

CONSULIER ENGINEERING INC

Form 10QSB

November 19, 2007

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-QSB**

**(Mark One)**

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007**

COMMISSION FILE NUMBER 0-17756

**CONSULIER ENGINEERING, INC.**

(Exact name of small business issuer as specified in its charter)

Florida

59-2556878

(State or other jurisdiction of  
of incorporation or organization)

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

2391 Old Dixie Highway  
Riviera Beach, FL 33404

(Address of principal executive offices)  
(561) 842-2492

(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

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 shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 126-2 of the Exchange Act).

Yes  No

**APPLICABLE ONLY TO CORPORATE ISSUERS**

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

As of September 30, 2007, there were 5,355,376 outstanding shares of common stock, par value \$0.01 per share.

Transitional Small Business Disclosure Format (check one): Yes  No

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**CONSULIER ENGINEERING, INC. AND SUBSIDIARIES**

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Report on Form 10Q-SB contains forward-looking statements within the meanings of the Private Securities Litigation Reform Act of 1995. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements include statements preceded by, followed by or that include the words may, could, would, should, believe, expect, anticipate, plan, estimate, intend, or similar expressions. The statements include, among others, statements regarding our prospects, opportunities, outlook, plans, intentions, anticipated financial and operating results, our business strategy and means to implement the strategy, and objectives.

Forward-looking statements are only estimates or predictions and are not guarantees of performance. These statements are based on our management's beliefs and assumptions, which in turn are based on currently available information. Important assumptions relating to the forward-looking statements include, among others, assumptions regarding demand for our products and services, competition from existing and new competitors, our ability to introduce new products, expected pricing levels, the timing and cost of planned capital expenditures, competitive conditions and general economic conditions. These assumptions could prove inaccurate. Forward-looking statements also involve risks and uncertainties, which could cause actual results to differ materially from those contained in any forward-looking statement. Among other things, continued unfavorable economic conditions may impact market growth trends or otherwise impact the demand for our products and services; competition from existing and new competitors and producers of alternative products will impact our ability to penetrate or expand our presence in new or growing markets. Uncertainties relating to our ability to develop and distribute new proprietary products to respond to market needs in a timely manner may impact our ability to exploit new or growing markets; our ability to successfully identify and implement productivity improvements and cost reduction initiatives may impact profitability.

In addition, unless otherwise specifically provided herein, the statements in this Report are made as of end of the period for which the Report is filed. We expect that subsequent events or developments will cause our views to change. We undertake no obligation to update any of the forward-looking statements made herein, whether as a result of new information, future events, changes in expectations or otherwise. These forward-looking statements should not be relied upon as representing our views as of any date subsequent to the end of the period for which the Report is filed.

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**CONSULIER ENGINEERING, INC. AND SUBSIDIARIES**  
**CONDENSED INTERIM CONSOLIDATED BALANCE SHEET**  
**September 30, 2007**  
**(UNAUDITED)**

**ASSETS****CURRENT ASSETS**

|                               |            |
|-------------------------------|------------|
| Cash and Cash Equivalents     | \$ 714,248 |
| Receivables                   | 439,592    |
| Due from Related Parties      | 6,557      |
| Inventories                   | 47,879     |
| Deferred Implementation Costs | 2,322,290  |
| Other Current Assets          | 92,480     |
| Deferred Income Taxes         | 41,832     |

|                      |           |
|----------------------|-----------|
| Total Current Assets | 3,664,878 |
|----------------------|-----------|

|                                                         |           |
|---------------------------------------------------------|-----------|
| PROPERTY AND EQUIPMENT, Net                             | 1,567,872 |
| CAPITALIZED SOFTWARE DEVELOPMENT COSTS, Net             | 252,273   |
| PARTNERSHIP AND LIMITED LIABILITY COMPANIES INVESTMENTS | 3,129,914 |
| NOTE RECEIVABLE RELATED PARTY                           | 200,000   |
| DEFERRED INCOME TAXES                                   | 902,228   |
| INTANGIBLE ASSET, Net                                   | 994,284   |

|  |               |
|--|---------------|
|  | \$ 10,711,449 |
|--|---------------|

**LIABILITIES AND STOCKHOLDERS EQUITY****CURRENT LIABILITIES**

|                                          |           |
|------------------------------------------|-----------|
| Accounts Payable and Accrued Liabilities | 1,276,969 |
| Unearned Revenue                         | 936,053   |
| Related Party Payable                    | 688,509   |

|                           |           |
|---------------------------|-----------|
| Total Current Liabilities | 2,901,531 |
|---------------------------|-----------|

|                             |           |
|-----------------------------|-----------|
| NOTES PAYABLE RELATED PARTY | 3,405,062 |
|-----------------------------|-----------|

**COMMITMENTS AND CONTINGENCIES**

|                   |         |
|-------------------|---------|
| MINORITY INTEREST | 232,000 |
|-------------------|---------|

STOCKHOLDERS EQUITY:

|                                                       |               |
|-------------------------------------------------------|---------------|
| Common Stock \$.01 Par Value:                         |               |
| Authorized 25,000,000 Shares; Issued 5,485,122 Shares | 54,851        |
| Additional Paid-in Capital                            | 4,107,503     |
| Retained Earnings                                     | 376,032       |
|                                                       | 4,538,386     |
| Less:                                                 |               |
| Treasury Stock, Cost - 129,746 Shares                 | (358,879)     |
| Notes Receivable for Common Stock                     | (6,651)       |
| Total Stockholders Equity                             | 4,172,856     |
|                                                       | \$ 10,711,449 |

The Accompanying Notes are an Integral  
Part of These Consolidated Financial Statements

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**CONSULIER ENGINEERING, INC. AND SUBSIDIARIES**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF**  
**OPERATIONS**  
**(UNAUDITED)**

|                                              | <b>THREE MONTHS ENDED</b> |                  | <b>NINE MONTHS ENDED</b> |                  |
|----------------------------------------------|---------------------------|------------------|--------------------------|------------------|
|                                              | <b>SEPTEMBER 30,</b>      |                  | <b>SEPTEMBER 30,</b>     |                  |
|                                              | <b>2007</b>               | <b>2006</b>      | <b>2007</b>              | <b>2006</b>      |
| Revenue:                                     |                           |                  |                          |                  |
| Software Licensing Fees                      | \$ 503,029                | \$ 406,712       | \$ 1,267,982             | \$ 1,257,922     |
| Other Revenue                                | 7,677                     | 4,900            | 16,193                   | 20,399           |
| <b>Total Revenue</b>                         | <b>510,706</b>            | <b>411,612</b>   | <b>1,284,175</b>         | <b>1,278,321</b> |
| <br>                                         |                           |                  |                          |                  |
| Operating Costs and Expenses:                |                           |                  |                          |                  |
| Cost of Revenue                              | 289,078                   | 95,071           | 482,023                  | 575,628          |
| Payroll and Related Expense                  | 1,032,168                 | 1,018,296        | 3,124,554                | 3,646,077        |
| Selling, General and Administrative          | 645,853                   | 679,114          | 1,975,404                | 2,134,832        |
| Professional Services                        | 74,636                    | 312,850          | 898,983                  | 1,404,630        |
| Depreciation and Amortization                | 227,868                   | 335,623          | 731,947                  | 1,006,845        |
| <b>Total Operating Costs and Expenses</b>    | <b>2,269,603</b>          | <b>2,440,954</b> | <b>7,212,911</b>         | <b>8,768,012</b> |
| <br>                                         |                           |                  |                          |                  |
| Operating Loss                               | (1,758,897)               | (2,029,342)      | (5,928,736)              | (7,489,691)      |
| <br>                                         |                           |                  |                          |                  |
| Other Income (Expense):                      |                           |                  |                          |                  |
| Investment Income Related Parties            | 692,752                   | 406,036          | 1,728,113                | 1,357,262        |
| Net Undistributed Income of Equity Investees | 146,075                   | 129,233          | 418,910                  | 153,497          |
| Interest Expense                             | (84,618)                  | (163,171)        | (267,676)                | (483,291)        |
| Other Income                                 | 48,839                    | 31,698           | 127,985                  | 95,094           |
| Gain on Disposal of Equipment                |                           | 15,504           |                          | 15,504           |
| <b>Total Other Income (Expense)</b>          | <b>803,048</b>            | <b>419,300</b>   | <b>2,007,332</b>         | <b>1,138,066</b> |
| <br>                                         |                           |                  |                          |                  |
| (Loss) from Operations Before Minority       |                           |                  |                          |                  |
| Interest and Income Taxes                    | (955,849)                 | (1,610,042)      | (3,921,404)              | (6,351,625)      |
| <br>                                         |                           |                  |                          |                  |
| Minority Interest in Consolidated Subsidiary |                           |                  |                          |                  |
| Losses                                       | 882,001                   | 2,019,643        | 4,815,394                | 4,044,643        |
| <br>                                         |                           |                  |                          |                  |
| Income (Loss) from Operations Before         |                           |                  |                          |                  |
| Income Taxes                                 | (73,848)                  | 409,601          | 893,990                  | (2,306,982)      |

