CELLULAR TECHNICAL SERVICES CO INC
Form 10QSB
August 01, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC. 20549

FORM 10-QSB

Quarterly Report Pursuant to Section 13 or 15 (d)
of the Securities Exchange Act of 1934

For the quarterly period ended **June 30, 2007**

Commission File Number **0-19437**

CELLULAR TECHNICAL SERVICES COMPANY, INC.
(Exact 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, New York 11581
(Address of Principal Executive Offices)

Issuer's telephone number, including area code **(516) 568-0100**

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes _X_ No___

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes _X_ No___

4,586,758 Common Shares were outstanding as of July 9, 2007

Transitional Small Business Disclosure Format. Yes__ No _X_

CELLULAR TECHNICAL SERVICES COMPANY, INC.

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CELLULAR TECHNICAL SERVICES COMPANY, INC.
PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEET
(UNAUDITED)
(in 000s)

	June 30, 2007
CURRENT ASSETS	
Cash and cash equivalents	$ 3,377
Prepaid Expenses	20
Total Current Assets	$ 3,397
LONG-TERM INVESTMENT, net of valuation adjustment of $1,754	
TOTAL ASSETS	$ 3,397
CURRENT LIABILITIES	
Accounts payable and accrued liabilities	$ 178
Total Current Liabilities	$ 178
Commitments and contingencies	
STOCKHOLDERS EQUITY	
Preferred Stock, $.01 par value per share, 5,000 shares authorized, none issued and outstanding	
Common Stock, $.001 par value per share, 30,000 shares authorized, 4,587 shares issued and outstanding	5
Additional Paid-in Capital	31,704
Accumulated deficit	(28,490)
Total Stockholders Equity	3,219
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 3,397

CELLULAR TECHNICAL SERVICES COMPANY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

(in 000s, except per share amounts)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2007	**2006**	**2007**	**2006**
REVENUES	--			
COSTS AND EXPENSES				
General and administrative	137	74	104	39
Total Costs and Expenses	137	74	104	39
LOSS FROM OPERATIONS	(137)	(74)	(104)	(39)
INTEREST INCOME	86	77	43	42
(LOSS) INCOME BEFORE TAX	(51)	3	(61)	3
PROVISION FOR INCOME TAX	--		--	
NET (LOSS) INCOME	$ (51)	$ 3	$ (61)	$ 3
BASIC AND DILUTED SHARE DATA:				
NET INCOME (LOSS)	$ 0.00	$ 0.00	$ 0.00	$ 0.00
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	4,587	4,587	4,587	4,587
Diluted	4,587	4,654	4,587	4,654

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

CELLULAR TECHNICAL SERVICES COMPANY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in 000s)
(unaudited)

	Six Months Ended June 30, 2007	2006
OPERATING ACTIVITIES		
Net (Loss) Income	(51)	3
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Changes in operating assets and liabilities:		
Increase in prepaid expenses	(20)	(26)
(Decrease) / increase in accounts payable and accrued liabilities	(80)	5
NET CASH USED IN OPERATING ACTIVITIES	(151)	(18)
NET CASH PROVIDED BY INVESTING ACTIVITIES	--	
NET CASH PROVIDED BY FINANCING ACTIVITIES	--	
NET DECREASE IN CASH AND CASH EQUIVALENTS	(151)	(18)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,528	3,555
CASH AND CASH EQUIVALENTS AT END OF PERIOD	3,377	3,537

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

CELLULAR TECHNICAL SERVICES COMPANY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE A -- BASIS OF PRESENTATION AND LIQUIDITY:

The accompanying unaudited condensed consolidated financial statements of Cellular Technical Services Company, Inc. (CTS or the Company) have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The operating results for the six month period ended June 30, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2007. For further information, refer to the financial statements and footnotes thereto included in the Companys Annual Report on Form 10-KSB for the fiscal year ended December 31, 2006 and in the Companys other filings with the Securities and Exchange Commission. Unless the context otherwise requires, all references to CTS or the Company herein include Cellular Technical Services Company, Inc. and any entity over which it has or shares operational control.

CTS has no current business. Management currently has no plan to liquidate the Company and distribute the remaining assets to stockholders. As of early 2004, the Company may be considered as a dormant enterprise in accordance with Statement of Financial Accounting Standards No. 7. The Company 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 the remaining six months of 2007 the Company will incur costs of approximately $0.2 million, primarily related to 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. However, management believes that its cash balance as of June 30, 2007 of approximately $3.4 million is sufficient to fund its current cash flow requirements through at least the next twelve months.

NOTE B -- STOCK OPTIONS:

Pursuant to the Companys 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 Plan 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 Plan.

