

SECURITIES AND EXCHANGE COMMISSION

Washington, DC. 20549

FORM 10-Q

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

For the quarterly period ended  
June 30, 2003

Commission File Number 0-19437

CELLULAR TECHNICAL SERVICES COMPANY, INC.  
(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

11-2962080  
(I.R.S. Employer Identification No.)

2815 Second Avenue, Suite 100, Seattle, Washington 98121  
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (206) 733-8180

Not Applicable  
(Former name, former address and former fiscal year, if changed since last  
report.)

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

Indicate by check mark whether the registrant is an accelerated filer  
(as defined in Rule 12b-2 of the Exchange Act). Yes  No

2,449,770 Common Shares were outstanding as of August 14, 2003.

CELLULAR TECHNICAL SERVICES COMPANY, INC.

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

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS  
(in 000's, except per share amounts)

	June 30, 2003 ----- (unaudited)	December 31, 2002 -----
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,498	\$ 3,315
Accounts receivable, net of reserves of \$97 in 2003 and \$233 in 2002	5	525
Amounts due from GTS Prepaid, Inc. (Note B)	278	--
Inventories	--	95
Prepaid expenses, deposits and other current assets	127	58
	-----	-----
Total Current Assets	2,908	3,993
PROPERTY AND EQUIPMENT, net	66	151
LONG-TERM INVESTMENT, net of valuation adjustment of \$1,754 in 2002 and 2003	--	--
	-----	-----
TOTAL ASSETS	\$ 2,974 =====	\$ 4,144 =====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 159	\$ 644
Payroll related liabilities	73	68
Customers' deposits and deferred revenue	--	29
	-----	-----
Total Current Liabilities	232	741
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, 2,450 and 2,292 shares issued and outstanding in 2003 and 2002, respectively	30,103	29,999
Deferred stock compensation	(85)	--
Accumulated deficit	(27,276)	(26,596)
	-----	-----
Total Stockholders' Equity	2,742	3,403
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 2,974 =====	\$ 4,144 =====

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

CELLULAR TECHNICAL SERVICES COMPANY, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(in 000's, except per share amounts)  
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
REVENUES				
Phonecards	\$ 13	\$ 3,331	\$ 171	\$ 5,689
COSTS AND EXPENSES				
Cost of phonecards	14	3,346	217	5,617
Sales and marketing	--	246	28	537
General and administrative	330	343	661	650
Research and development	--	411	--	815
Total Costs and Expenses	344	4,346	906	7,619
LOSS FROM OPERATIONS	(331)	(1,015)	(735)	(1,930)
OTHER INCOME, net	3	2	19	5
INTEREST INCOME, net	23	22	36	51
LOSS BEFORE INCOME TAXES	\$ (305)	(991)	(680)	\$(1,874)
PROVISION FOR INCOME TAXES	--	7	--	7
LOSS BEFORE THE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	(305)	(998)	(680)	(1,881)
CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	--	--	--	(100)
NET LOSS	\$ (305)	(998)	(680)	\$(1,981)
BASIC AND DILUTED SHARE DATA:				
Basic:				
Loss before the effect of a change in accounting principle	\$(0.13)	\$ (0.44)	\$(0.30)	\$ (0.82)
Cumulative effect of a change in accounting principle	--	--	--	(0.04)
Loss per share	\$(0.13)	\$ (0.44)	\$(0.30)	\$ (0.86)
Diluted:				
Loss before the effect of a change in accounting principle	\$(0.13)	\$ (0.44)	\$(0.30)	\$ (0.82)
Cumulative effect of a change in accounting principle	--	--	--	(0.04)
Loss per share	\$(0.13)	\$ (0.44)	\$(0.30)	\$ (0.86)
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	2,292	2,292	2,292	2,292
Diluted	2,298	2,292	2,296	2,292

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

CELLULAR TECHNICAL SERVICES COMPANY, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in 000's)  
(unaudited)

