximately \$3.6 million are sufficient to fund its current cash flow requirements through at least the next twelve months.

### Revenue and Expense

#### Revenue

The Company had no revenue in 2005 or 2004.

#### Costs and Expenses

General and administrative expenditures include the costs of executive, finance and administrative support functions, provisions for uncollectible accounts and costs of legal and accounting professional services.

Year ended December 31, 2005 compared to year ended December 31, 2004

### Overview

Total revenues remained at zero in 2005 as they were in 2004. Net loss was \$228,000 or \$0.06 per share, compared to a net loss of \$444,000 or \$0.18 per share in 2004.

## Edgar Filing: CELLULAR TECHNICAL SERVICES CO INC - Form 10KSB

The \$216,000 decrease in net loss for 2005 in comparison to 2004 is due to the completion of the wind down of all operations.

### Costs and expenses

General and administrative expenses decreased 33% to \$318,000 in 2005 from \$473,000 in 2004, due to overhead reductions as compared to the prior year.

### Interest Income, net

Net interest income increased to \$90,000 in 2005 from \$29,000 in 2004. This increase is attributable to higher interest rates earned on invested cash balances in the current year compared to prior year and higher cash balances on which interest was earned.

### Income Tax Expense

The Company recognized no income tax expense in either 2005 or 2004.

### Liquidity and Capital Resources

The Company's working capital increased to \$3.5 million at December 31, 2005 from \$2.1 million at December 31, 2004, due to the issuance of new capital stock.

Net Cash used in operating activities amounted to \$0.2 million in 2005, compared to \$0.5 million in 2004 and related to the net loss

Net cash provided by financing activities was \$1.6 million at December 31, 2005 and \$0.0 at December 31, 2004. The increase was due to the issuance of capital stock.

### Off-Balance Sheet Arrangements, Aggregate Contractual Obligations, Certain Trading Activities and Transactions with Related and Certain Other Parties

The Company has no disclosed or undisclosed off-balance sheet arrangements. The Company has no current future operating lease commitments. The Company has no purchase obligations, long-term debt or liabilities, capital lease obligations, operating leases or other long-term liabilities. The Company has not engaged in any trading activities involving non-exchange traded commodity contracts. The Company has no material transactions with related parties or other parties able to negotiate terms that would be more favorable than those available to clearly independent third parties.

### Operating Trends

Since 2003 when it wound down the operations of Isis, which it has done, the Company had no business. Management has no plan to liquidate the Company and distribute the remaining assets to stockholders. During 2004, 2005 and to date, the Company has been and will be evaluating alternative businesses and strategic acquisitions. There is no assurance that such alternative businesses and strategic acquisitions can be identified before CTS spends all of its remaining cash balances, that CTS will be able to raise money at acceptable terms, if at all, to fund the acquisitions and/or the operating activities of the businesses it may acquire, and that the acquired businesses will represent viable business strategies and/or will be consistent with the expectations and risk profiles of CTS' stockholders.

Edgar Filing: CELLULAR TECHNICAL SERVICES CO INC - Form 10KSB

Management expects that during 2006 the Company will incur costs of approximately \$0.3 million, primarily related to costs of maintaining the business as a public entity and insurance. The Company is not expected to have any significant revenues or operations. Accordingly, subject to a potential acquisition or other investment, management believes that its cash balances as of December 31, 2005 of approximately \$3.6 million are sufficient to fund its current cash flow requirements through at least the next twelve months.

There can be no assurance that the Company's operations will be profitable on a quarterly basis in the future or that past revenue levels can be achieved, sustained or enhanced. Past and existing revenue levels should not be considered indicative of future operating results. The Company will use its cash and cash flow to cover operating expenses for general and administrative activities, potential acquisitions that may arise, and for other general corporate purposes.

15

16

Item 7. Financial Statements

The following financial statements of Cellular Technical Services Company, Inc. are included as required to be filed by Item 7.

Report of Stonefield Josephson, Inc., Independent	
Registered Public Accounting Firm .....	19
Consolidated Balance Sheets at December 31, 2005 and 2004 .....	20
Consolidated Statements of Operations for the years ended	
December 31, 2005 and 2004 .....	21
Consolidated Statements of Cash Flows for the years ended	
December 31, 2005 and 2004 .....	22
Consolidated Statements of Stockholders' Equity for the	
years ended December 31, 2005 and 2004 .....	23
Notes to Consolidated Financial Statements .....	24

17

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

=====  
The Board of Directors and Stockholders  
Cellular Technical Services Company, Inc.  
Valley Stream, New York

We have audited the accompanying consolidated balance sheet of Cellular

Edgar Filing: CELLULAR TECHNICAL SERVICES CO INC - Form 10KSB

Technical Services Company, Inc. as of December 31, 2005 and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cellular Technical Services Company, Inc. as of December 31, 2005 and the consolidated results of its operations and cash flows for the years ended December 31, 2005 and 2004, in conformity with accounting principles generally accepted in the United States of America,

/s/ Stonefield Josephson, Inc.

Stonefield Josephson, Inc.  
Certified Public Accountants

March 5, 2006

18

CELLULAR TECHNICAL SERVICES COMPANY, INC.

