CONSULIER ENGINEERING INC
Form 10-Q
November 14, 2008

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

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2008

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

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

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the preceding 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 x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).Yes o No x

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APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date:

As of November 5, 2008, there were 5,294,748 outstanding shares of common stock, par value $0.01 per share.

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CONSULIER ENGINEERING, INC. AND SUBSIDIARIES

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Report on Form 10-Q 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, and 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.

CONSULIER ENGINEERING, INC. AND SUBSIDIARIES
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PART-I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
CONSULIER ENGINEERING, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2008 (UNAUDITED)	December 31, 2007
ASSETS		
CURRENT ASSETS Cash and Cash Equivalents	$ 345,732	$ 333,024
Receivables	659,416	927,574
Inventories	42,572	40,987
Deferred Implementation Costs	2,167,975	2,024,785
Other Current Assets	58,507	89,663
Income Tax Receivable	94,287	
Deferred Income Taxes	357,514	291,208
Total Current Assets	3,726,003	3,707,241
PROPERTY AND EQUIPMENT, Net	1,328,091	1,473,287
CAPITALIZED SOFTWARE DEVELOPMENT COSTS	81,752	215,204
PARTNERSHIP AND LIMITED LIABILITY COMPANIES INVESTMENTS	3,143,509	3,091,930
DEFERRED INCOME TAXES	604,956	541,988
INTANGIBLE ASSET	481,411	847,339
OTHER ASSETS	30,693	30,693
Total Assets	$ 9,396,415	$ 9,907,682
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts Payable and Accrued Liabilities	$ 1,520,413	$ 1,340,484
Unearned Revenue	1,116,946	822,659
Related Party Payable	229,536	773,646
Income Tax Payable		79,932
Total Current Liabilities	2,866,895	3,016,721
NOTES PAYABLE RELATED PARTY	915,541	3,405,062

COMMITMENTS AND CONTINGENCIES				
MINORITY INTEREST		2,775,010		232,000
STOCKHOLDERS EQUITY:				
Common Stock $.01 Par Value:				
Authorized 25,000,000 Shares; Issued 5,485,122 Shares		54,851		54,851
Additional Paid-in Capital		4,117,221		4,117,221
Accumulated Deficit		(737,425)		(461,135)
		3,434,647		3,710,937
Less:				
Treasury Stock, Cost - 190,374 and 145,262 Shares, respectively		(589,027)		(427,891)
Notes Receivable for Common Stock		(6,651)		(29,147)
Total Stockholders Equity		2,838,969		3,253,899
Total Liabilities & Stockholders Equity	$	9,396,415	$	9,907,682

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

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2008	2007	2008	2007
Revenue:				
Software Licensing Fees	$ 585,117	$ 503,029	$ 1,976,447	$ 1,267,982
Other Revenue	4,447	7,677	13,966	16,193
Total Revenue	589,564	510,706	1,990,413	1,284,175
Operating Costs and Expenses:				
Cost of Revenue	154,746	289,078	912,686	482,023
Payroll and Related Expense	907,099	1,032,168	3,014,569	3,124,554
Selling, General and Administrative	566,181	645,853	1,756,300	1,975,404
Professional Services	270,384	74,636	848,659	898,983
Depreciation and Amortization	269,317	227,868	836,261	731,947
Total Operating Costs and Expenses	2,167,727	2,269,603	7,368,475	7,212,911
Operating (Loss)	(1,578,163)	(1,758,897)	(5,378,062)	(5,928,736)
Other Income (Expense):				
Investment Income Related Parties	538,944	692,752	2,437,336	1,728,113
Net Undistributed Income of Equity Investees	373,707	146,075	496,496	418,910
Interest Expense	(36,523)	(84,618)	(176,431)	(267,676)
Other Income	14,365	48,839	130,750	127,985
Total Other Income (Expense)	890,493	803,048	2,888,151	2,007,332
(Loss) from Operations Before Minority Interest and Income Taxes	(687,670)	(955,849)	(2,489,911)	(3,921,404)
Minority Interest in Consolidated Subsidiary Losses	685,774	882,001	2,087,715	4,815,394
Income (Loss) from Operations Before Income Taxes	(1,896)	(73,848)	(402,196)	893,990
Benefit (Provision) for Income Taxes	(12,259)	104,862	125,906	(290,659)
Net Income (Loss)	$ (14,155)	$ 31,014	$ (276,290)	$ 603,331

Income (Loss) Per Share	Basic and Diluted:	$	0.00	$	0.01	$	(0.05)	$	0.11

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CONSULIER ENGINEERING, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
NINE MONTHS ENDED SEPTEMBER 30, 2008
(UNAUDITED)