	Six Months Ended June 30,	
	2003	2002
<b>OPERATING ACTIVITIES</b>		
Net loss	\$ (680)	\$(1,981)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of property and equipment	72	124
Non-cash compensation expense (restricted stock)	19	--
Impairment write-off of goodwill	--	100
Loss on disposal of assets	7	--
Changes in operating assets and liabilities:		
Decrease (increase) in receivables, net	242	(88)
Decrease in inventories, net	95	210
Increase in prepaid expenses and deposits	(69)	(187)
Decrease in accounts payable, accrued liabilities and taxes other than payroll or income	(485)	(54)
Increase (decrease) in payroll related liabilities	5	(14)
Decrease in deferred revenue and customers' deposits	(29)	(6)
	(823)	(1,896)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>		
<b>INVESTING ACTIVITIES</b>		
Proceeds from sale of assets	6	--
Long term deposit	--	5
	6	5
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>		
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		
	(817)	(1,891)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>		
	3,315	6,353
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		
	\$2,498	\$ 4,462

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

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

NOTE A - BASIS OF PRESENTATION AND LIQUIDITY:

The accompanying unaudited consolidated financial statements of Cellular Technical Services Company, Inc. ("CTS" or the "Company"), including the December 31, 2002 balance sheet which has been derived from audited financial statements, have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. 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 three- and six-month periods ended June 30, 2003 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2003. For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002 and in the Company's 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.

Until December 11, 2002 CTS, 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 the 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. Through December 31, 2001, CTS was also involved in design, development, marketing, installation and support of integrated information processing and information management systems for the domestic wireless communications industry. On November 9, 2002, CTS ceased development efforts of its Neumobility product line, and on December 11, 2002 it adopted a plan to wind down the operations of Isis and sell the related net assets.

As a result, during the three- and six-month periods ended June 30, 2003 CTS had no current business other than to complete the wind down of the operations of Isis. Management anticipates that most of the remaining assets of Isis will be realized, and liabilities settled, in 2003 (see Note B). Management currently has no plan to liquidate the Company and distribute the remaining assets, after settling the liabilities, to stockholders. During 2002 and 2003, 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.

Management expects that during the remaining six months of 2003 the Company will incur costs of approximately \$0.5 million, primarily related to remaining non-cancelable office leases, employee compensation, 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 de minimis operations. Accordingly, management believes that its cash and receivable balances as of June 30, 2003 of approximately \$2.8 million will be sufficient to fund its current cash flow requirements through at least the next 12 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.

Nasdaq requires a minimum \$1.00 bid price for continued listing on the Nasdaq SmallCap Market System. On November 1, 2002 the Company's closing stock price was \$0.71 and the Company received a notice from Nasdaq indicating that because the Company's stock price had not traded at over \$1.00 for 30 days, Nasdaq would have the right to delist its stock if the Company failed to increase its stock price to at least \$1.00 for 10 consecutive trading days before April 30, 2003. On May 1, 2003 the Company received a notice from Nasdaq that since the Company had not regained compliance with the minimum \$1.00 closing bid price per share requirement as set forth in Marketplace Rule 4310(c)(4) that its securities would be delisted from the Nasdaq SmallCap Market at the opening of business on May 12, 2003. Nasdaq additionally noted that its Staff may have otherwise determined to delist the Company's shares under Marketplace Rules 4300 and 4330(a)(3) since the Company was currently in the process of winding down its previous businesses and had de minimis other operations. After reviewing its options, the Company's management and directors determined that the Company would not seek a hearing to appeal this



determination nor seek a reverse stock split of its shares. Effective May 12, 2003, the Company's shares began trading as over the counter securities on the OTCBB under the symbol CTSC.OB. It was anticipated that when the Company's stock was delisted, it would most likely have a material adverse effect on the price of the Company's common stock, could adversely affect the liquidity of the shares held by its stockholders and could severely restrict any ability the Company may have to raise additional capital.

NOTE B - 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, during 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 13 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. There were no revenues reported from the Neumobility platform in the three years ended December 31, 2002. Net earnings (losses) before tax of the telecom hardware/software segment, including the operations prior to Neumobility, were a loss of \$4.4 million and earnings of \$2.0 million and \$2.9 million in 2002, 2001 and 2000, respectively.

