

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, 2005

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) (Zip Code)

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

Indicate by check mark whether the Issuer (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 X No

4,586,758 Common Shares were outstanding as of July 22, 2005

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

CONDENSED CONSOLIDATED BALANCE SHEETS
(in 000's)

	June 30, 2005 ----- (unaudited)	December 31, 2004 -----
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,574	\$ 2,199
Prepaid expenses, deposits and other current assets	54	0
	-----	-----
Total Current Assets	3,628	2,199
LONG-TERM INVESTMENT, net of valuation adjustment of \$1,754 in 2005 and 2004	--	--
	-----	-----
TOTAL ASSETS	\$ 3,628	\$ 2,199
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 92	\$ 86
	-----	-----
Total Current Liabilities	92	86
	-----	-----
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 at June 30, 2005 and 2,450 shares issued and outstanding at December 31, 2004	46	25
Additional Paid-in Capital		
	31,663	30,095
Accumulated deficit	(28,173)	(28,007)
	-----	-----
Total Stockholders' Equity	3,536	2,113
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 3,628	\$ 2,199
	=====	=====

The accompanying notes are an integral part of these condensed 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,	
	2005	2004	2005	2004
	-----	-----	-----	-----
REVENUES				
Phonecards	\$ --	\$ --	\$ --	\$ --
COSTS AND EXPENSES				
General and administrative	88	158	193	290
	-----	-----	-----	-----
Total Costs and Expenses	88	158	193	290
	-----	-----	-----	-----

LOSS FROM OPERATIONS	(88)	(158)	(193)	(290)
OTHER INCOME (EXPENSE), net	--	3	--	6
INTEREST INCOME, net	18	6	27	14

LOSS BEFORE TAX	(70)	(149)	(166)	(270)
PROVISION FOR INCOME TAX	--	--	--	--

NET LOSS	<u>\$ (70)</u>	<u>\$ (149)</u>	<u>\$ (166)</u>	<u>\$ (270)</u>
=====				
BASIC AND DILUTED SHARE DATA:				
Net Loss	<u>\$ (0.02)</u>	<u>\$ (0.06)</u>	<u>\$ (0.05)</u>	<u>\$ (0.11)</u>
=====				
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic and diluted	<u>4,280</u>	<u>2,450</u>	<u>3,376</u>	<u>2,450</u>
=====				

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

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

	Six Months Ended June 30,	
	2005	2004

OPERATING ACTIVITIES		
Net loss	\$ (166)	\$ (270)
Adjustments to reconcile net loss to net cash used in operating activities:		
Non cash compensation expense (restricted stock)	14	36
Loss on disposal of assets	--	1
Changes in operating assets and liabilities:		
Decrease in accounts receivable, net	--	7
Increase in prepaid expenses and deposits	(54)	(56)
Increase (Decrease) in accounts payable and accrued liabilities	6	(40)
Decrease in payroll related liabilities	--	(2)

NET CASH USED IN OPERATING ACTIVITIES	(200)	(324)
NET CASH PROVIDED BY INVESTING ACTIVITIES	--	--
FINANCING ACTIVITIES		
Issuance of Common Stock	1,575	--

NET CASH PROVIDED BY FINANCING ACTIVITIES	1,575	--
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,375	(324)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,199	2,651

CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 3,574</u>	<u>\$ 2,327</u>
=====		

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 three month period ended June 30, 2005 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2005. For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2004 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.

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 2005 the Company will incur costs of approximately \$0.30 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 de minimis operations. Accordingly, management believes that its cash balances as of June 30, 2005 of approximately \$3.5 million are sufficient to fund its current cash flow requirements through at least the next twelve months.

NOTE B -- STOCK OPTIONS

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 period June 30, 2004 was estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions: (No options were granted during the period ended June 30, 2005)

	Three Months Ended June 30		Six Months Ended June 30	
	2005 ----	2004 ----	2005 ----	2004 ----
Risk-free interest rate	--	3.63%	--	3.56%
Dividend yield	--	0	--	0
Volatility factor	--	1.05	--	1.06
Expected life of the options (years)	--	4.0	--	4.0
Fair value of options granted during the period	--	\$0.53	--	\$ 0.53

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, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Net loss	\$ (71)	\$ (149)	\$ (166)	\$ (270)
Add: Stock-based compensation as reported	7	14	14	36
Deduct: Total stock-based compensation expense determined under fair value method for all awards, net of taxes	(7)	(43)	(14)	(88)
Net loss - pro forma	\$ (71)	\$ (178)	\$ (166)	\$ (322)
Basic and diluted loss per share - as reported	\$ (0.02)	\$ (0.06)	\$ (0.05)	\$ (0.11)
Basic and diluted loss per share - pro forma	\$ (0.02)	\$ (0.07)	\$ (0.05)	\$ (0.13)

NOTE C -- CONTINGENCIES:

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. On October 25, 2001, New England Telecom, Inc. and Paul Gregory, a former employee, filed a claim in the Superior Court of Massachusetts (the "Court") against the Company its Chairman, and Isis Tele-Communications, Inc ("Isis"), a majority owned subsidiary of the Company, 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. During December 2004, the Court dismissed all claims against the Company and its Chairman. During May 2005, this case was settled out of court by payment of a nominal sum to Mr. Gregory. The expense has been included in General and Administrative Expenses on the Statement of Operations.