	Common Stock Shares	Common Stock Amount	Treasury Stock Shares	Treasury Stock Amount	Additional Paid-in Capital	(Accumulated Deficit)	Notes Receivable for Common Stock	Total Stockholders Equity
Balance, December 31, 2007	5,485,122	$ 54,851	145,262	$ (427,891)	$ 4,117,221	$ (461,135)	$ (29,147)	$ 3,253,899
Net Loss						(276,290)		(276,290)
Purchase of Treasury Stock			45,112	(161,136)				(161,136)
Collection of Notes Receivable for Common Stock							22,496	22,496
Balance, September 30, 2008	5,485,122	$ 54,851	190,374	$ (589,027)	$ 4,117,221	$ (737,425)	$ (6,651)	$ 2,838,969

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CONSULIER ENGINEERING, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30, 2008	2007
Cash Flow (Used in) Operating Activities	$ (3,951,712)	$ (4,916,851)
Investing Activities:		
Acquisition of Software Upgrades	(64,471)	(133,494)
Distributions from Partnership Interest	2,697,649	1,728,113
Purchase Price Adjustment to Intangible Asset		(232,000)
Net Acquisition of Property and Equipment	(127,212)	(46,180)
Increase in Related Party Receivables		(6,557)
Net Cash Provided by Investing Activities	2,505,966	1,309,882
Financing Activities:		
Proceeds from Minority Shareholder in ST, LLC	1,225,663	4,815,394
Increase in Related Party Payables	371,431	255,411
Proceeds from Subscription Receivable	22,496	
Purchase of Treasury Stock	(161,136)	(94,367)
Repayments of Notes Payable-Related Party		(96,649)
Repayments on Line of Credit		(800,000)
Net Cash Provided by Financing Activities	1,458,454	4,079,789
Increase (Decrease) in Cash and Cash Equivalents	12,708	472,820
Cash and Cash Equivalents Beginning of Period	333,024	241,428
Cash and Cash Equivalents End of Period	$ 345,732	$ 714,248
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Paid for Interest	$	$ 16,852
Assignment of Membership Interest to Minority Shareholder	$	$ 232,000

Conversion of Note Payable-Related Party to Class A Stock	$ 3,405,062	$
Conversion of Related Party Payable to Note Payable	$ 915,541	$

The Accompanying Notes are an Integral
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CONSULIER ENGINEERING, INC. AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONDENSED 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 wholly owned subsidiary) markets and distributes Captain Cra-Z Soap . Consulier s income is also derived from ownership of 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 (51%) limited liability company, is a majority member (75%) 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 24% as the Class A member and Consulier s ownership was approximately 51% as of September 30, 2008.

Basis of Consolidation

The accompanying condensed 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% (Note 4).

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

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

Interim Financial Data

The accompanying unaudited condensed 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-Q and Regulation S-X. 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 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, 2008, and the results of their operations and cash flows for the three and nine months ended September 30, 2008 and 2007. 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, 2008. 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, 2007.

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, if any. 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
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
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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 (SFAS) 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 and related-party vendors (Note 10). 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 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
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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 $76,191 and $47,598 for the three months September 30, 2008 and 2007, respectively, and $197,923 and $126,319 for the nine months ended September 30, 2008 and 2007, respectively. Accumulated amortization totaled $1,359,140 at September 30, 2008.

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 three months ended September 30, 2008 and 2007, research and development costs totaled $109,825 and $40,232, respectively, and $405,167 and $662,500 for the nine months ended September 30, 2008 and 2007, respectively. These expenses are included with professional services in the accompanying condensed interim consolidated statements of operations.

Partnership and Limited Liability Company Investments

The Company s interests in AVM and Biosafe constitute less than 50% of the ownership of each entity and are accordingly accounted for using the equity method. The Company owns in excess of 50% of ST, LLC, thereby requiring consolidation. The Company owns less than 7% of AVM; however, the Company has the ability to significantly influence AVM under the terms of AVM s partnership agreement and therefore accounts for the investment using the equity method of accounting. Income or loss is allocated to Consulier based on the partnership or LLC agreements of AVM, BioSafe and ST, LLC. The Company reviews its interest in each of these companies for other than temporary declines in value on a monthly basis by analyzing actual revenue, earnings capacity and estimated future undiscounted cash flows.

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

Partnership and Limited Liability Company Investments (Continued)

Effective April 1, 2005, the operating agreement of ST, LLC 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, 2008, there was approximately $2,775,000 related to this minority interest available to offset future losses.

Effective April 1, 2006, ST, LLC s 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, 2008, the Class A member had invested $22,124,494, which included an investment of $859,000 during the three months ended September 30, 2008. Unpaid cumulative priority returns on the Class A membership interest totaled approximately $2,394,500 as of September 30, 2008, and $1,492,000 as of December 31, 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 $8,570,000 since inception. As of September 30, 2008, 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)).

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

Stock-Based Compensation (Continued)

The Company adopted SFAS 123(R) using the modified-prospective-transition method. Under this method, compensation cost recognized 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, 2005, 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).

During the nine months ended September 30, 2008, there were no stock options granted to employees.

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 include new software license and software license updates and product support revenues and (2) services, which include consulting, advanced product services and education revenues. The following generally describes the revenue accounting followed by the Company.

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.

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

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 PCTS 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