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|                                            |           |            |            |               |
|--------------------------------------------|-----------|------------|------------|---------------|
| Benefit (Provision) for Income Taxes       | 104,862   | (200,149)  | (290,659)  | (210,993)     |
| Net Income (Loss)                          | \$ 31,014 | \$ 209,452 | \$ 603,331 | \$(2,517,975) |
| Income (Loss) Per Share Basic and Diluted: | \$ 0.01   | \$ 0.04    | \$ 0.11    | \$ (0.48)     |

The Accompanying Notes are an Integral  
Part of These Consolidated Financial Statements

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**CONSULIER ENGINEERING, INC. AND SUBSIDIARIES**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**  
**NINE MONTHS ENDED SEPTEMBER 30, 2007**  
**(UNAUDITED)**

|                                   | Common Stock |           | Treasury Stock |              | Additional<br>Paid-in<br>Capital | Retained                             | Notes                                | Total        |
|-----------------------------------|--------------|-----------|----------------|--------------|----------------------------------|--------------------------------------|--------------------------------------|--------------|
|                                   | Shares       | Amount    | Shares         | Amount       |                                  | Earnings<br>(Accumulated<br>Deficit) | Receivable<br>for<br>Common<br>Stock |              |
| Balance,<br>December 31,<br>2006  | 5,485,122    | \$ 54,851 | 104,936        | \$ (264,512) | \$ 4,107,503                     | \$ (227,299)                         | \$ (6,651)                           | \$ 3,663,892 |
| Net Income                        |              |           |                |              |                                  | 603,331                              |                                      | 603,331      |
| Purchase of<br>Treasury<br>Stock  |              |           | 24,810         | (94,367)     |                                  |                                      |                                      | (94,367)     |
| Balance,<br>September<br>30, 2007 | 5,485,122    | \$ 54,851 | 129,746        | \$ (358,879) | \$ 4,107,503                     | \$ 376,032                           | \$ (6,651)                           | \$ 4,172,856 |

The Accompanying Notes are an Integral  
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**CONSULIER ENGINEERING, INC. AND SUBSIDIARIES**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

|                                                                          | <b>NINE MONTHS ENDED</b> |               |
|--------------------------------------------------------------------------|--------------------------|---------------|
|                                                                          | <b>SEPTEMBER 30,</b>     |               |
|                                                                          | <b>2007</b>              | <b>2006</b>   |
| Cash Flow (Used in) Operating Activities                                 | \$(4,916,851)            | \$(5,785,973) |
| Investing Activities:                                                    |                          |               |
| Increase in Related Party Receivables                                    | (6,557)                  |               |
| Distributions from Partnership Interest                                  | 1,728,113                | 1,357,262     |
| Proceeds from Sale of Asset                                              |                          | 72,894        |
| Purchase Price Adjustment to Intangible Asset                            | (232,000)                |               |
| Acquisition of Property and Equipment                                    | (46,180)                 | (175,861)     |
| Acquisition of Software Upgrades                                         | (133,494)                | (233,252)     |
| Net Cash Provided by Investing Activities                                | 1,309,882                | 1,021,043     |
| Financing Activities:                                                    |                          |               |
| Proceeds from Minority Shareholder in ST, LLC                            | 4,815,394                | 3,519,000     |
| Repayments of Notes Payable-Related Party                                | (96,649)                 | (450,800)     |
| Increase in Related Party Payables                                       | 255,411                  | 204,490       |
| Proceeds from Notes Payable Related Party                                |                          | 3,334,066     |
| Purchase of Treasury Stock                                               | (94,367)                 |               |
| Repayments of Line of Credit                                             | (800,000)                | (2,000,000)   |
| Proceeds from the Sale of Treasury Stock                                 |                          | 18,175        |
| Net Cash Provided by Financing Activities                                | 4,079,789                | 4,624,931     |
| Increase (Decrease) in Cash and Cash Equivalents                         | 472,820                  | (139,999)     |
| Cash and Cash Equivalents Beginning of Period                            | 241,428                  | 286,442       |
| Cash and Cash Equivalents End of Period                                  | \$ 714,248               | \$ 146,443    |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:                        |                          |               |
| Conversion of Note Payable-Related Party to Class A Stock of ST, LLC     | \$                       | \$ 525,643    |
| Issuance of Treasury Stock upon Conversion of Note Payable-Related Party | \$                       | \$ 600,000    |

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|                                                           |            |    |
|-----------------------------------------------------------|------------|----|
| Assignment of Membership Interest to Minority Shareholder | \$ 232,000 | \$ |
| Cash Paid for Interest                                    | \$ 16,852  | \$ |

The Accompanying Notes are an Integral  
Part of These Consolidated Financial Statements

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**CONSULIER ENGINEERING, INC. AND SUBSIDIARIES  
NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

**NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of Business**

Consulier Engineering, Inc., and its subsidiaries (collectively called *Consulier* or the *Company* ) are engaged in three primary business lines: ownership in medical software activities, distribution of Captain Cra-Z Soap and minority ownership of other business entities.

Consulier International, Inc. (a subsidiary) markets and distributes Captain Cra-Z Soap .

Consulier's income is also derived from ownership of limited liability companies and limited partnership interests (Note 4) in BioSafe Systems, LLC ( *BioSafe* ), and AVM, L.P. ( *AVM* ), an Illinois limited partnership. BioSafe develops and markets environmentally safe products, alternatives to traditionally toxic pesticides. AVM is a broker-dealer in government securities and other fixed income instruments. Consulier's Chairman and majority stockholder, Warren B. Mosler ( *Mosler* ), is a general partner of the general partner of AVM.