NOTE D -- 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	
	2005 ----	2004 ----	2005 ----	2004 ----
Net loss (A)	\$ (71)	\$ (149)	\$ (166)	\$ (270)
Weighted average number of shares outstanding (B)	4,280	2,450	3,376	2,450
Basic and diluted loss per share (A)/(B)	\$ (0.02)	\$ (0.06)	\$ (0.05)	\$ (0.11)

Outstanding stock options of 192,800 and 191,065 at June 30, 2005 and 2004, respectively, were excluded from the computation of diluted earnings per share because their effect was anti-dilutive.

NOTE E - OTHER EVENTS

On April 12, 2005 the Company entered into a Securities Purchase Agreement (the "Agreement") with Frost Gamma Investments Trust (the "Frost Trust"), Dr. Jane Hsiao and Richard C. Pfenniger, Jr., among others. Pursuant to the Agreement, the Company sold an aggregate of 2,100,000 shares of the Common Stock of the Company. The purchase price for the sale of the Common Stock was \$0.75 per share in cash for an aggregate price of \$1,575,000. The Company's cost for this transaction was \$15,000, resulting in an increase in Cash of \$1,560,000. Pursuant to the Agreement, the Frost Trust, Dr. Hsiao and Mr. Pfenniger purchased 1,400,000 shares, 200,000 shares and 100,000 shares, respectively, of Common Stock. Dr. Phillip Frost controls the Frost Trust. Dr. Frost, Dr. Hsiao and Mr. Pfenniger were elected to the board of directors of the Company pursuant to the provisions of the Agreement.

Item 2. Management's 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"). Prior to the quarter ended March 31, 2004, the Company had filed its periodic reports under Regulation S-K and Regulation S-X, under 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 2004 and 2003 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 2005 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. 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. Existing revenue levels should not be considered indicative of future operating results. Accordingly, subject to a potential acquisition or other investment, management believes that its cash balances as of June 30, 2005 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.

On April 12, 2005 the Company entered into a Securities Purchase Agreement (the "Agreement") with Frost Gamma Investments Trust (the "Frost Trust"), Dr. Jane Hsiao and Richard C. Pfenniger, Jr., among others. Pursuant to the Agreement, the Company sold an aggregate of 2,100,000 shares of the Common Stock of the Company. The purchase price for the sale of the Common Stock was \$0.75 per share in cash for an aggregate price of \$1,575,000. The Company's cost for this transaction was \$15,000, resulting in an increase in Cash of \$1,560,000. Pursuant to the Agreement, the Frost Trust, Dr. Hsiao and Mr. Pfenniger purchased 1,400,000 shares, 200,000 shares and 100,000 shares, respectively, of Common Stock. Dr. Phillip Frost controls the Frost Trust. Dr. Frost, Dr. Hsiao and Mr. Pfenniger were elected to the board of directors of the Company pursuant to the provisions of the Agreement.

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.

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PART II. OTHER INFORMATION

Item 1. 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. On October 25, 2001, New England Telecom, Inc. and Paul Gregory, a former employee, filed a claim in the Superior Court of Massachusetts ("the Court") against the Company its Chairman, and Isis Tele-Communications, Inc ("Isis"), a majority owned subsidiary of the Company, 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. During December 2004, the Court dismissed all claims against the Company and its Chairman. During May 2005, this case was settled out of court by payment of a nominal sum to Mr. Gregory.

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

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/ Kenneth Block

Kenneth Block
Secretary and Chief Financial Officer
August 11, 2005

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Rule 13a-14(a) Certification

I, Kenneth Block, 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/ Kenneth Block

Kenneth Block
Secretary and Chief Financial Officer
August 11, 2005

Rule 13a-14(a) Certification

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

Stephen Katz
Chief Executive Officer
August 11, 2005

Exhibit 32.1

Section 1350 Certification

In connection with the filing of the Quarterly Report on Form 10-QSB for the Quarter ended June 30, 2005 (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 the Registrant.

By: /s/ Stephen Katz

Stephen Katz
Chief Executive Officer
August 11, 2005

By: /s/ Kenneth Block

Kenneth Block
Secretary and Chief Financial Officer
August 11, 2005

A signed original of this written statement required by Section 1350 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.