CONSOLIDATED BALANCE SHEETS  
(in 000's)

	December 31, 2005	December 31, 2004
	----	----
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents .....	\$ 3,555	\$ 2,199
LONG-TERM INVESTMENT, net of valuation		

Edgar Filing: CELLULAR TECHNICAL SERVICES CO INC - Form 10KSB

adjustment of \$1,754 in 2005 and 2004 .....	--	--
	-----	-----
TOTAL ASSETS .....	\$ 3,555	\$ 2,199
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities .....	\$ 81	\$ 86
Commitments and contingencies .....	--	--
STOCKHOLDERS' EQUITY		
Preferred Stock, \$.01 par value per share, 5,000 shares authorized, none issued and outstanding .....	46	25
Common Stock, \$.01 par value per share, 30,000 shares authorized, 4,587 shares issued and outstanding in 2005 and 2,487 shares issued and outstanding in 2004 .....		
Additional Paid-in Capital .....	31,663	30,095
Accumulated deficit .....	(28,235)	(28,007)
	-----	-----
Total Stockholders' Equity .....	3,472	2,113
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY .....	\$ 3,555	\$ 2,199
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

19

CELLULAR TECHNICAL SERVICES COMPANY, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS

(in 000's, except per share amounts)

	Year Ended December 31,	
	2005	2004
REVENUES .....	--	--
COSTS AND EXPENSES		
General and administrative .....	318	473
Total Costs and Expenses .....	318	473
LOSS FROM OPERATIONS .....	(318)	(473)
OTHER INCOME, net .....	--	--
INTEREST INCOME, net .....	90	29
LOSS BEFORE TAX .....	(228)	(444)

Edgar Filing: CELLULAR TECHNICAL SERVICES CO INC - Form 10KSB

PROVISION FOR INCOME TAX .....	--	--
NET LOSS .....	(228)	\$ (444)
BASIC AND DILUTED SHARE DATA:		
(LOSS) PER SHARE - Basic & Diluted .....	\$ (0.06)	\$ (0.18)
Weighted Average Shares Outstanding -Basic and Diluted .....	3,780	2,470

The accompanying notes are an integral part of these consolidated financial statements.

20

CELLULAR TECHNICAL SERVICES COMPANY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in 000's)

	Year Ended December 31,	
	2005	2004
OPERATING ACTIVITIES		
Net loss .....	\$ (228)	\$ (444)
Adjustments to reconcile net loss to net cash used in operating activities:		
Non cash compensation expense (restricted stock) .....	14	52
Loss (Gain) on disposal of assets .....	--	6
Changes in operating assets and liabilities:		
Decrease in accounts receivable, net ....	--	11
Decrease in prepaid expenses and deposits .....	--	13
Decrease in accounts payable and accrued liabilities .....	(5)	(29)
Decrease in payroll related liabilities .....	--	(61)
NET CASH USED IN OPERATING ACTIVITIES .....	(219)	(452)
FINANCING ACTIVITIES		
Issuance of Common Stock .....	1,575	--

Edgar Filing: CELLULAR TECHNICAL SERVICES CO INC - Form 10KSB

NET CASH PROVIDED BY FINANCING ACTIVITIES .....	1,575	--
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS .....	1,356	(452)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR .....	2,199	2,651
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF YEAR .....	\$ 3,555	\$ 2,199
	-----	-----

The accompanying notes are an integral part of these consolidated financial statements.

21

CELLULAR TECHNICAL SERVICES COMPANY, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In 000's)

	Common Stock		Additional	Accumulated	Total
	Shares	Amount	Paid-in Capital	Deficit	
	-----	-----	-----	-----	-----
Balance, December 31, 2003	2,450	\$ 25	\$ 30,043	\$ (27,563)	\$ 2,505
Restricted stock for services rendered	37		52		52
Net loss	--	--	--	(444)	(444)
				-----	-----
Balance, December 31, 2004	2,487	\$ 25	\$ 30,095	\$ (28,007)	\$ 2,113
	-----	-----	-----	-----	-----
Common Stock Issued	2,100	21	1,554		1,575
Restricted stock issued for services rendered			14		14
Net Loss	--	--	--	(228)	(228)
	=====	=====	=====	=====	=====
Balance, December 31, 2005	4,587	\$ 46	\$ 31,663	\$ (28,235)	\$ 3,474
	=====	=====	=====	=====	=====

The accompanying footnotes are an integral part of these consolidated financial statements.

22



# Edgar Filing: CELLULAR TECHNICAL SERVICES CO INC - Form 10KSB

CELLULAR TECHNICAL SERVICES COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE A - BASIS OF PRESENTATION:

Until December 11, 2002 Cellular Technical Services Company, Inc. ("CTS" or the "Company") through its majority-owned subsidiary, Isis Tele-Communications, Inc. ("Isis"), operated as a distributor and a reseller of prepaid long distance and wireless products, primarily in Boston and Los Angeles metropolitan areas. In addition, until November 9, 2002, CTS, through its Neumobility division, was engaged in the development of geo-location wireless software applications. Neumobility was in the development stage throughout all years presented and had no revenue or customers. On November 9, 2002, CTS ceased development efforts of Neumobility, and on December 11, 2002 adopted a plan to wind down the operations of Isis and sell the related net assets, which it has done.

As a result, CTS has no current business. Management currently has no plan to liquidate the Company and distribute the remaining assets to stockholders. Management has been and will be evaluating alternative businesses and acquisitions. There is no assurance that such alternative businesses and acquisitions can be accomplished before CTS spends all of its remaining cash balances, that CTS will be able to raise money at acceptable terms, if at all, to fund the acquisitions and/or the operating activities of the businesses it may acquire, and that the acquired businesses will represent viable business strategies and/or will be consistent with the expectations and risk profiles of CTS' stockholders.