ST, LLC, a majority-owned limited liability company, is a majority member (74.14%) of Patient Care Technology Systems, LLC ( *PCTS* ), which develops and licenses data-based integrated emergency room information systems marketed as Amelior ED . PCTS is also a provider of passive tracking technologies for emergency departments and operating rooms. Its software technologies track the status and location of patients and assets through wireless badges worn by people or attached to equipment in the emergency department and ancillary areas. PCTS also designs, customizes, markets, sells and distributes paper templates used for diagnostic purposes in emergency medical departments. Mosler's ownership in ST, LLC was approximately 30% as the Class A member and Consulier's ownership was approximately 51% as of September 30, 2007.

**Basis of Consolidation**

The accompanying condensed interim consolidated financial statements include Consulier and its wholly-owned subsidiary, Consulier International, Inc., and ST, LLC, with its majority-owned subsidiary, PCTS. All significant intercompany accounts and transactions have been eliminated in consolidation. The Company uses the equity method of accounting for investments where its ownership is between 20% and 50%.

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**CONSULIER ENGINEERING, INC. AND SUBSIDIARIES  
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**NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**Basis of Consolidation (Continued)**

On April 1, 2005 (date of the amendment to the operating agreement), the Company's ownership in ST, LLC increased to 58%, thereby requiring consolidation. As of September 30, 2007, the Company owns 51% of ST, LLC.

**Interim Financial Data**

The accompanying unaudited condensed interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with instructions to Form 10-QSB and Regulation S-B. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. However, management believes the accompanying unaudited condensed interim consolidated financial statements contain all adjustments, consisting of only normal recurring adjustments, necessary to present fairly the consolidated financial position of Consulier Engineering, Inc. and subsidiaries as of September 30, 2007, and the results of their operations and cash flows for the three and nine months ended September 30, 2007 and 2006. The results of operations and cash flows for the period are not necessarily indicative of the results of operations or cash flows that can be expected for the year ending December 31, 2007. For further information, refer to the consolidated financial statements and footnotes thereto included in Consulier's annual report on Form 10-KSB for the year ended December 31, 2006.

**Accounting Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates are used when accounting for allowances for doubtful accounts, software and service revenue, revenue reserves, inventory reserves, depreciation and amortization, taxes, contingencies and impairment allowances. Such estimates are reviewed on an ongoing basis. Actual results could differ from these estimates and those differences may be material.

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**CONSULIER ENGINEERING, INC. AND SUBSIDIARIES  
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**NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**Concentrations**

Financial instruments, which potentially expose the Company to concentrations of credit risk, as defined by Statement of Financial Accounting Standards No. 105, *Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk*, consist primarily of accounts receivable. ST, LLC's accounts receivable are concentrated in the healthcare industry. Although, ST, LLC's customers typically have been well-established hospitals or medical facilities, some hospitals and medical facilities have experienced significant operating losses as a result of limits on third-party reimbursements from insurance companies and governmental entities, and extended payment of receivables from these entities is not uncommon.

To date, PCTS has relied on a limited number of customers for a substantial portion of its total revenues. The Company expects that a significant portion of its future revenues will continue to be generated by a limited number of customers. The failure to obtain new customers or expand sales through remarketing partners, the loss of existing customers, or the reduction in revenues from existing customers could materially and adversely affect the Company's operating results.

PCTS currently buys all of its hardware and some major software components of its emergency room information systems from third-party vendors. Although there are a limited number of vendors capable of supplying these components, management believes that other suppliers could provide similar components on comparable terms. A change in suppliers, however, could cause a delay in system implementations and a possible loss of revenues, which could adversely affect operating results.

**Capitalized Software Development Costs**

Software development costs are accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 86, *Accounting for the Costs of Software to be Sold, Leased or Otherwise Marketed*. Costs associated with the planning and designing phase of software development, including coding and testing activities necessary to establish technological feasibility, are classified as product research and development and are expensed as incurred. Once technological feasibility has been determined, a portion of the costs incurred in development, including coding, testing, and product quality assurance, are capitalized and subsequently reported at the lower of unamortized cost or net realizable value.

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**CONSULIER ENGINEERING, INC. AND SUBSIDIARIES  
NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

**NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**Capitalized Software Development Costs (Continued)**

Amortization is provided on a product-by-product basis over the estimated economic life of the software, not to exceed three years, using the straight-line method. Amortization commences when a product is available for general release to customers. Unamortized capitalized costs determined to be in excess of the net realizable value of a product are expensed at the date of such determination. Amortization expense on capitalized software development costs totaled \$126,319 and \$260,577 for the nine months ended September 30, 2007 and 2006, respectively. Accumulated amortization totaled \$1,103,748 at September 30, 2007.

The Company required third party expertise for the development of a new data-based integrated emergency room information system to enhance the functionality, reliability and flexibility of the Company's existing products, which has not achieved the criteria for capitalization. For the nine months ended September 30, 2007 and 2006, research and development costs totaled \$662,500 and \$1,004,087, respectively. These expenses are included with professional services in the accompanying condensed interim consolidated statements of operations.

**Intangible Assets**

Intangible assets consist of customer lists acquired in connection with the acquisition of certain assets from Healthcare Information Technology, Inc. in 2004 and nuMedica in 2005, which are being amortized over three to five years using the straight-line method, and non-compete agreements, which were being amortized over one year using the straight-line method. The Company periodically reviews its intangible assets for impairment and assesses whether significant events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable.

**Partnership and Limited Liability Companies Investments**

The Company owns less than 10% in AVM; however, the Company has the ability to significantly influence this investee under the terms of the partnership agreement. Income or loss is allocated to Consulier based on the partnership and LLC agreements. The Company reviews its partnership and limited liability company investments for other than temporary declines in value on a monthly basis by analyzing the underlying investee's actual revenue, earnings capacity and estimated future undiscounted cash flows.

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**CONSULIER ENGINEERING, INC. AND SUBSIDIARIES  
NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

**NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**Partnership and Limited Liability Companies Investments (Continued)**

Due to the Company's membership interest in ST, LLC and ST, LLC's operating agreement with PCTS, the Company was exposed to the majority of risk related to the activities of ST, LLC and PCTS. Therefore, in accordance with FIN 46(R), the Company considered ST, LLC as a variable interest entity that required consolidation with the Company's financial statements as of December 31, 2004. However, effective April 1, 2005, the operating agreement was amended to reallocate membership interests in this LLC based upon historical contributions. The Company receives allocated losses to the extent of its contributions from inception. Consequently, the losses allocated to Consulier can be greater than or less than the Company's ownership percentage.

As a result of consolidating ST, LLC, a minority interest was created representing the other member. As of September 30, 2007, there were no amounts related to this minority interest available to offset future losses (Note 11). Effective April 1, 2006, ST, LLC's partnership operating agreement was amended to create a Class A membership interest. The Class A members are entitled to a cumulative annual priority return of 10% on their investment, and cash available for distribution after payment of that return is distributable to all of the members in accordance with their percentage membership interests. In accordance with this amendment to the operating agreement, allocations of losses are based upon historical annual contributions. As of September 30, 2007, the Class A member had invested \$12,047,571, which includes an investment of \$4,815,394 during the nine months ended September 30, 2007. Unpaid cumulative priority returns on the Class A membership interest totaled approximately \$970,000 at September 30, 2007.

Consulier can require its principal stockholder to purchase its interest in ST, LLC for cash equal to Consulier's capital account as of the closing date. Consulier has contributed to ST, LLC approximately \$15.75 million since inception. As of September 30, 2007, Consulier's capital account was \$0.