On December 11, 2002, the Company and GTS Prepaid, Inc. ("GTS"), 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 will make weekly payments to the Company of \$7,745, including interest at 15% per annum, until the amount owed by GTS is repaid in full, approximately in March 2004. The obligation is secured by a second lien on GTS' assets. Payments received by the Company during the three months ended June 30, 2003 related to this agreement from GTS were \$75,000 of principal and \$11,000 of interest. At June 30, 2003 the balance owed by GTS to the Company was \$278,000 and GTS held on consignment basis \$59,000 of prepaid phonecard inventories owned by the Company. These inventories are being offered for sale by a former employee of the Company on a commission basis. All payments due from GTS have been received by the Company on a timely basis to date. The balances owed by GTS to the Company comprise a large concentration of risk to the Company and the ability of the Company to fully collect the amounts owed will depend on the future profitability and cash flow of GTS.

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 and terminated the remaining employees of Isis. Termination benefits were insignificant and were all paid before December 31, 2002. Revenues of Isis were approximately \$11.8 million, \$15.1 million and \$18.0 million in 2002, 2001 and 2000, respectively. Net losses before tax of Isis were \$0.9 million, \$1.4 million and \$0.3 million in 2002, 2001 and 2000, respectively. Revenues of Isis were approximately \$13,000 and \$171,000 for the three and six-month periods ended June 30, 2003 and were primarily composed of inventory liquidation transactions.

NOTE C - INVENTORIES:

Inventory reflects phonecards sold through the Company's phonecard business. Included in gross phonecard inventory at December 31, 2002 is approximately \$30,000 of items which have been transferred to customers and are being accounted for as consignments and approximately \$49,000 related to estimated sales returns. Included in gross phonecard inventory at June 30, 2003 is approximately \$59,000 of items held on consignment at GTS and \$19,000 related to estimated sales returns. Inventory consists of the following (in 000's):

	June 30, 2003	December 31, 2002
	-----	-----
Inventory	\$ 83	\$164
Less reserves	(83)	(69)
	----	----
	\$ --	\$ 95
	====	====





NOTE D - CONTINGENCIES:

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. The Company is currently involved in one commercial litigation case. On October 25, 2001, New England Telecom, Inc. and Paul Gregory, a former employee, filed a claim in the Superior Court of Massachusetts against the Company and its Chairman alleging, among other things, that the Company breached a purchase agreement and a related employment contract. The agreement included a two-year earn-out with a maximum contingent total payout of \$1.5 million. The Company has answered the allegations and intends to vigorously defend the case. Since the case is currently in the discovery phase, the Company is unable to assess the likely outcome of the case.

NOTE E - LOSS PER SHARE:

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net loss (A)	\$ (305)	\$ (998)	\$ (680)	\$ (1,981)
Weighted average number of unrestricted shares outstanding - basic (B)	2,292	2,292	2,292	2,292
Weighted average number of shares - diluted				
Weighted average number of restricted shares outstanding, net of treasury stock method	6	--	4	--
Weighted average number of shares and common share equivalents outstanding - diluted (C)	2,298	2,292	2,296	2,292
Basic loss per share (A)/(B)	\$(0.13)	\$(0.44)	\$(0.30)	\$(0.86)
Diluted loss per share (A)/(C)	\$(0.13)	\$(0.44)	\$(0.30)	\$(0.86)

Outstanding stock options of 192,647 and 255,177 at June 30, 2003 and 2002, respectively, were excluded from the computation of diluted earnings per share because their effect was anti-dilutive. 158,000 shares of restricted stock with a weighted average outstanding of 34,725 and 17,459 shares for the three- and six-month periods ended June 30, 2003, respectively, are excluded from the computation of basic earnings per share until the related restrictions lapse.

NOTE F - STOCK OPTIONS AND RESTRICTED STOCK

As provided for by FAS 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 FAS 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 FAS 123 and 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. The fair value of options granted to non-employees is periodically re-measured as the underlying options vest.