Based on management plans, these financial statements have been prepared under the "going concern" assumption which presumes that the Company will continue its existence.

Management expects that during 2006 the Company will incur costs of approximately \$0.3 million, primarily related to employee compensation and severance, costs of maintaining the business as a public entity and insurance. The Company does not expect to have any current source of revenues and has no operations. Accordingly, management believes that its cash balances as of December 31, 2005 of approximately \$3.5 million are sufficient to fund its current cash flow requirements through at least the next twelve months.

Unless the context otherwise requires, all references to the "Company" herein include Cellular Technical Services Company, Inc. and any entity over which it has control.

## NOTE B - SIGNIFICANT ACCOUNTING POLICIES

### Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries Isis Telecommunications Inc. and Communication Information Svcs. Inc. All inter-company accounts and transactions have been eliminated in consolidation.

### Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles

## Edgar Filing: CELLULAR TECHNICAL SERVICES CO INC - Form 10KSB

generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The Company has used estimates in determining the carrying value of its long term investment, property and equipment, reserves for inventories and uncollectible accounts receivable, deferred revenues, and certain other provisions.

### Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

**Equivalent:** For purposes of the statement of cash flows, cash equivalents include all highly liquid debt instruments with original maturities of three months or less which are not securing any corporate obligations.

**Concentration:** The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

23

### Fair Values of Financial Instruments

At December 31, 2005 the Company has the following financial instruments: cash and cash equivalents, long-term stock investment, accounts payable and accrued liabilities. The carrying value of cash and cash equivalents, accounts payable and accrued liabilities approximates their fair value based on the liquidity of these financial instruments or based on their short-term nature.

### Diversification of Credit Risk

The Company is subject to concentrations of credit risk primarily from cash investments. Credit risk from cash investments is managed by diversification of cash investments among institutions and by the purchase of investment-grade commercial paper securities. The estimated fair values of the securities approximate cost.

### Long-Term Investment

The Company accounted for its investment in TruePosition, Inc. under the cost method, as the Company did not have the ability to exercise significant influence. Under the cost method of accounting, an investment in a private company is carried at cost and adjusted only for other-than-temporary declines in fair value, distributions of earnings and additional investments. The Company periodically evaluated whether the declines in fair value of its investment are other-than-temporary. This evaluation consisted of review of qualitative and quantitative factors by members of senior management as well as market prices of comparable public companies. The Company received periodic financial statements and appraisal information to assist in reviewing relevant financial data and to assist in determining whether such data may indicate other-than-temporary declines in fair value below the Company's accounting basis. When the Company determined the fair value of the investment had an other-than-temporary decline, an impairment write-down was recorded. There were no impairments in 2005 or 2004. (See Note C)

## Edgar Filing: CELLULAR TECHNICAL SERVICES CO INC - Form 10KSB

### Revenue Recognition

Historically, the Company has generated revenues through three sources: (1) prepaid phonecard sales, (2) systems revenues, consisting primarily of bundled hardware and software products, and (3) services revenues, consisting primarily of hardware and software maintenance and related support services. There were no systems revenues recognized after December 31, 2000, and no service revenues recognized after December 31, 2001.

### Segment Reporting

The Company's historical operations have consisted of two segments, (i) telecom hardware/software integrated information processing and information management systems for the wireless communications industry, including anti-fraud and geo-location wireless applications, and (ii) phone-card distribution, however, the company currently has no revenue.

### Income Taxes

The Company follows the liability method of accounting for income taxes whereby deferred tax assets and liabilities are determined based on differences between financial reporting basis and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. The Company provides a valuation allowance for deferred tax assets that cannot be currently recognized due to the cumulative losses incurred by the Company.

24

### Net Loss Per Share

Basic loss per share is computed by dividing net earnings or loss by the weighted average number of common shares outstanding for the period. Diluted earnings or loss per share reflects the potential dilution of securities by including other common stock equivalents (i.e. stock options) in the weighted average number of common shares outstanding for a period, if dilutive. Outstanding stock options of 174,600 and 192,800 at December 31, 2005 and 2004, respectively, were excluded from the computation of dilutive earnings per share because their effect was anti-dilutive. Weighted average restricted shares outstanding, net of treasury stock method, of 32,405 for each of the years ended December 31, 2005 and 2004, were excluded from the computation of diluted earnings per share because their effect was anti-dilutive.

### Comprehensive Income

The Company has no items of other comprehensive income or loss, and accordingly, a statement of comprehensive income has not been presented.

### Stock-Based Compensation

As provided for by SFAS No. 123 - Accounting for Stock-Based Compensation, the Company has chosen to measure stock-based compensation cost under the intrinsic-value method prescribed under Accounting Principles Board Opinion No. 25 and has adopted only the disclosure provisions of SFAS 123. As the Company issues options with exercise prices equal to market value on the date of grant, compensation expense is not recognized. Stock compensation expense for options granted to non-employees has been determined in accordance with SFAS 123 and

## Edgar Filing: CELLULAR TECHNICAL SERVICES CO INC - Form 10KSB

Emerging Issues Task Force ("EITF") Issue No. 96-18 as the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measured.