**Stock-Based Compensation**

On January 1, 2006, the Company adopted the fair value recognition provisions of Financial Accounting Standards Board (FASB) Statement No. 123(R), *Share-Based Payment*, (SFAS 123(R)). Prior to January 1, 2006, the Company accounted for share-based payments under the recognition and measurement provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees* (APB25), and related Interpretations, as permitted by FASB Statement No. 123, *Accounting for Stock-Based Compensation* (SFAS 123).



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**NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**Stock-Based Compensation (Continued)**

In accordance with APB 25, no compensation cost was required to be recognized for options granted that had an exercise price equal to the market value of the underlying common stock on the date of grant.

The Company adopted SFAS 123(R) using the modified-prospective-transition method. Under this method, compensation cost recognized for the nine months ended September 30, 2007 includes: a) compensation cost for all share-based payments granted prior to, but not yet vested as of December 31, 2005, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123, and b) compensation cost for all share-based payments granted subsequent to December 31, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). In addition, deferred stock compensation related to non-vested options is required to be eliminated against additional paid-in capital upon adoption of SFAS 123(R). The results for the prior periods have not been restated.

All previously granted stock options had fully vested at December 31, 2005 and during the nine months ended September 30, 2007 and September 30, 2006, the Company did not grant any new stock options. The Company's results of operations for the nine months ended September 30, 2006 include compensation expense related to the modification of previously existing stock options under the provisions of SFAS 123R.

**Revenue Recognition**

The Company derives revenue from the following sources: (1) licensing and sale of data based integrated emergency room information systems and passive tracking technologies, which includes new software license and software license updates and product support revenues and (2) services, which include consulting, advanced product services and education revenues.

New software license revenues represent all fees earned from granting customers licenses to use the Company's database and tracking technology as well as applications software, and exclude revenue derived from software license updates, which is included in software license updates and product support. While the basis for software license revenue recognition is substantially governed by the provisions of Statement of Position ( SOP ) No. 97-2, *Software Revenue Recognition*, issued by the American Institute of Certified Public Accountants, the Company exercises judgment and uses estimates in connection with the determination of the amount of software and services revenues to be recognized in each accounting period.

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**NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**Revenue Recognition (Continued)**

For software license arrangements that do not require significant modification or customization of the underlying software, the Company recognizes new software license revenue when: (1) the Company enters into a legally binding arrangement with a customer for the license of software; (2) the Company delivers the products; (3) a customer payment is deemed fixed or determinable and free of contingencies or significant uncertainties; and (4) collection is probable. Substantially all new software license revenues are recognized in this manner. The vast majority of software license arrangements include software license updates and product support, which are recognized ratably over the term of the arrangement, typically one year. Software license updates provide customers with rights to unspecified software product upgrades, maintenance releases and patches released during the term of the support period. Product support includes internet access to technical content, as well as internet and telephone access to technical support personnel. Software license updates and product support are generally priced as a percentage of the net new software license fees. Many of the Company's software arrangements include consulting implementation services sold separately under consulting engagement contracts. Consulting revenue from these arrangements is generally accounted for separately from new software license revenue because the arrangements qualify as service transactions as defined in SOP No. 97-2. The more significant factors considered in determining whether the revenue should be accounted for separately include the nature of services (i.e. consideration of whether the services are essential to the functionality of the licensed product), degree of risk, availability of services from other vendors, timing of payments and impact of milestones or acceptance criteria on the realizability of the software license fee.

Revenue for consulting services is generally recognized as the services are performed. If there is a significant uncertainty about the project completion or receipt of payment for the consulting services, revenue is deferred until the uncertainty is sufficiently resolved. Contracts with fixed or not to exceed fees are recognized on a proportional performance basis.

If an arrangement does not qualify for separate accounting of the software license and consulting transactions, then new software license revenue is generally recognized together with the consulting services based on contract accounting using either the percentage-of-completion or completed-contract method. Contract accounting is applied to any arrangements: (1) that include milestones or customer specific acceptance criteria that may affect collection of the software license fees; (2) where services include significant modification or customization of the software; (3) where significant consulting services are provided for in the software license contract without additional charge or are substantially discounted; or (4) where the software license payment is tied to the performance of consulting services.

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**NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**Revenue Recognition (Continued)**

Advanced product services revenue is recognized over the term of the service contract, which is generally one year. Education revenue is recognized as the classes or other education offerings are delivered.

For arrangements with multiple elements, the Company allocates revenue to each element of a transaction based upon its fair value as determined by vendor specific objective evidence. Vendor specific objective evidence of fair value for all elements of an arrangement is based upon the normal pricing and discounting practices for those products and services when sold separately, and for software license updates and product support services, is additionally measured by the renewal rate offered to the customer.

The Company defers revenue for any undelivered elements, and recognizes revenue when the product is delivered or over the period in which the service is performed, in accordance with the revenue recognition policy for such element. If the Company cannot objectively determine the fair value of any undelivered element included in bundle software and service arrangements, the Company defers revenue until all elements are delivered and services have been performed, or until fair value can objectively be determined for any remaining undelivered elements. When the fair value of a delivered element has not been established, the residual method is used to record revenue if the fair value of all undelivered elements is determinable. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognized as revenue.

Sales of the Company's soap products are recorded upon shipment of goods to customers.

Shipping and handling costs billed to customers are included in sales and recorded when goods are shipped to customers. Shipping costs of the Company are classified as a selling expense.

**Reclassifications**

Certain prior year amounts have been reclassified to conform to the current year presentation.

**Income Taxes**

The Company accounts for income taxes under the liability method. Under this method, deferred tax liabilities and assets are determined based on the difference between the consolidated financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

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**NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**Newly Issued Accounting Pronouncements**

In July 2006, the FASB issued Financial Interpretation ( FIN ) No. 48, *Accounting for Uncertainty in Income Taxes*. FIN No. 48 clarifies the accounting for uncertain tax positions recognized in an entity's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN 48 as of January 1, 2007, as required. The Company is currently in the process of determining the effects that adoption of FIN 48 will have on its financial statements, but does not expect the impact upon adoption will be material.

In September 2006, the FASB issued Statement of Financial Accounting Standards ( SFAS ) No. 157, *Fair Value Measurements*. The standard provides guidance for using fair value to measure assets and liabilities. Under the standard, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. The standard clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, the standard establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the Statement to determine what impact it will have on the Company.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* Including an amendment of FASB Statement No. 115. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for our Company January 1, 2008. The Company is evaluating the impact that the adoption of SFAS No. 159 will have on the consolidated financial statements.

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**NOTE 2. DEFERRED IMPLEMENTATION COSTS**

Deferred implementation costs as of September 30, 2007, totaled \$2,322,290 and represented equipment purchased for customers, payroll and payroll related expenses for customer contracts which have not met certain milestones, customer acceptance or go-live dates. Implementation costs are deferred and recognized ratably over the initial licensing term or upon reaching certain milestones, acceptance criteria or go-live dates depending on the applicable revenue stream. Deferred implementation costs are stated at the lower of cost or market.

**NOTE 3. CONCENTRATION OF CREDIT RISK**

The Company maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents. The Company places its cash with high credit quality financial institutions. Cash held by these financial institutions in excess of FDIC limits amounted to approximately \$493,000 at September 30, 2007. The Company grants credit to customers, substantially all of whom are businesses located in the United States and Canada. The Company typically does not require collateral from customers. The Company monitors exposure to credit losses and maintains allowances for anticipated losses considered necessary in the circumstances.