The pro forma information regarding net income (loss) and earnings (loss) per share is required by FAS 123, which has been updated by FAS 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 the three- and six-month periods ended June 30, 2003 and June 30, 2002 was estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions:

	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Risk-free interest rate	2.2%	3.7%	2.4%	3.7%
Dividend yield	0.0%	0.0%	0.0%	0.0%
Volatility factor	1.62	1.67	1.71	1.67
Expected life of the options (years)	4.0	4.0	4.0	4.0

Fair value of options granted during the period

\$0.59

--

\$0.62

\$2.17

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

	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Net loss	\$ (305)	\$ (998)	\$ (680)	\$(1,981)
Add: Stock-based compensation as reported	19	--	19	--
Deduct: Total stock-based compensation expense determined under fair value method for all awards, net of taxes	(56)	(76)	(95)	(155)
Net loss - pro forma	\$ (342)	\$(1,074)	\$ (756)	\$(2,136)
Basic loss per share - as reported	\$(0.13)	\$ (0.44)	\$(0.30)	\$ (0.86)
Basic loss per share - pro forma	\$(0.15)	\$ (0.47)	\$(0.33)	\$ (0.93)
Diluted loss per share - as reported	\$(0.13)	\$ (0.44)	\$(0.30)	\$ (0.86)
Diluted loss per share - pro forma	\$(0.15)	\$ (0.47)	\$(0.33)	\$ (0.93)

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 to its directors. 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, in stockholders' equity.

NOTE G - SEGMENT INFORMATION:

The Company historically has had two reportable business segments offering distinctive products and services marketed through different channels: (i) a telecom hardware/software segment including the Company's Blackbird'r' Platform product line, which included the Blackbird'r' Platform, PreTect'TM' cloning-fraud prevention application, No Clone Zone'TM' roaming-fraud prevention service, and related application products and services and development of the Company's Neumobility geo-location wireless software applications; and (ii) the Company's prepaid long-distance phonecard business, which was conducted through Isis. Management evaluates segment performance based upon segment profit or loss before income taxes. There were no inter-company sales of products between the segments.

In the first quarter of 2002, the Company recorded an impairment write-down of \$100,000 related to goodwill associated with its phone card segment. The impairment loss was presented in the statement of operations as a cumulative effect of a change in accounting principle in accordance with FAS 142 - Goodwill and Intangible Assets. The value of goodwill recorded for the Company's phone card segment was \$0 at December 31, 2002 and June 30, 2003.

During the quarter ended December 31, 2002, the Company ceased the development efforts of its Neumobility division and adopted a plan to wind down the operations of Isis. General and administrative costs have been allocated 100% to the Telecom hardware/software segment in 2003.

Three months ended June 30, 2003

(in 000's)

	Segments		Consolidated Totals
	Telecom HW/SW	Phone cards	
Revenue from external customers	--	\$13	\$13
Inter-segment revenue	--	--	--
Pretax segment loss	(\$325)	20	(305)
Expenditures for segment assets	--	--	--
Segment assets (at June 30, 2003)	2,973	1	2,974

Three months ended June 30, 2002

(in 000's)

	Segments		Consolidated Totals
	Telecom HW/SW	Phone cards	
Revenue from external customers	--	\$3,331	\$3,331
Inter-segment revenue	--	--	--
Pretax segment loss before the effects of a change in accounting principle	(\$682)	(309)	(991)
Expenditures for segment assets	--	--	--
Segment assets (at June 30, 2002)	6,638	1,297	7,935

Six months ended June 30, 2003

(in 000's)

	Segments		Consolidated Totals
	Telecom HW/SW	Phone cards	
Revenue from external customers	--	\$171	\$ 171
Inter-segment revenue	--	--	--
Pretax segment loss	(\$643)	(37)	(680)
Expenditures for segment assets	--	--	--

Six months ended June 30, 2002

(in 000's)

	Segments		Consolidated Totals
	Telecom HW/SW	Phone cards	
Revenue from external customers	--	\$5,689	\$ 5,689
Inter-segment revenue	--	--	--
Pretax segment loss before the effects of a change in accounting principle	(\$1,289)	(585)	(1,874)
Expenditures for segment assets	--	--	--

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

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 Quarterly Report on Form 10-Q 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.