25

The pro forma information regarding net income (loss) and earnings (loss) per share is required by SFAS 123, which has been updated by SFAS No. 148 - Accounting for Stock-Based Compensation - Transition and Disclosure, and has been determined as if the Company had accounted for its employee stock options under the fair value method of those statements. In that regard, the fair value for options granted during 2005 and 2004 was estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions for 2005 and 2004.

	2005	2004
	-----	-----
Risk-free interest rate	3.15%	3.6%
Dividend yield	0.0%	0.0%
Volatility factor	1.05%	1.06%
Expected life of the options (years)	5.7	4.0
Fair value of options granted during the year	\$ 0.00	\$ 0.53

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the respective vesting periods. The Company's pro forma information follows (in 000's, except per share amounts):

	2005	2004
	-----	-----
Net income (loss)	\$ (228)	\$ (444)
Add: Stock-based compensation as reported	14	57
Deduct: Total stock-based compensation expense determined under fair value method for all awards, net of taxes	0	159
Net income (loss) - pro forma	\$ (214)	\$ (546)
	=====	=====
Basic earnings (loss) per share - as reported	\$ (0.06)	\$ (0.18)
Basic earnings (loss) per share - pro forma	\$ (0.06)	\$ (0.22)
Diluted earnings (loss) per share - as reported	\$ (0.06)	\$ (0.18)
Diluted earnings (loss) per share - pro forma	\$ (0.06)	\$ (0.22)

There was no compensation expense related to stock option grants recorded by the Company during the years 2005 and 2004. In 2005 and 2004 the Company recorded \$14,000 and \$52,000 in compensation expense related to restricted stock grants, respectively.

Stockholders approved the Company's 2002 Stock Incentive Plan at the June 5, 2003 Annual Meeting. The Company has issued 158,000 shares of restricted stock vesting in 2003 and 2004, and 37,000 shares of restricted stock vesting in 2004 and 2005, to its directors. The fair market value of the stock issued was \$0.66 per share on June 5, 2003 and \$0.73 per share on June 8, 2004. Compensation expense equal to the fair value of the stock on the measurement date (the date of stockholder approval) is being recognized over the stock vesting period (one year). Deferred stock compensation equal to the remaining compensation expense to be recognized over the stock vesting period has been recognized as Common Stock on the balance sheet, offset by deferred stock compensation of \$13,505 included in additional paid-in-capital in stockholders' equity.

## Edgar Filing: CELLULAR TECHNICAL SERVICES CO INC - Form 10KSB

### Recent Accounting Pronouncements

In December 2005, the FASB issued SFAS No.123 (revised 2005), "Share-Based Payment". SFAS 123(R) will provide investors and other users of financial statements with more complete and neutral financial information by requiring that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. Statement 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 123(R) replaces SFAS 123, and supersedes APB Opinion No. 25. SFAS 123, as originally issued in 1995, established as preferable a 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 APB Opinion 25, as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair-value-based method been used. The Company will be required to apply SFAS 123(R) as of the first interim or annual reporting period that begins after December 15, 2006. Management is evaluating the impact of the adoption of SFAS 123(R).

26

### NOTE C - LONG TERM INVESTMENT:

In November 1999, the Company invested in a one-year, \$1.0 million 10% convertible note of KSI, Inc. ("KSI"). The Company also received warrants to purchase KSI common stock in connection with this investment. All of the outstanding stock of KSI, Inc. was acquired by TruePosition, Inc., a subsidiary of Liberty Media Corporation, ("Liberty Media") in August 2000. Prior to the acquisition, the convertible note was exchanged for KSI common stock. The Company exercised warrants and purchased additional KSI common stock for approximately \$754,000. The Company's investment in KSI common stock was exchanged for TruePosition common stock on the date of the acquisition. The Company accounts for the investment in TruePosition using the cost method. In December 2002 the Company received certain valuation information from TruePosition, indicating a range of values for TruePosition. Based upon its review of available information and communications with Liberty Media, the Company concluded there had been an other-than-temporary decline in estimated fair value of its investment, and reduced the recorded carrying value of this investment from its cost basis of \$1,754,000 to zero, representing its best estimate of the current fair value of the Company's investment in the net equity of TruePosition. TruePosition's operations have required significant infusions of cash by Liberty Media to date, and have not generated significant revenues. The Company's investment in TruePosition common stock has been diluted by these advances, which were converted to preferred stock in late 2002. It is possible that in the future the Company may receive proceeds from sale of this investment but no such amount can be estimated at this time.

### NOTE D - COMMITMENTS AND CONTINGENCIES:

As of December 31, 2003, the Company leased office space under a month-to-month, verbal arrangement. During October 2005, the Company ceased operations in Seattle and moved its records to its Chairman's office in New York. At December 31, 2005, there is no current rent expense incurred by the Company. Amounts

## Edgar Filing: CELLULAR TECHNICAL SERVICES CO INC - Form 10KSB

charged to operations under all lease and rental agreements totaled approximately \$0.00 and \$17,000 in 2005 and 2004, respectively.

### NOTE E - EMPLOYEE RETIREMENT SAVINGS PLAN:

The Company has adopted an Employee Retirement Savings Plan covering substantially all employees who have been employed for at least one month and meet certain age and eligibility requirements. Each eligible employee may contribute up to 15% of his or her compensation per year, subject to a maximum limit imposed by federal tax law, into various funds. Under current plan provisions, matching contributions are made by the Company equaling two-thirds of the employee's contribution, subject to a maximum of 6% of compensation contribution by the employee. Company contributions charged to costs and expenses totaled approximately \$0 and \$5,000 in 2005 and 2004, respectively.