Approximately 31% of the Company's software licensing fees was derived from 2 customers for the nine months ended September 30, 2007. Customer A and B represented approximately 15% and 16%, respectively, of total software licensing fees for the nine months ended September 30, 2007. Approximately 17% of the Company's software licensing fees were derived from one customer for the nine months ended September 30, 2006.

**NOTE 4. INVESTMENTS PARTNERSHIP AND LIMITED LIABILITY COMPANY**

The Company's limited partnership and limited company interests consist of Consulier's investments in AVM, L.P. and BioSafe Systems, LLC, respectively.

**AVM, L.P.**

Consulier owned an approximate 7.5% limited partnership interest in AVM as of September 30, 2007 and 2006. Based on capital and earnings distributions provided in the partnership agreement, Consulier was allocated approximately 5.5% of AVM's earnings during the nine months ended September 30, 2007 and 2006. Under the partnership agreement, Consulier may withdraw all or any portion of its capital account upon 30 days written notice. AVM's general partner may also expel Consulier from the partnership through payment of the balance of Consulier's capital account.

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**NOTE 4. INVESTMENTS PARTNERSHIP AND LIMITED LIABILITY COMPANY (CONTINUED)**  
**AVM, L.P. (Continued)**

The following is a summary of the results of operations (unaudited) of AVM and the income allocated to the Company:

|                               | <b>Three Months</b>   |             | <b>Nine Months</b>    |             |
|-------------------------------|-----------------------|-------------|-----------------------|-------------|
|                               | <b>Ended</b>          |             | <b>Ended</b>          |             |
|                               | <b>September 30,</b>  |             | <b>September 30,</b>  |             |
|                               | <b>(In Thousands)</b> |             | <b>(In Thousands)</b> |             |
|                               | <b>(Unaudited)</b>    |             | <b>(Unaudited)</b>    |             |
|                               | <b>2007</b>           | <b>2006</b> | <b>2007</b>           | <b>2006</b> |
| Revenues                      | \$ 26,145             | \$ 16,512   | \$ 67,666             | \$ 53,354   |
| Cost and Expenses             | 13,602                | 9,012       | 36,023                | 28,128      |
| Net Income                    | \$ 12,543             | \$ 7,500    | \$ 31,643             | \$ 25,226   |
| Consulier s Share of Earnings | \$ 693                | \$ 406      | \$ 1,728              | \$ 1,357    |

Cost of the Company s interest in AVM, L.P. at September 30, 2007 was \$1,852,133.

**BIOSAFE SYSTEMS, LLC**

Consulier owns a 40% interest in BioSafe Systems, LLC ( BioSafe ). The following is a summary of the results of operations of BioSafe and the income allocated to Consulier:

|                               | <b>Three Months</b>   |             | <b>Nine Months</b>    |             |
|-------------------------------|-----------------------|-------------|-----------------------|-------------|
|                               | <b>Ended</b>          |             | <b>Ended</b>          |             |
|                               | <b>September 30,</b>  |             | <b>September 30,</b>  |             |
|                               | <b>(In Thousands)</b> |             | <b>(In Thousands)</b> |             |
|                               | <b>(Unaudited)</b>    |             | <b>(Unaudited)</b>    |             |
|                               | <b>2007</b>           | <b>2006</b> | <b>2007</b>           | <b>2006</b> |
| Revenues                      | \$ 2,342              | \$ 2,129    | \$ 6,391              | \$ 5,445    |
| Cost and Expenses             | 1,977                 | 1,806       | 5,344                 | 5,057       |
| Net Income                    | \$ 365                | \$ 323      | \$ 1,047              | \$ 388      |
| Consulier s Share of Earnings | \$ 146                | \$ 129      | \$ 419                | \$ 154      |

Net investment in BioSafe Systems, LLC at September 30, 2007 was \$1,277,781.

**NOTE 5. TREASURY STOCK**

Treasury stock consists of 129,746 shares of the Company s common stock, shown at cost. During April 2007, the Company adopted a plan to repurchase up to 50,000 shares of its common stock on the open market at a price not to exceed \$3.75 per share excluding transaction costs. During the nine months ended, September 30, 2007, the Company



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**NOTE 5. TREASURY STOCK (CONTINUED)**

repurchased 24,810 shares of its common stock for \$94,367, representing the market value of the Company's common shares on the date of purchase and broker commissions.

**NOTE 6. EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing net income (loss) available to stockholders by the weighted average number of common shares outstanding during each period. Diluted earnings per share is computed using the weighted average number of common and dilutive potential common shares outstanding during the period. Dilutive potential common shares consist of shares issuable upon the exercise of stock awards (calculated using the treasury stock method) warrants, convertible debt and convertible preferred stock during the period they were outstanding.

Basic and diluted earnings per share for the three and nine months ended September 30, 2007 and 2006 were calculated as follows:

As of September 30, 2007 and 2006, the Company did not have any dilutive outstanding common stock instruments to be included in its diluted earnings per share computation.

|                                                                | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |                |
|----------------------------------------------------------------|---------------------------|-------------|--------------------------|----------------|
|                                                                | <b>September 30</b>       |             | <b>September 30,</b>     |                |
|                                                                | <b>2007</b>               | <b>2006</b> | <b>2007</b>              | <b>2006</b>    |
| <b>BASIC AND DILUTED EARNINGS PER SHARE COMPUTATION:</b>       |                           |             |                          |                |
| <b>NUMERATOR:</b>                                              |                           |             |                          |                |
| Net Income (Loss)                                              | \$ 31,014                 | \$ 209,452  | \$ 603,331               | \$ (2,517,975) |
| <b>DENOMINATOR:</b>                                            |                           |             |                          |                |
| Basic earnings per share weighted average shares outstanding   | 5,360,286                 | 5,243,105   | 5,371,966                | 5,243,105      |
| Effect of dilutive employee stock awards                       |                           | 64,500      |                          | (a)            |
| Diluted earnings per share weighted average shares outstanding | 5,360,286                 | 5,307,605   | 5,476,902                | 5,243,105      |
| Earnings (Loss) per share weighted average shares Outstanding  | \$ 0.01                   | \$ 0.04     | \$ 0.11                  | \$ (0.48)      |

(a) Effect of dilutive employee stock awards were not included in



computing  
diluted earnings  
per share  
because their  
effects were  
antidilutive.

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**NOTE 7. SEGMENT INFORMATION**

Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company has four reportable segments: distribution of household and tool products, ownership of limited liability entities, medical software activities, and corporate. The household and tool products manufacturing segment is engaged in sales of the Captain Cra-Z soap product line and tool and ladder related products. The investments segment maintains investment interests in a limited partnership and a limited liability company (which are together called Limited Liability Companies in the following tables). The corporate segment is engaged in management of the business and finance activities. Segment information as of and for the three and nine months ended September 30, 2007 and 2006 are as follows:

|                                   | <b>Three Months Ended September 30, 2007</b> |                                                                                                        |                                 |                                            |               |
|-----------------------------------|----------------------------------------------|--------------------------------------------------------------------------------------------------------|---------------------------------|--------------------------------------------|---------------|
|                                   | <b>Distribution<br/>Activities</b>           | <b>Income<br/>(Loss)<br/>Derived<br/>From<br/>Ownership of<br/>Limited<br/>Liability<br/>Companies</b> | <b>Corporate<br/>Activities</b> | <b>Medical<br/>Software<br/>Activities</b> | <b>Total</b>  |
| Revenue (b)                       | \$ 7,677                                     | \$                                                                                                     | \$                              | \$ 503,029                                 | \$ 510,706    |
| Operating (Loss)                  | (56,236)                                     |                                                                                                        | (124,561)                       | (1,578,100)                                | (1,758,897)   |
| Other Income (Loss)               |                                              | 838,827                                                                                                | 52,920                          | (88,699)                                   | 803,048       |
| Minority Interest                 |                                              |                                                                                                        |                                 | 882,001                                    | 882,001       |
| Income Tax Benefit<br>(Provision) | 19,120                                       | (283,841)                                                                                              | 24,358                          | 345,225                                    | 104,862       |
| Net Income (Loss) (a)             | (37,116)                                     | 554,986                                                                                                | (47,283)                        | (439,573)                                  | 31,014        |
| Total Assets                      | \$ 59,769                                    | \$ 3,129,914                                                                                           | \$ 2,610,760                    | \$ 4,911,006                               | \$ 10,711,449 |

|                                   | <b>Three Months Ended September 30, 2006</b> |                                                                                                        |                                 |                                            |              |
|-----------------------------------|----------------------------------------------|--------------------------------------------------------------------------------------------------------|---------------------------------|--------------------------------------------|--------------|
|                                   | <b>Distribution<br/>Activities</b>           | <b>Income<br/>(Loss)<br/>Derived<br/>From<br/>Ownership of<br/>Limited<br/>Liability<br/>Companies</b> | <b>Corporate<br/>Activities</b> | <b>Medical<br/>Software<br/>Activities</b> | <b>Total</b> |
| Revenue (b)                       | \$                                           | \$ 4,900                                                                                               | \$                              | \$ 406,712                                 | \$ 411,612   |
| Operating (Loss)                  | (9,228)                                      |                                                                                                        | (253,944)                       | (1,766,173)                                | (2,029,345)  |
| Other Income (Loss)               |                                              | 535,269                                                                                                | 2,095                           | (118,064)                                  | 419,300      |
| Minority Interest                 |                                              |                                                                                                        |                                 | 2,019,643                                  | 2,019,643    |
| Income Tax Benefit<br>(Provision) | 15,340                                       | (678,046)                                                                                              | 365,443                         | 97,114                                     | (200,149)    |

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|                       |           |              |              |              |               |
|-----------------------|-----------|--------------|--------------|--------------|---------------|
| Net Income (Loss) (a) | 6,112     | (142,777)    | 113,594      | 232,520      | 209,449       |
| Total Assets          | \$ 65,999 | \$ 2,737,162 | \$ 3,639,210 | \$ 4,327,379 | \$ 10,769,750 |

(a) All interest expense incurred by the Company was allocated to the Corporate Activities Segment.

(b) There was no intersegment revenue during the period.

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**NOTE 7. SEGMENT INFORMATION (CONTINUED)**

|                                   | <b>Nine Months Ended September 30, 2007</b>                                                            |              |                                 |                                            |               |
|-----------------------------------|--------------------------------------------------------------------------------------------------------|--------------|---------------------------------|--------------------------------------------|---------------|
|                                   | <b>Income<br/>(Loss)<br/>Derived<br/>From<br/>Ownership of<br/>Limited<br/>Liability<br/>Companies</b> |              |                                 |                                            |               |
|                                   | <b>Distribution<br/>Activities</b>                                                                     |              | <b>Corporate<br/>Activities</b> | <b>Medical<br/>Software<br/>Activities</b> | <b>Total</b>  |
| Revenue (b)                       | \$ 16,193                                                                                              | \$           | \$                              | \$ 1,267,982                               | \$ 1,284,175  |
| Operating (Loss)                  | (73,006)                                                                                               |              | (413,794)                       | (5,441,936)                                | (5,928,736)   |
| Other Income (Loss)               |                                                                                                        | 2,147,023    | 172,582                         | (312,273)                                  | 2,007,332     |
| Minority Interest                 |                                                                                                        |              |                                 | 4,815,394                                  | 4,815,394     |
| Income Tax Benefit<br>(Provision) | 24,822                                                                                                 | (729,988)    | 82,012                          | 332,495                                    | (290,659)     |
| Net Income (Loss) (a)             | (48,184)                                                                                               | 1,417,035    | (159,200)                       | (606,320)                                  | 603,331       |
| Total Assets                      | \$ 59,769                                                                                              | \$ 3,129,914 | \$ 2,610,760                    | \$ 4,911,006                               | \$ 10,711,449 |

|                                   | <b>Nine Months Ended September 30, 2006</b>                                                            |              |                                 |                                            |               |
|-----------------------------------|--------------------------------------------------------------------------------------------------------|--------------|---------------------------------|--------------------------------------------|---------------|
|                                   | <b>Income<br/>(Loss)<br/>Derived<br/>From<br/>Ownership of<br/>Limited<br/>Liability<br/>Companies</b> |              |                                 |                                            |               |
|                                   | <b>Distribution<br/>Activities</b>                                                                     |              | <b>Corporate<br/>Activities</b> | <b>Medical<br/>Software<br/>Activities</b> | <b>Total</b>  |
| Revenue (b)                       | \$                                                                                                     | \$ 20,399    | \$                              | \$ 1,257,922                               | \$ 1,278,321  |
| Operating (Loss)                  | (33,644)                                                                                               |              | (1,014,319)                     | (6,441,728)                                | (7,489,691)   |
| Other Income (Loss)               |                                                                                                        | 1,510,759    | (175)                           | (372,518)                                  | 1,138,066     |
| Minority Interest                 |                                                                                                        |              |                                 | 4,044,643                                  | 4,044,643     |
| Income Tax Benefit<br>(Provision) | 15,340                                                                                                 | (688,890)    | 462,557                         |                                            | (210,993)     |
| Net Income (Loss) (a)             | (18,304)                                                                                               | 821,869      | (551,937)                       | (2,769,603)                                | (2,517,975)   |
| Total Assets                      | \$ 65,999                                                                                              | \$ 2,737,162 | \$ 3,639,210                    | \$ 4,327,379                               | \$ 10,769,750 |

(a) All interest expense incurred by the Company was allocated to the

Corporate  
Activities  
Segment.

- (b) There was no intersegment revenue during the period.

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**NOTE 8. INCOME TAXES**

Provisions (benefit) for federal and state income tax in the interim condensed consolidated statements of operations consist of the following:

|                                      | <b>For the Three Months<br/>Ended September 30,</b> |             | <b>For the Nine Months<br/>Ended September 30,</b> |             |
|--------------------------------------|-----------------------------------------------------|-------------|----------------------------------------------------|-------------|
|                                      | <b>2007</b>                                         | <b>2006</b> | <b>2007</b>                                        | <b>2006</b> |
| Current:                             |                                                     |             |                                                    |             |
| Federal                              | \$ 20,669                                           | \$          | \$ 20,669                                          | \$          |
| State                                | 20,000                                              |             | 20,000                                             | 10,844      |
|                                      | 40,669                                              |             | 40,669                                             | 10,844      |
| Deferred:                            |                                                     |             |                                                    |             |
| Federal                              | (134,515)                                           | 200,149     | 225,874                                            | 200,149     |
| State                                | (11,016)                                            |             | 24,116                                             |             |
|                                      | (145,531)                                           | 200,149     | 249,990                                            | 200,149     |
| Total income tax provision (benefit) | \$ (104,862)                                        | \$ 200,149  | \$ 290,659                                         | \$ 210,993  |