### 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 consolidated 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 B in the Notes to the Consolidated Financial Statements in Item 15 of the Company's 2002 Annual Report on Form 10-K. Actual results may differ from these estimates under different assumptions or conditions.

**Bad Debt:** The Company has maintained allowances for doubtful accounts for estimated losses based on past collection history and specific risks identified in the portfolio, resulting from the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

**Allowance for Sales Returns:** The Company historically maintained a provision for estimated sales returns of prepaid phonecards. The Company recorded a provision for estimated sales returns in the same period as the related revenues were recorded. These estimates were based on historical sales returns, analysis of credit memo data and other known factors. If the historical data the Company uses to calculate these estimates did not properly reflect future returns, revenue could have been overstated.

**Inventory:** The Company is required to state its inventories at the lower of cost or market. In assessing the ultimate realization of inventories, the Company is required to make judgments as to future demand requirements and compare that with the current or committed inventory levels. An allowance for obsolete inventory has been maintained to reflect the expected un-saleable inventory based on an evaluation of slow moving products. The Company has fully reserved for its inventories at June 30, 2003. It is possible that changes in required inventory reserves may occur in the future.

**Goodwill and Intangible Impairment:** In assessing the recoverability of the Company's goodwill and other intangibles the Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. On January 1, 2002 the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," and was required to analyze its goodwill for impairment issues in accordance with the transition rules of FAS 142. In the three-month period ended March 31, 2002 the Company recorded an impairment write-down of \$100,000 related to the writedown of goodwill associated with its phone card segment. The impairment loss was presented in the statement of operations as a cumulative effect of a change in accounting principle in accordance with the transitional rules of FAS 142. The Company has no goodwill recorded on its books at June 30, 2003.

**Long-Term Investment:** The Company accounts for its minority investment in TruePosition, Inc., (a subsidiary of Liberty Media Corporation, "Liberty Media"), 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 as well as market prices of comparable public companies. The Company receives 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 determines the fair value of the investment had an other-than-temporary decline, an impairment write-down is recorded. 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 at December 31, 2002, and reduced the recorded carrying value of this investment from its cost basis of \$1,754,000 to zero at that time, 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 did not generate significant revenue through December 31, 2002. The Company's investment in TruePosition common stock has been diluted by these advances, which have recently been converted to preferred stock. 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.

## Overview

The Company has developed, marketed, distributed and supported a diversified mix of products and services for the telecommunications industry. Over the past 14 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. As a result, during the three- and six-month periods ended June 30, 2003, CTS had no current business other than to complete the wind-down of the operations of Isis. Management anticipates that most of the remaining assets of Isis will be realized, and all liabilities settled, during 2003. Management currently has no plan to liquidate the Company and distribute the remaining assets to stockholders. During 2002 and 2003, 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 the remaining six months of 2003 the Company will incur costs of approximately \$0.5 million, primarily related to remaining non-cancelable office leases, employee compensation, costs of maintaining the business as a public entity, and insurance. The Company does not have any current source of revenue and has de minimis operations. Accordingly, management believes that its cash and receivable balances as of June 30, 2003 of approximately \$2.8 million are sufficient to fund its current cash flow requirements through at least the next twelve months.

## Products

### Prepaid Long-Distance Phonecard Products

To provide revenue growth for the Company, and in alignment with its product diversification strategy, the Company expanded into the prepaid long-distance service arena in the fourth quarter of 1999. Through its majority-owned subsidiary, Isis, 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 during December 2002. At June 30, 2003, the Company was in the process of completing the wind-down of its Isis operations.

### Geo-Location Wireless Applications Investment and Product Development

The Federal Communications Commission ("FCC") has required 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 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™ for this product line. The Company ceased its development efforts of the Neumobility platform and applications in November 2002 due to postponement by the FCC of its original implementation deadlines for the wireless E-911 rollout and slow market development, resulting in low future revenue projections which did not justify continued investment at that time.