### NOTE F - INCOME TAXES:

27

At December 31, 2005, the Company had available for federal income tax purposes net operating loss carryforwards of approximately \$52.4 million which begin to expire in 2007, and research and development tax credits of approximately \$1.2 million that began to expire in 2003. Approximately \$22,000 and \$27,000 of the \$1.2 million expired in 2005 and 2004 respectively. A portion of the net operating loss carryforward (approximately \$28 million) is attributed to the stock option deduction, the tax effect of which will be credited to additional paid-in capital when realized. Certain net operating loss carryforwards of the Company are subject to limitations imposed by Section 382 of the Internal Revenue Code because there was an ownership change of greater than 50% in the Company during 1991.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets are as follows (in 000's):

	December 31, 2005	December 31, 2004
	-----	-----
Deferred tax assets:		
Net operating loss carryforwards	\$ 18,930	\$ 18,441
Research and development credits	1,194	1,217
AMT credits	53	53
	-----	-----
Total deferred tax assets	20,177	19,711
Valuation allowance	(20,177)	(19,711)
	-----	-----
Net deferred tax assets	\$ --	\$ --
	=====	=====

The Company paid Alternative Minimum Tax (AMT) in 2000 and 1999. This created an AMT credit of approximately \$53,000 to be utilized in future tax periods to the extent the regular tax liability exceeds the AMT liability. The Company has provided a valuation allowance of 100% of the net deferred tax asset related to the operating loss carryforward, tax credits and temporary differences. The net changes in the valuation allowance for deferred tax assets were approximately

## Edgar Filing: CELLULAR TECHNICAL SERVICES CO INC - Form 10KSB

\$0.5 million, \$1.3 million in 2003, and 2002, respectively, and were primarily attributable to the net losses in 2003 and 2002 and utilization of net operating loss carryforwards in 2001.

The reconciliation of income tax computed at the U.S. federal statutory tax rate to income tax expense is as follows (in 000's):

	Year Ended December 31,	
	2005	2004
Income tax provision (benefit) at statutory rate of 34%	\$ (78)	\$ (149)
Utilization of net operating loss carryforwards	--	--
Losses producing no current tax benefit	78	149
Alternative minimum tax provision (refunds)	--	--
State income taxes	--	1
Income taxes provision (benefit), current	\$ --	\$ 1

28

### NOTE G - STOCKHOLDERS' EQUITY:

#### Stock Options

Pursuant to the Company's 1991 Qualified Stock Option and 1991 Non-Qualified Stock Option Plans, as amended (the "1991 Plan"), the Company was authorized to grant options to purchase up to (i) 280,000 shares of Common Stock to its officers and key employees, at a price not less than the fair market value per share of Common Stock on the date of grant; and (ii) 120,000 shares of Common Stock to its directors, officers, key employees and others who rendered services to the Company at such price as fixed by the Compensation and Stock Option Committee. Options granted under the 1991 Plans generally vest to the respective option holders at the rate of 20% per year commencing on the first anniversary date of the grant. No new grants may be made under the 1991 Plans.

The Company's 1993 Non-Employee Director Stock Option Plan allows the Company to grant options to purchase up to 70,000 shares of Common Stock. Each non-employee director is to be granted options to purchase: (i) 2,000 shares of Common Stock upon initial appointment as a director of the Company; and (ii) an additional 1,200 shares, in recurring annual increments, at a price equal to the fair market value per share of Common Stock on the date of grant. Options under the Non-Employee Director Plan vest to the respective option holder after one year and have a term of ten years.

The Company's 1996 Stock Option Plan authorizes the grant of both incentive ("ISO") and non-qualified stock options up to a maximum of 335,000 shares of the Company's Common Stock to employees (including officers and directors who are employees) of and consultants to the Company. The exercise price, term and vesting provision of each option grant is fixed by the Compensation and Stock Option Committee with the provision that the exercise price of an ISO may not be less than the fair market value of the Company's Common Stock on the date of grant, and the term of an ISO may not exceed ten years.

Information with respect to the Company's stock options is as follows (in 000's,

Edgar Filing: CELLULAR TECHNICAL SERVICES CO INC - Form 10KSB

except per share amounts):

	Shares Under Option =====	Option Prices =====		Weighted Ave. Exercise Price =====
Balance, January 1, 2004	193	0.66	- 188.75	8.17
Granted	60	0.72	- 0.73	0.73
Canceled	(60)	0.70	- 8.00	2.38
	---	---	---	---
Balance, December 31, 2004	193	0.66	188.75	8.17
Granted	0			
Canceled	(18)	0.66	0.73	0.72
	---	---	---	---
Balance, December 31, 2005	175	0.66	188.75	8.17
	---	====	=====	=====
Exercisable at December 31, 2005	136			
	====			
Available for grant at December 31, 2005	214			
	====			
Common Stock reserved for future issuance	389			
	====			

29

The following table summarizes information concerning outstanding and exercisable stock options as of December 31, 2005 (in 000's except per share amounts):

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 0.66 - \$ 0.99	60	8.08	\$ 0.77	22	\$ 0.8
1.91 - 3.75	30	4.95	2.77	29	2.7
8.00 - 8.38	71	4.46	8.01	71	8.0
11.34 - 29.69	11	4.98	13.31	11	13.3
175.00 - 188.75	3	1.80	180.16	3	180.1
	---			---	
\$ 0.66 - \$ 188.75	175	5.69	\$ 8.13	136	\$ 10.2
	====			====	

Shares under options that were exercisable at December 31, 2005 were 136,000. Average exercise price for options that were exercisable at December 31, 2005



## Edgar Filing: CELLULAR TECHNICAL SERVICES CO INC - Form 10KSB

was \$10.23.