Applicable income taxes (benefit) for financial reporting purposes differ from the amount computed by applying the statutory federal income tax rate as follows:

|                                                              | <b>For the Three Months<br/>Ended September 30,</b> |             | <b>For the Nine Months<br/>Ended September 30,</b> |              |
|--------------------------------------------------------------|-----------------------------------------------------|-------------|----------------------------------------------------|--------------|
|                                                              | <b>2007</b>                                         | <b>2006</b> | <b>2007</b>                                        | <b>2006</b>  |
| Tax provision (benefit) at statutory rate                    | \$ (25,108)                                         | \$ 139,264  | \$ 303,956                                         | \$ (784,374) |
| State income tax expense (benefit) net of federal tax effect | (2,680)                                             |             | 32,452                                             | 10,844       |
| Suspended losses ST, LLC                                     |                                                     |             |                                                    | 941,665      |
| Other                                                        | (77,074)                                            | 60,885      | (45,749)                                           | 42,858       |
| Income tax provision (benefit)                               | \$ (104,862)                                        | \$ 200,149  | \$ 290,659                                         | \$ 210,993   |

As of September 30, 2007, the Company had Federal and state tax loss carry-forwards totaling approximately \$560,000 and \$6,400,000, respectively, available to reduce future years income through 2023.

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**NOTE 8. INCOME TAXES (CONTINUED)**

The approximate tax effects of temporary differences that give rise to deferred tax assets (liabilities) as of September 30, 2007, are as follows:

|                               |                |
|-------------------------------|----------------|
| Depreciation and Amortization | \$ 477,063     |
| Tax loss carry forward        | 424,828        |
| Other                         | 42,169         |
| <br>                          |                |
| Total Net Deferred Tax Asset  | <br>\$ 944,060 |

Deferred tax assets and liabilities are reflected on the balance sheet as of September 30, 2007 as follows:

|                                    |                |
|------------------------------------|----------------|
| Net Short-Term Deferred Tax Assets | \$ 41,832      |
| Net Long-Term Deferred Tax Assets  | 902,228        |
| <br>                               |                |
| Net Deferred Tax Assets            | <br>\$ 944,060 |

**NOTE 9: COMMITMENTS AND CONTINGENCIES**

From time to time, the Company is involved in lawsuits and claims in the ordinary course of business. Management does not believe the outcome of any litigation against the Company would have a material adverse effect on the Company's financial position or results of operations.

The Company is a defendant in a lawsuit arising from a fall from a lifeguard stand manufactured by the Company prior to 2000 in a previous line of business. Judith Freshour and Joseph Freshour, her husband vs. Mosler Auto Care Center, Inc. and Consulier Engineering, Inc., Broward County, Florida, Circuit Court, Case No. 03-3156 CACE 25. This suit was filed in 2003 and the Company is insured against this claim.

On August 2, 2006, PCTS was made a defendant to a lawsuit filed by Hill-Rom Services, Inc. et al. vs. Versus Technology, et al., United States District Court, Middle District of North Carolina, Civil Action No. 1:03CV01227, as a successor in interest to Healthcare Information Technology, Inc., and as a customer of a vendor concerning the vendor's disputed patent ownership and unauthorized use of such patents. The plaintiffs also requested a determination that they did not violate their license agreement with PCTS's vendor. The amount of liability, if any, from this claim cannot be determined with certainty; however, management is of the opinion that the outcome of the claims will not have a material adverse impact on the consolidated financial position. Due to uncertainties in the settlement process, it is at least reasonably possible that management's estimate of the outcome may change within the next year.

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**CONSULIER ENGINEERING, INC. AND SUBSIDIARIES  
NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

**NOTE 10. RELATED PARTY TRANSACTIONS  
DUE FROM RELATED PARTIES**

Amounts due from related parties totaled \$200,000 and represent advances to certain members of management. These amounts are unsecured, non-interest bearing and due on demand. The Company has no intention of demanding \$200,000 due from these employees within one year as of September 30, 2007. Accordingly, the Company has classified \$200,000 as a non-current asset on the condensed interim consolidated balance sheet as of September 30, 2007.

**NOTE PAYABLE RELATED PARTY**

ST, LLC has unsecured promissory notes to the majority stockholder totaling \$3,405,062 as of September 30, 2007, the proceeds of which have been used to meet operating funding requirements. These promissory notes accrue interest at 10% per annum, compounding monthly. Interest only is payable annually on the anniversary date of each of the promissory notes. The promissory notes and any accrued interest are due on demand anytime after 10 years from the applicable date of the note. Accordingly, the total unpaid principal balance is included in long-term liabilities on the accompanying condensed interim consolidated balance sheet. The Company may not prepay the principal balance without prior consent of the majority stockholder. Accrued interest on this note totaled \$688,509, which is included in related party payable on the accompanying condensed interim consolidated balance sheet as of September 30, 2007.

**NOTE 11. PURCHASE PRICE ADJUSTMENT**

During the quarter ended September 30, 2007, the Company recorded a purchase price adjustment as a result of converting certain Healthcare Information Technology, Inc. ( HIT ) customers, acquired on September 28, 2004, in PCTS (Note 1), to the Company's patient tracking software within three years of the acquisition agreement. The purchase price adjustment resulted in an increase of \$464,000 to customer lists acquired from HIT and is being amortized over the remaining term of approximately 2 years. The Company paid \$232,000 in cash and issued 1.16% (valued at \$232,000) membership interest in PCTS to the former owners of HIT. As a result of issuing the additional membership interest, minority interest in PCTS was created. In accordance with PCTS's amended partnership agreement, losses are allocated first to Consulier and then to Warren Mosler, up to applicable capital contributions. As of September 30, 2007, none of PCTS's losses have been allocated to the minority interest held by the former owners of HIT.



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**CONSULIER ENGINEERING, INC. AND SUBSIDIARIES**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION  
RESULTS OF OPERATIONS**

Gross revenue, which is predominantly software licensing fees, was approximately 24% greater in the third quarter ended September 30, 2007, compared to the quarter ended September 30, 2006. The Company's licensing fees for the nine months ended September 30, 2007, were slightly increased over the nine months ended September 30, 2006.

The operating loss for the nine months ended September 30, 2007, was approximately \$5.9 million dollars compared to an operating loss for the nine months ended September 30, 2006 of \$7.5 million dollars. This reduction in operating loss of approximately \$1.6 million dollars was largely due to a reduction in operating expenses and professional services, as it relates to software changes in PCTS' primary software solutions, which is nearing completion. The reduction in operating loss is also attributable in part to a reduction of \$275,000 in amortization costs, due to certain intangible assets being fully amortized.

During the quarter ended September 30, 2007, other income (expense) increased by \$384,000, primarily driven by the Company's interest in AVM Ltd., whose income was approximately 58% greater than for the same period of 2006. For the nine months ended September 30, 2007, other income (expense) increased by approximately \$870,000, also primarily due to an increase of more than 27% from the Company's interest in AVM compared to the comparable 2006 period. The results of operations from the Company's interest in BioSafe Systems was approximately 170% greater for the nine months ended September 30, 2007, due to an increase in BioSafe's gross revenue and consequently, increased profits.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (CONTINUED)  
LIQUIDITY AND CAPITAL RESOURCES**

The Company's cash position was increased in the nine months ended September 30, 2007, compared to the comparable period in 2006, predominately by the collection of a refund from the Internal Revenue Service of \$651,000 in the quarter ended September 30, 2007. Net cash flow used in operations for the nine months ended September 30, 2007, was approximately \$4.9 million dollars, compared with cash used in operations of approximately \$5.8 million dollars for the nine months ended September 30, 2006. The primary reason for this difference is due to an increase in the losses allocated to the minority shareholder for approximately \$4,800,000 in the nine months ended September 30, 2007 compared to approximately \$4,000,000 in the nine months ended September 30, 2006.