## Revenue and Expense

Revenue : During the first six months of 2003 and 2002, the Company generated revenue through sales of its Isis pre-paid phonecard products. Phonecard revenue is comprised of wholesale and retail sales of prepaid local, long-distance and wireless products. Revenue is recognized at shipment of product, net of any reserves for estimated returns. The Company has historically maintained an allowance for sales returns of prepaid phonecards (based on estimated returns) in accordance with FAS 48 - Revenue Recognition When Right of Return Exists. Estimated returns, along with their costs, have been reflected as a reduction in sales and cost of goods sold, respectively, and reflected as a reduction in accounts receivable and an increase in inventory, respectively.

Costs and Expenses: Costs of phonecards are primarily comprised of purchased prepaid phonecard costs.



Research and development expenditures include the costs for research, design, development, testing, preparation of training and user documentation and fixing and refining features for the software and hardware components included in the Company's products and services.

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

Three months ended June 30, 2003 compared to three months ended June 30, 2002

Overview: Total revenue decreased to \$13,000 in 2003 from \$3,331,000 in 2002. Net loss was (\$305,000), or (\$0.13) per basic and diluted share, in 2003 compared to (\$998,000), or (\$0.44) per basic and diluted share, in 2002. Gross margin increased by \$14,000 as phonecard revenue decreased \$3,318,000 and cost of phone cards decreased \$3,332,000. Operating expenses decreased by \$670,000 due to: reductions of \$411,000 in research and development, \$246,000 in sales and marketing expenses and \$13,000 in general and administrative expenses. The reduction in operating expenses reflected the cessation of the Neumobility research and development program and Isis sales efforts. The general and administrative area is receiving 100% of facility and other expenses that had been allocated throughout the Company in prior periods.

Revenue : Prepaid phone card revenue decreased 99% to \$13,000 in 2003, from \$3,331,000 in 2002 due to the closure of the Isis business at the end of 2002. The 2003 revenue was due primarily to inventory reduction transactions.

Costs and Expenses: Costs of phone cards decreased by \$3,332,000 to \$14,000 in the second quarter of 2003, from \$3,346,000 in the same period of 2002. The decrease is volume related.

Sales and marketing expenses decreased to zero in 2003 from \$246,000 in 2002. The decrease in sales and marketing expenses is attributable to headcount decreases and closure of both the Isis segment and the Neumobility program.

General and administrative expenses decreased 4% to \$330,000 in 2003 from \$343,000 in 2002, due to headcount and expense reductions, partially offset by 100% allocation of rent and other costs to general and administrative departments that had been partially allocated to research and development and sales and marketing areas in the previous year.

Research and development costs decreased to \$0 in 2003 from \$411,000 in 2002. The Company ceased its development efforts of the Neumobility platform and applications in November 2002 due to postponement by the FCC of its original implementation deadlines for the wireless E-911 rollout and slow market development, resulting in low future revenue projections which did not justify continued investment at that time.

Other Income, net: Net other income was \$3,000 in 2003 compared to \$2,000 in 2002. Other income includes gains or losses from sales of equipment and other miscellaneous income items.

Interest Income and Expense: Net interest income increased to \$23,000 in 2003 from \$22,000 in 2002. This increase is attributable to interest on the GTS note earned in 2003, partially offset by lower interest rates earned on invested cash in the 2003 period compared to the 2002 period and lower average cash balances on hand in the 2003 period.

Six months ended June 30, 2003 compared to six months ended June 30, 2002

Overview: Total revenue decreased to \$171,000 in 2003 from \$5,689,000 in 2002. Net loss was (\$680,000), or (\$0.30) per diluted share, in 2003 compared to (\$1,981,000), or (\$0.86) per diluted share, in 2002. Gross margin decreased by \$118,000 as phonecard revenue decreased \$5,518,000 and cost of phone cards decreased \$5,400,000. Operating expenses decreased by \$1,313,000 due to: reductions of \$815,000 in research and development and \$509,000 in sales and marketing expenses; offset by an increase of \$11,000 in general and administrative expenses. The reduction in operating expenses reflected the cessation of the Neumobility research and development program and Isis sales efforts. The general and administrative increase resulted from that area receiving 100% of facility and other expenses that had been allocated throughout the Company in prior periods, partially offset by headcount and expense reductions.