### NOTE H - ACQUISITION OF NEW ENGLAND TELECOM, INC.

On August 10, 2000, the Company announced the acquisition of substantially all of the assets of New England Telecom, Inc. ("NET") through Isis. The agreement included the purchase of approximately \$135,000 in inventory of prepaid phonecards, an employment agreement with the principal NET shareholder, and a two-year earn-out period. The earn-out is calculated on a quarterly basis whereby the former shareholder can earn up to 50% of net profits of the former business, as defined in the agreement, with a maximum contingent total payout of \$1.5 million. The transaction was accounted for using the purchase method of accounting, and, accordingly, the results of NET's operations have been included in the Company's consolidated financial statements from the date of acquisition. The cash purchase price was equal to the value of the inventory assets purchased. There were no liabilities assumed in the transaction. The agreement also provided for 20,000 stock options of Isis to be granted to the former NET shareholder for his employment services with the Company, with a three-year vesting period. Any additional purchase price payments made based on net profit during the earn-out period, as defined in the agreement, have been capitalized as goodwill. Through December 31, 2001, a total of \$130,000 was capitalized. During June 2001, employment of the former shareholder was terminated for breach of his employment contract. At that time all options granted to him were cancelled, as they had not yet vested. In October 2001, the former shareholder filed a claim against the Company, its Chairman, and Isis alleging, among other things, that the Company breached the purchase agreement and the employment contract. During December 2005, the Court dismissed all claims against CTS and its Chairman. During May 2005, this case was settled out of court by payment of a nominal sum to the former shareholder. The expense has been included in General and Administrative Expenses on the Statement of Operations.

### NOTE I - TERMINATION OF NEUMOBILITY DEVELOPMENT AND WIND-DOWN OF OPERATIONS OF ISIS

During the fourth quarter of 2002 the Company made the decision to cease development efforts of the Neumobility platform and applications division. This was due to the uncertainty in both timing and magnitude of future revenue streams combined with the large continuing investment required to sustain, market and support the products. As a result of this decision, in the fourth quarter of 2002 the Company recorded an impairment loss on property and equipment of Neumobility of approximately \$76,000, wrote off prepaid software maintenance contracts of approximately \$26,000 and terminated all employees of Neumobility. Termination benefits were approximately \$80,000 and were all paid before December 31, 2002. Neumobility was a part of the Company's telecom hardware/software segment. No revenues were ever reported from the Neumobility platform. Net earnings (losses) before tax of the telecom hardware and software segment, including the operations of Neumobility in the years ended December 31, 2005 and 2004 were losses of \$0 and \$0.4 million in 2005 and 2004, respectively.

The Company does not intend to produce or sell prepaid phone cards in the future. As a result of this decision, in December 2002 the Company recorded an impairment loss on property and equipment of Isis of approximately \$21,000

30

and terminated the remaining employees of Isis. Termination benefits were insignificant and were all paid before December 31, 2002. Revenues of Isis were

## Edgar Filing: CELLULAR TECHNICAL SERVICES CO INC - Form 10KSB

\$0 in 2005 and 2004. Net earnings (losses) before tax of Isis were approximately \$0 and \$0 million in 2005 and 2004 respectively.

On December 11, 2002, the Company and GTS Prepaid, Inc. ("GTS"), a non-affiliated company, entered into an agreement whereby the Company agreed to (i) transfer to GTS on a consignment basis a portion of its inventory of pre-paid phone cards and (ii) authorize GTS to act as its agent to collect certain accounts receivable. The transaction closed on January 7, 2003. GTS and the Company agreed that GTS would pay to the Company an agreed upon sales price for each of the prepaid phone cards it sold and all accounts receivable collected in installments. On April 8, 2003 GTS and the Company entered into an agreement, in accordance with which GTS would make weekly payments to the Company of \$7,745, including interest at 15% per annum, until the amount owed by GTS was repaid in full. The obligation was secured by a second lien on GTS' assets. At December 31, 2003 the note had been paid in full to CTS and the balance owed by GTS to the Company was zero. At December 31, 2003 GTS did not hold any inventory owned by the Company on a consignment basis as all inventories previously held by GTS were sold, fully collected and proceeds were remitted to the Company.

31

### Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

The Company has had no disagreements with its independent accountants during the periods ended December 31, 2005 and 2004. .

### Item 8A. Controls and Procedures

As of the end of the fiscal year ended December 31, 2005, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, 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 Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective, as of such date, to ensure that required information will be disclosed on a timely basis in its reports under the Exchange Act.

There were no changes in the Company's internal control over financial reporting during the last quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

32

## PART III

### Item 9. Directors, Executive Officers Promoters and Control Persons; In Compliance with Section 16(a) of the Exchange Act

## Edgar Filing: CELLULAR TECHNICAL SERVICES CO INC - Form 10KSB

### Identification of Directors and Executive Officers

The name, age, position with the Company and other information with respect to each of its directors and executive officers is as set forth below.