Net cash provided by financing activities was approximately \$4.1 million for the nine months ended September 30, 2007, primarily as a result of the repayment of the Company's line of credit of \$800,000, approximately \$4.8 million received for the minority member in ST, LLC.

Net cash provided from investing activities relates primarily to the distribution from AVM of approximately \$1,700,000 for the nine months ended September 30, 2007, which was offset by the continued acquisition of software upgrades in the PCTS subsidiary and cash paid for the purchase price adjustment to the HIT Sale of Business agreement.

The Company can require its principal stockholder to purchase its interest in ST, LLC for cash equal to our capital account as of the closing date. Consulier has contributed approximately \$15,750,000 to ST, LLC. As of September 30, 2007, the Company's capital account balance in ST LLC was \$0. It is anticipated that the cash requirements for ST, LLC will decrease in the future as ST, LLC's sales increase.

The ability of Consulier to continue to generate cash flow in excess of its normal operating requirements depends almost entirely on the performance of its limited partnership interest in AVM. Consulier cannot, with any degree of assurance, predict whether there will be a continuation of the net return from our interest in AVM, Ltd., for the nine-months ended September 30, 2007, nor whether we will continue to be able to obtain additional funding when necessary. However, Consulier does not expect that the rate of return will decline to the point where Consulier has negative cash flow. Furthermore, although AVM has given Consulier no indication that it intends to redeem the Company's interest in AVM, there can be no assurance that AVM will not do so in the future.

The Company allowed its \$2,000,000 line of credit available from the bank to expire on May 15, 2007.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (CONTINUED)  
OUTLOOK**

Based on AVM's operation over the past 5 years, management expects continued annualized return in 2007 on its interest in AVM; however, there is no guarantee that the annualized return in the third quarter of 2007 will be maintained throughout fiscal 2007.

Consulier continues to develop new retail and distribution outlets locally, nationally and internationally. However, sales of the Company's primary product, Captain Cra-Z Hand and All Purpose Cleaner, have decreased for the nine months ended September 30, 2007 by 20% over the comparable 2006 period.

In the third quarter, Patient Care Technology Systems (PCTS) implemented its ED information system at an acute care hospital and a concierge emergency medicine facility. The latter implementation integrated ultrasound locating technology from Sonitor Technologies Inc., with which PCTS announced a strategic partnership in the second quarter of calendar 2007. This implementation is PCTS' first installation integrating its automatic patient tracking software within its emergency department charting software and represents one of the first such information system configurations in the United States. Additional implementations are scheduled to go live in the fourth quarter for PCTS' tracking and charting systems.

The Company's income from its interest in BioSafe Systems, LLC was \$146,075 for the three months ended September 30, 2007, which is a 13% increase. For the nine months ended September 30, 2007, the income from BioSafe Systems, LLC, was \$418,910, which is a 172% increase from the nine months ended September 30, 2006. The agricultural market segment continues to be very strong, with a sales increase of 17% over the comparable nine-month period in 2006. The Company believes that it has positioned itself for continued growth in that market segment. The aquatics, home and garden market segments continue to show steady, strong growth and the Company expects their growth in these markets to continue. New products have been very well received by the customers in this market segment. After a slow start in 2007, the turf and ornamental segment has improved and it is expected to finish with sales in excess of the prior year. The Company continues to emphasize extremely tight controls over material and supply costs, which, with our increase in sales, has resulted in a significant gain in year to date net income over the comparable nine months in 2006.

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**ITEM 3. CONTROLS AND PROCEDURES**

Our management has conducted an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities and Exchange Act of 1934, as amended, as of the end of the fiscal quarter covered by this report. Based upon that evaluation, our management has concluded that our disclosure controls and procedures are effective for timely gathering, analyzing and disclosing the information we are required to disclose in the reports filed in the Securities Exchange Act of 1934, as amended. There have been no significant changes made in our internal controls or in other factors that could significantly affect our internal controls during the periods covered by this Report.

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**CONSULIER ENGINEERING, INC. AND SUBSIDIARIES  
PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

The Company is a defendant in a complaint arising from a fall from a lifeguard stand manufactured by the Company prior to 2000 in a previous line of business. Judith Freshour and Joseph Freshour, her husband vs. Mosler Auto Care Center, Inc. and Consulier Engineering, Inc., Broward County, Florida, Circuit Court, Case No. 03-3156 CACE 25. This suit was filed in 2003 and the Company is insured against this claim.

On August 1, 2006, a shareholder derivative lawsuit was filed by a number of shareholders of Patient Care Technology Systems, Inc., formerly ER Quick, Inc., which owns a 25% interest in PCTS. The suit, Richard Aranda, et al. vs. Geoffrey M. Hosta. Et al., San Diego County, CA, Superior Court, Case No. GIC867297 alleges that PCTS misappropriated unspecified assets of Patient Care Technology Systems, Inc. Although plaintiffs had named PCTS, LLC as a defendant in their initial pleadings on November 13, 2006, plaintiffs filed a second amended complaint which did not name PCTS, LLC as a defendant. PCTS, LLC did not settle with plaintiffs and it has not been a party to this lawsuit since November 13, 2006.

On August 2, 2006, PCTS was made a defendant to a lawsuit filed by Hill-Ron Services, Inc. et al. vs. Versus Technology, et al., United States District Court, Middle District of North Carolina, Civil Action No. 1:03CV01227, as a successor in interest to Healthcare Information Technology, Inc., and as a customer of a vendor concerning the vendor's disputed patent ownership and unauthorized use of such patents. The plaintiffs also requested a determination that they did not violate their license agreement with PCTS's vendor.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

On July 17, 2006, The Company's majority shareholder purchased 166,204 shares of common stock by exchanging \$600,000 of The Company's indebtedness to the shareholder. The transaction was exempt from registration pursuant to Section 4(2) of The Securities Act of 1933.

In April 2007, the Company adopted a plan to repurchase up to 50,000 shares of its common stock on the open market at a price not to exceed \$3.75 per share. Since April, 2007 through September 30, 2007, the Company repurchased 24,810 shares of its common stock.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

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**CONSULIER ENGINEERING, INC. AND SUBSIDIARIES  
PART II. OTHER INFORMATION (CONTINUED)**

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

(a) EXHIBITS REQUIRED BY ITEM 601 OF REGULATION S-B

None

(b) CURRENT REPORTS ON FORM 8-K

None

(c) 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002

(d) 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002

(e) 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of Sarbanes-Oxley Act of 2002

(f) 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of Sarbanes-Oxley Act of 2002

The Company has attached Exhibits 31.1, 31.2, 32.1 and 32.2 to this filing to comply with the requirements of the Sarbanes-Oxley Act of 2002.

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**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.

CONSULIER ENGINEERING, INC.

(Registrant)

Date: November 14, 2007

By: /s/ Alan R. Simon, Esq.  
Alan R. Simon, Esq.  
Secretary and Treasurer  
(Principal Financial and Accounting  
Officer)

Date: November 14, 2007

By: /s/ Warren B. Mosler  
Warren B. Mosler  
Chairman of the Board, President &  
Chief Executive Officer  
(Principal Executive Officer)

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