The Companys 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. No new grants may be made under the 1993 Plan.

The Companys 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 Companys 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 Companys Common Stock on the date of grant, and the term of an ISO may not exceed ten years. The Company has not granted any options under this plan during the six months ended Jun 30, 2007 and year ended December 31, 2006.

Commencing January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R, Share Based Payment (SFAS 123R), which requires all share-based payments, including grants of stock options, to be recognized in the income statement as an operating expense, based on their fair values.

The Company has applied the modified prospective method in adopting SFAS 123R. Accordingly, periods prior to adoption have not been restated. Under the modified prospective method, awards that were granted, modified, or settled on or after January 1, 2006 are measured and accounted for in accordance with SFAS 123R. Unvested equity-classified awards that were granted prior to January 1, 2006 will continue to be accounted for in accordance with SFAS 123, except that all awards are recognized in the results of operations over the remaining vesting periods. The impact of forfeitures that may occur prior to vesting is also estimated and considered in the amount recognized. In addition, the realization of tax benefits in excess of amounts recognized for financial reporting purposes will be recognized as a financing activity in accordance with SFAS 123R.

No tax benefits were attributed to the stock-based compensation expense because a valuation allowance was maintained for substantially all net deferred tax assets. We elected to adopt the alternative method of calculating the historical pool of windfall tax benefits as permitted by FASB Staff Position (FSP) No. SFAS 123R-3, Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards. This is a simplified method to determine the pool of windfall tax benefits that is used in determining the tax effects of stock compensation in the results of operations and cash flow reporting for awards that were outstanding as of the adoption of SFAS 123R.

The following summarizes the activity of the Companys stock options for the six months ended June 30, 2007:

	Shares (in 000s)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Number of shares under option plans:				
Outstanding at January 1, 2007	173	$ 6.20	4.75	$ 37
Granted	--			
Exercised	--			
Canceled or expired	2	188.75		
Outstanding at June 30, 2007	171	$ 4.92	4.29	$ 50
Exercisable at June 30, 2007	170	$ 4.94	4.28	$ 49

The Company did not grant any options during the six months period ended June 30, 2007. Stock option compensation expense was $0 for the six months ended June 30, 2007.

As of June 30, 2007 and December 31, 2006 1,000 stock options with $0.99 weighted average exercise price per share were non vested and none of the non vested stock options were granted, canceled or expired or vested.

As of June 30, 2007, there was $1,000 of total unrecognized compensation cost related to non vested share-based compensation arrangements granted under existing stock option plans. This cost is expected to be recognized over a weighted-average period of 0.25 years. No stock options vested during the six months ended June 30, 2007.

NOTE C -- CONTINGENCIES:

Legal proceedings: The Company is not currently a party to any litigation. However, from time to time, the Company could be subject to involvement in legal actions and claims, which management believes will be resolved without a material adverse effect on the Companys business, financial condition or results of operations.

NOTE D INCOME (LOSS) PER SHARE:

The calculation of basic and diluted income per share is as follows (in 000s, except per share amounts):

	Six Months Ended June 30,		Three Months Ended June 30,	
	2007	2006	2007	2006
Net (Loss) Income (A)	(51)	3	(61)	3
Weighted average number of shares outstanding (B)	4,587	4,587	4,587	4,587
Add: Dilutive effect of employee options (C)	--	67	--	67
Total weighted average number of shares outstanding (C)+(B)=(D)	4,587	4,654	4,587	4,654
Basic Income (Loss) per share (A)/(B)	$ (0.01)	$ 0.00	(0.01)	0.00
Diluted Income (Loss) per share (A)/(D)	$ (0.01)	$ 0.00	(0.01)	0.00

Outstanding stock options of 171,400 at June 30, 2007 and 174,600 at June 30, 2006, were excluded from the computation of diluted earnings per share because their effect was anti-dilutive.

NOTE E — New Accounting Pronouncements

The Company adopted Financial Standards Board Interpretation No. 48 Accounting for Uncertainty in Income Taxes ("FIN 48") an interpretation of FASB Statement 109 ("SFAS 109") on January 1, 2007. As a result of the implementation of FIN 48, we recognized no material adjustment in the liability for unrecognized tax benefits. At the adoption date of January 1, 2007, we had $10,082 of unrecognized tax benefits, all of which would affect our effective tax rate if recognized. At March 31, 2007, we have $10,082 of unrecognized tax benefits.

We recognize interest and penalties related to uncertain tax positions in general and administrative expense. As of March 31, 2007, we have not recorded any provisions for accrued interest and penalties related to uncertain tax positions.

Tax years 2000-2006 remain open to examination by the major taxing jurisdictions to which we are subject.