Name	Age	Position with Company	Year First Elected
Stephen Katz	63	Chairman of the Board of Directors, Chief Executive Officer and Acting President	1988
Lawrence Schoenberg	73	Director	1996
Joshua J. Angel	69	Director	2001
Dr. Phillip Frost		Director	2005
Dr. Jane Hsaio	58	Director	2005
Richard C. Pfenniger	50	Director	2005
Kenneth Block	58	Vice President, Chief Financial Officer and Secretary	--

### Business Experience

Stephen Katz, Chairman of the Board of Directors, was Acting Chief Executive Officer and Acting President from November 1992 until February 1994, at which time he became Chief Executive Officer. Mr. Katz was re-appointed as Acting President in September 1998. Mr. Katz has been Chairman of the Board and a director of the Company since its inception and a member of the Management Committee of the predecessor partnership during the entire period of its existence. From September 1984 until September 1995, Mr. Katz was Chairman of the Board, Chief Executive Officer and until September 1993, President of Nationwide Cellular Service, Inc., which was the Company's majority stockholder until May 1992 and its largest stockholder, owning 34% of its outstanding shares, until September 1995. At that time such shares were distributed to Nationwide's stockholders, immediately prior to Nationwide's merger with MCI Communications Corp. Mr. Katz served as Chief Executive Officer of Global Payment Technologies, Inc. (formerly Coin Bill Validator, Inc.) from May 1996 through March 2003 and as its Chairman of the Board from September 1996 to April 2003. Global Payment Technologies is engaged in the business of currency validation.

Lawrence Schoenberg has been a director since September 1996. Mr. Schoenberg also serves as Director of Government Technology Services, Inc., Merisel, Inc., and Sunguard Data Services, Inc. Former directorships include Systems Center, Inc. (which was sold to Sterling Software, Inc.), SoftSwitch, Inc. (which was sold to Lotus/IBM Corp.), Forecross Corporation, Image Business Systems, Inc., and Penn America Group, Inc. Mr. Schoenberg founded AGS Computers, Inc. in 1967 and served as Chief Executive Officer until 1991. The company was sold to NYNEX in 1988. The microcomputer segment subsequently became a part of Merisel, Inc.

Joshua J. Angel has been a director of the Company since June 2001. Mr. Angel is the founder and Senior Managing Shareholder of Angel & Frankel, P.C., a New York based law firm specializing in commercial insolvency and creditors rights. On January 3, 2006 Angel & Frankel, P.C. merged its practice with Cole, Schotz, Meisel, Forman & Leonard, P.A., a general practice law firm. Mr. Angel currently serves as senior counsel to that firm. Mr. Angel has a B.S. from N.Y.U. and an L.L.B. from Columbia University.

Dr. Phillip Frost, MD. served as Chairman of the Board and Chief Executive Officer of IVAX Corporation from 1987 to 2006. He is Chairman of the Board of Directors of IVAX Diagnostics, Inc. (diagnostic reagent kits). He is a director

## Edgar Filing: CELLULAR TECHNICAL SERVICES CO INC - Form 10KSB

of Northrop Grumman Corporation, (aerospace), Cellular Technical Services Company, Inc. (a corporate shell), Continucare Corporation (healthcare), and Ladenburg Thalmann Financial Services, Inc. (securities brokerage). He is a member of the Board of Trustees of The Scripps Research Institute and is a life member, and former Chairman of the Board of Trustees of the University of Miami. He is Vice Chairman of the Board of Teva Pharmaceutical Industries LTD and co-Vice Chairman of the Board of Governors of the American Stock Exchange

33

Dr. Jane Hsaio Ph.D. in Medicinal Chemistry, University of Illinois, 1973. Founded Innotech Laboratory in 1981. One of the co-founders of IVAX Corporation in 1986, and sold to Teva Pharmaceutical in 2006. Held positions at IVAX as Vice Chairman, Director, Chief Technical Officer and Chairman/CEO/President of IVX Animal Health, a wholly owned subsidiary of IVAX Corporation. Also served as Director of IVAX Diagnostic.

Richard C. Pfenniger, Jr., has been a director of the Company since April 2005. Mr. Pfenniger has been Chief Executive Officer and President of Continucare Corporation (healthcare) since October 2003, and the Chairman of Continucare's Board of Directors since 2002. He served as CEO and Vice Chairman of Whitman Education Group, Inc. (proprietary education) from 1997 until 2003. Mr. Pfenniger is a director of GP Strategies, Inc. (corporate training).

Kenneth Block joined the Company in September 2005 as Secretary and Chief Financial Officer. Since 1991 Mr. Block has been the controller of Shadybrook Charter Corp. and Sunrise Charter Management Corp., each of which is a real estate management company. Mr. Block graduated from Bernard Baruch College with a Bachelors of Business Administration degree. He is a Certified Public Accountant in the State of New York.

The Company's Board of Directors is divided into three classes. The Board is composed of one Class I director, Mr. Angel, two Class II directors, Mr. Schoenberg and Mr. Pfenniger, and one Class III director, Mr. Katz. The terms of the Class I, Class II and Class III directors expire on the dates of the 2007, 2006 and 2006 annual meetings, respectively. At each annual meeting, successors to the class of directors whose term expires at that annual meeting are elected for a three-year term. Officers are elected annually at the discretion of the Board of Directors and serve at the discretion of the Board.