Revenue : Prepaid phone card revenue decreased to \$171,000 in 2003, from \$5,689,000 in 2002 due to the closure of the Isis business at the end of 2002. The 2003 revenue was due primarily to inventory reduction transactions.

Costs and Expenses: Costs of phone cards decreased by \$5,400,000 to \$217,000 in first six months of 2003, from \$5,617,000 in the same period of 2002. The decrease is volume related.

Sales and marketing expenses decreased 95% to \$28,000 in 2003 from \$537,000 in 2002. The decrease in sales and marketing expenses is attributable to headcount decreases and closure of both the Isis segment and the Neumobility program.

General and administrative expenses increased 2% to \$661,000 in 2003 from \$650,000 in 2002, due to 100% allocation of rent and other costs to general and administrative departments that had been partially allocated to research and development and sales and marketing areas in the previous year, partially offset by headcount and expense reductions.

Research and development costs decreased to \$0 in 2003 from \$815,000 in 2002. The Company ceased its development efforts of the Neumobility platform and applications in November 2002 due to postponement by the FCC of its original implementation deadlines for the wireless E-911 rollout and slow market development, resulting in low future revenue projections which did not justify continued investment at that time.

Other Income, net: Net other income was \$19,000 in 2003 compared to \$5,000 in 2002. Other income includes gains or losses from sales of equipment and other miscellaneous income items.

Interest Income and Expense: Net interest income decreased to \$36,000 in 2003 from \$51,000 in 2002. This decrease is attributable to both lower interest rates earned on invested cash in the 2003 period compared to the 2002 period and lower average cash balances on hand in the 2003 period, partially offset by interest earned on the GTS note in 2003.

#### Liquidity and Capital Resources

The Company's capital requirements have historically consisted of funding software and hardware product development, property and equipment requirements, working capital and the Company's operating expenses. The Company historically has funded these requirements through the sale of common stock (including proceeds from the exercise of warrants and options) and from operating profits in certain periods. On June 30, 2003, the Company's cash balance was \$2.5 million as compared to \$3.3 million on December 31, 2002. The Company's working capital decreased to \$2.7 million at June 30, 2003 from \$3.3 million at December 31, 2002.

Net cash used in operating activities amounted to \$0.8 million in the first six months of 2003, compared to \$1.9 million in the comparable 2002 period. The largest factors in this change in 2003 compared to 2002 were the \$1.3 million reduction in net loss and changes in balance sheet accounts in the reporting periods. At June 30, 2003, the Company had no commitments for capital expenditures.

Management expects that during the last six months of 2003 the Company will incur costs of approximately \$0.5 million, primarily related to remaining non-cancelable office leases, employee compensation, costs of maintaining the business as a public entity, and insurance. The Company is not expected to have any significant revenues or operations after the wind-down of Isis is complete. There can be no assurance that the Company's operations will be profitable on a quarterly or annual basis in the future or that past revenue levels can be enhanced or sustained. Past and existing revenue levels should not be considered indicative of future operating results. Accordingly, subject to a future acquisition or other investment, management believes that its cash balances as of June 30, 2003 are sufficient to fund its current cash flow requirements through at least the next twelve months, however unanticipated changes may require additional financing.

#### Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to market risk related to changes in interest rates that could adversely affect the value of the Company's investments. The Company does not use derivative financial instruments for speculative or trading purposes. The Company maintains a short-term investment portfolio consisting of interest bearing securities with maturities of less than ninety days. These securities are classified as cash equivalents. These securities are interest bearing and thus subject to interest rate risk and may fall in value if market interest rates increase. Because the Company has the ability to hold its fixed income investments until maturity, the Company does not expect its operating results or cash flows to be affected to any significant degree by a sudden change in market interest rates on its securities portfolio. The Company has operated primarily in the United States and all revenues to date have been in U.S. dollars. Accordingly, the Company does not have material



exposure to foreign currency rate fluctuations. The Company has not entered into any foreign exchange contracts to hedge any exposure to foreign currency rate fluctuations because such exposure is immaterial.