In September 2006, FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Earlier application is encouraged provided that the reporting entity has not yet issued financial statements for that fiscal year including financial statements for an interim period within that fiscal year. We have determined that the adoption of SFAS 157 will not have a material affect on our consolidated financial position, results of operations, cash flows or financial statement disclosures.

In February 2007, FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities- including an amendment of FASB Statement 115", ("SFAS 159"). This statement provides companies with an option to report selected financial assets and liabilities at fair value. This statement is effective for fiscal years beginning after November 15, 2007 with early adoption permitted. We have determined that the adoption of SFAS 159 will not have a material affect on our consolidated financial position, results of operations, cash flows or financial statement disclosures.

NOTE F — Subsequent Events

Entry into a Material Definitive Agreement.

On July 25, 2007, the Company and SafeStitch LLC, a Virginia limited liability company and all of the holders of the membership interests in SafeStitch LLC (the "SafeStitch Members") entered into a Share Transfer, Exchange and Contribution Agreement (the "Agreement") whereby, at the closing of the transactions contemplated by the Agreement, SafeStitch members will transfer all of their membership interests to CTS in consideration for an aggregate of 11,256,369 newly issued shares of common stock of CTS. As a result of the transaction, the members of SafeStitch will receive approximately 70% of the issued and outstanding shares of CTS. Dr. Jane Hsaio and Dr. Philip Frost, each a director of CTS, are also members of SafeStitch LLC.

As part of and after the closing of the transaction, the Frost Group, an entity controlled by Dr. Philip Frost, has agreed to provide a line of credit to CTS of up to $4,000,000 and will receive warrants to acquire 805,521 shares of the common stock of CTS, equal to 5% of CTS shares on a fully diluted basis after giving effect to the Agreement.

Upon the closing of the transactions contemplated by the Agreement, all current CTS directors except Dr. Hsaio and Richard C. Pfenniger will resign and new directors will be appointed and CTS will be re-named SafeStitch Medical Devices.

At a Board of Directors meeting held July 25, 2007, it was decided that 2,000 shares of the Company's common stock, with an exercise price of $1.62 per share, be issued to each of three directors, in exchange for the surrender and cancellation of an aggregate of 111,600 common stock options, expiring between January 2008 and January 2012, with exercise prices between $2.06 and $29.69.

Item 2. Management□s Discussion and Analysis or Plan of Operations

Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-QSB 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. 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.

The Company files its periodic reports with the SEC in compliance with the "small business issuer" provisions of Regulation S-B, under the Securities Exchange Act of 1934 (the □Exchange Act□). Generally, a Small Business Issuer cannot file under Regulation S-B if its annual revenues or public float exceed $25.0 million for two consecutive years. The Company qualifies as a Regulation S-B filer since its annual revenues for both 2006 and 2005 were less than $25.0 million and its public float has not exceeded $25.0 million. Regulation S-B is tailored for the small business issuer, and although it requires accurate and complete disclosure, it does not require certain specific disclosures which are required under Regulation S-K and Regulation S-X.

Management expects that during the last six months of 2007 the Company will incur costs of approximately $0.2 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. There can be no assurance that the Company□s operations will be profitable on a quarterly or annual basis in the future or that revenue levels can be enhanced. Accordingly, subject to a potential acquisition or other investment, management believes that its cash balances as of June 30, 2007 are sufficient to fund its current cash flow requirements through at least the next twelve months; however, unanticipated changes may require additional financing.

The Company has no current business. It is not engaged in any planned product research and development and it does not anticipate doing so in the future. The Company has disposed of all of its equipment, and has one part time employee.

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Item 3. Controls and Procedures

The Company maintains a system of disclosure controls and procedures that is designed to provide reasonable assurance that information, which is required to be disclosed by the Company in the reports that it files or submits under the Exchange Act, is accumulated and communicated to management in a timely manner. The Company's Chief Executive Officer and Chief Financial Officer have evaluated this system of disclosure controls and procedures as of the end of the period covered by this quarterly report, and believe that the system is operating effectively to ensure appropriate disclosure. There have been no changes in the Company's internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 6. Exhibits

Exhibit 31.1 Rule 13a-14(a) Certification by Chief Financial Officer
Exhibit 31.2 Rule 13a-14(a) Certification by Chief Executive Officer
Exhibit 32.1 Section 1350 Certification
Incorporated by reference to Form 8-K filed July 31, 2007 (File No. 000-19437).

SIGNATURES

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

CELLULAR TECHNICAL SERVICES COMPANY, INC.

By: /s/Kenneth Block
Kenneth Block
Secretary and Chief Financial Officer
August 1, 2007