### Item 10. Executive Compensation

The information required by this item is incorporated by reference to the Company's definitive proxy statement relating to its 2006 Annual Meeting of Stockholders under the caption "Executive Compensation and Related Information."

### Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder matters

The information required by this item is incorporated by reference to the Company's definitive proxy statement relating to its 2006 Annual Meeting of Stockholders under the caption "Security Ownership."

### Item 12. Certain Relationships and Related Transactions

The information required by this item is incorporated by reference to the Company's definitive proxy statement relating to its 2006 Annual Meeting of

## Edgar Filing: CELLULAR TECHNICAL SERVICES CO INC - Form 10KSB

Stockholders under the caption "Certain Relationships and Related Transactions."

### Item 13. Exhibits:

- 3.1 Restated Certificate of Incorporation of the Registrant, as amended (1)
- 3.2 Amendment to Restated Certificate of Incorporation of the Registrant (5)
- 3.3 By-Laws of the Registrant (1)
- 3.4 Amendment I to By-Laws of the Registrant, dated October 28, 1993 (3)
- 4.1 Specimen Certificate for Common Stock of Registrant (1)
- 7.1 1991 Qualified Stock Option Plan (as amended as of November 30, 1993) (+) (2)
- 7.2 Amendment to 1991 Qualified Stock Option Plan dated July 11, 1996 (+) (5)
- 7.3 1991 Non-Qualified Stock Option Plan (as amended as of November 30, 1993) (+) (2)
- 7.4 Amendment to 1991 Non-Qualified Stock Option Plan dated July 11, 1996 (+) (5)
- 7.5 1993 Non-Employee Director Stock Option Plan (+) (3)
- 7.6 Amendment to 1993 Non-Employee Director Stock Option Plan dated July 11, 1996 (+) (5)
- 7.7 Amendment to 1993 Non-Employee Director Stock Option Plan dated April 22, 1999 (+) (6)
- 7.8 1996 Stock Option Plan (+) (4)
- 7.9 Amendment to 1996 Stock Option Plan dated December 14, 1998 (+) (4)
- 7.10 2002 Stock Incentive Plan+ (7)
- 14.1 Code of Ethics Pursuant to Section 406 of the Sarbanes-Oxley Act of 2002 (8)
- 21.1 Subsidiaries of the Registrant (9)

34

- 23.1 Consent of Stonefield Josephson, Inc., independent auditors (9)
- 31.1 Rule 13a-14(a)/15d-14(a) Certification by CFO (9)
- 31.2 Rule 13a-14(a)/15d-14(a) Certification by CEO (9)
- 32.1 Section 1350 Certifications (9)
- 99.1 Certification to Section 906 of the Sarbanes-Oxley Act of 2002 (8)

- (+) Management contract or compensation plan or arrangement required to be noted as provided in Item 14(a) (3).
- (1) Incorporated by reference to Registration Statement on Form S-1 declared effective on August 6, 1991 (File No. 33-41176).
- (2) Incorporated by reference to Registration Statement on Form S-8 filed on March 7, 1994 (File No. 33-76128).
- (3) Incorporated by reference to Annual Report on Form 10-K filed on March 30, 1994 for the year ended December 31, 1993 (File No. 0-19437).
- (4) Incorporated by reference to Quarterly Report on Form 10-Q filed on August 8, 1995 for the quarter ended June 30, 1995 (File No. 0-19437).
- (5) Incorporated by reference to Annual Report on Form 10-K filed on March 30, 1999 for the year ended December 31, 1998 (File No. 0-19437).
- (6) Incorporated by reference to Annual Report on Form 10-K filed on March 29, 2000 for the year ended December 31, 1999 (File No. 0-19437).
- (7) Incorporated by reference to Proxy Statement filed April 23, 2005 (File No. 0-19437).
- (8) Incorporated by reference to Annual Report on Form 10-K filed on March 30, 2005 for the year ended December 31, 2003 (File No. 0-19437).
- (9) Filed herewith.

### Item 14. Principal Accountant Fees and Services

Edgar Filing: CELLULAR TECHNICAL SERVICES CO INC - Form 10KSB

The information required by this item is incorporated by reference to the information under the caption "Information About Our Independent Registered Public Accounting Firm" in the Proxy Statement relating to the Company's 2006 Annual Meeting of Stockholders.

35

PART IV

All other schedules have been omitted because they are inapplicable, not required, or the information is included in the financial statements or notes thereto.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Cellular Technical Service Company, Inc.

Registrant

By: /s/ Stephen Katz

-----  
Stephen Katz, Chairman of the Board of Directors and Chief Executive Officer

Date: March 30, 2006

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Stephen Katz

-----  
Stephen Katz, Chairman of the Board of Directors and Chief Executive Officer  
(Principal Executive Officer)  
March 30, 2006

/s/ Richard C. Pfenniger

-----  
Richard C. Pfenniger, Director  
March 30, 2006

/s/ Kenneth Block

-----  
Kenneth Block  
Chief Financial Officer and Secretary  
(Principal Financial and Accounting Officer)  
March 30, 2006

/s/ Joshua J. Angel

-----  
Joshua J. Angel, Director  
March 30, 2005

/s/ Lawrence Schoenberg

-----  
Lawrence Schoenberg, Director  
March 30, 2006

/s/ Phillip Frost

-----  
Phillip Frost, Director  
March 30, 2006

/s/ Jane Hsaio

-----  
Jane Hsaio, Director  
March 30, 2006