#### Item 4. Controls and Procedures

As of June 30, 2003, 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 its disclosure controls and procedures pursuant to the Exchange Act Rule 13a-14. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures that are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

### PART II. OTHER INFORMATION

#### Item 1. Legal Proceedings

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. The Company is currently involved in one commercial litigation case. On October 25, 2001, New England Telecom, Inc. and Paul Gregory, a former employee, filed a claim in the Superior Court of Massachusetts against the Company and its Chairman alleging, among other things, that the Company breached a purchase agreement and a related employment contract. The agreement included a two-year earn-out with a maximum contingent total payout of \$1.5 million. The Company has answered the allegations and intends to vigorously defend the case. Since the case is currently in the discovery phase, the Company is unable to assess the likely outcome of the case.

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

The annual meeting of stockholders of the Company was held on June 5, 2003.

##### Election of One Class III Director

Stephen Katz was elected as a Class III director of the Company's Board of Directors to hold office until the Company's third annual meeting of stockholders following the election or until his successor is duly elected and qualified. In connection with the election of the Class III director, the voting of stockholders was as follows:

Nominee	For	Withheld
- - - - -	- - - - -	- - - - -
Stephen Katz	1,690,296	25,699

The other directors, whose terms of office continue after the meeting, are Lawrence Schoenberg, Joshua Angel and Barry Beil.

##### Approval of the 2002 Stock Incentive Plan

The stockholders approved a proposal to adopt the Company's 2002 Stock Incentive Plan to reserve 195,000 shares of Common Stock for issuance to directors and officers of the Company to preserve the Company's cash balances by compensating such persons utilizing restricted shares of the Company's common stock. In connection with this matter, the stockholders voted as follows:

For	Against	Abstain
- - - - -	- - - - -	- - - - -
242,388	137,767	4,980

The foregoing matters are described in more detail in the Company's proxy statement dated May 6, 2003 for the 2003 annual meeting of stockholders of the Company, as filed with the Securities and Exchange Commission.

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

Exhibit 31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32.1 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

b) Reports on Form 8-K

The following Form 8K was filed during the second quarter of 2003 or thereafter through the date of this report:

- i. The Company filed a Current Report of Form 8-K, dated May 2, 2003, under Item 5 of such Report. No financial statements were included.

SIGNATURES

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

CELLULAR TECHNICAL SERVICES COMPANY, INC.

By: /s/ Bruce R. York

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Bruce R. York  
Vice President and Chief Financial Officer  
August 14, 2003

STATEMENT OF DIFFERENCES

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The trademark symbol shall be expressed as ..... 'TM'  
The registered trademark symbol shall be expressed as ..... 'r'

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Bruce R. York, certify that:

1. I have reviewed this quarterly report of Cellular Technical Services Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Bruce R. York  
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Bruce R. York  
Vice President and Chief Financial Officer  
August 14, 2003



Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Stephen Katz, certify that:

1. I have reviewed this quarterly report of Cellular Technical Services Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Stephen Katz

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Stephen Katz  
Chief Executive Officer  
August 14, 2003

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the filing of the Quarterly Report on Form 10-Q for the Quarter ended June 30, 2003 (the "Report") by Cellular Technical Services Company, Inc. ("registrant"), each of the undersigned hereby certifies that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Registrant.

By: /s/ Stephen Katz

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Stephen Katz  
Chief Executive Officer  
August 14, 2003

By: /s/ Bruce R. York

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Bruce R. York  
Vice President and Chief Financial Officer  
August 14, 2003

A signed original of this written statement required by Section 906 has been provided to Cellular Technical Services Company, Inc. and will be retained by Cellular Technical Services Company, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.