

CONSULIER ENGINEERING INC

Form 10KSB/A

May 04, 2006

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**U. S. SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-KSB/A**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005**

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

**COMMISSION FILE NUMBER 0-17756  
CONSULIER ENGINEERING, INC.**

(Name of small business issuer in its charter)

Florida

59-2556878

(State or other jurisdiction of  
incorporation or organization)

(I.R.S Employer Identification No.)

2391 Old Dixie Highway  
Riviera Beach, FL

33404-5456

(Address of principal executive offices)

(Zip Code)

(561) 842-2492

(Issuer's Telephone Number)

Securities registered under Section 12(b) of the Exchange Act:

Title of each class

Name of each exchange on which registered

None

None

Securities registered under Section 12(b) of the Exchange Act:

Title of each class

Name of each exchange on which registered

None

None

Securities registered under Section 12(g) of the Exchange Act:

**Common Stock and Redeemable Warrants**

(Title of Class)

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

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

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

The Issuer's revenues for the fiscal year ended December 31, 2005 totaled \$956,392.

As of March 24, 2006, there were 5,243,105 outstanding shares of common stock, par value \$0.01 per share. The aggregate market value of the voting stock of the registrant held by non-affiliates of the registrant on March 24, 2006 based on the average bid and asked price on such date was \$4.80.

#### **EXPLANATORY NOTE**

This Amendment No. 1 to our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2005 filed with the Commission on April 17, 2006 is being filed solely to add additional disclosures on the cover page. These amendments speak as of the original filing date of the Form 10KSB for the fiscal year ended December 31, 2005. No other changes have been made to the annual Report on Form 10-KSB.

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**CONSULIER ENGINEERING, INC.**

**2005 FORM 10-KSB ANNUAL REPORT  
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**PART I**

**ITEM 1. DESCRIPTION OF BUSINESS**

**GENERAL DEVELOPMENT OF BUSINESS**

In June 1985, Consulier Engineering, Inc. ( Consulier or the Company ) was incorporated in Florida. Its principal businesses are the development of household and tool products, corporate activities and ownership in limited liability companies, which includes the consolidation of System Technologies, LLC (see below). The company has ownership interests in limited liability companies in developing environmental pesticide alternatives (BioSafe Systems, LLC) and in developing data based integrated emergency room information systems (Systems Technologies, LLC).

Consulier s corporate office is located in Riviera Beach, Florida.

**DESCRIPTION OF BUSINESS SEGMENTS**

**(1) OWNERSHIP IN LIMITED LIABILITY COMPANIES SEGMENT**

**AVM, L.P.**

Consulier owns a 7.5% equity interest in AVM, L.P. ( AVM ), a broker/dealer in U.S. Government securities formed in October 1983 as an Illinois limited partnership and located in West Palm Beach, Florida. AVM is registered with the Commodity Futures Trading Commission as an Introducing Broker (IB) and conducts its IB business with other broker/dealers on a fully disclosed basis. AVM is also registered as a broker/dealer with the Securities and Exchange Commission, and is a member of the National Association of Securities Dealers, Inc. The firm is generally engaged in the brokerage of U.S. Government securities, other fixed income instruments, and arbitrage transactions. Warren B. Mosler ( Mosler ), Consulier s Chairman and majority shareholder is one of the founders of AVM and is a member of the general partner of AVM.

As of December 31, 2005 and 2004, Consulier s limited partnership interest represented approximately 7.5% of AVM s total partnership capital. Allocation of the partnership s income to its partners varies based on amounts of appreciation of the partnership s assets and operating profits of the partnership. Based on earnings distributions provided in the partnership agreement, Consulier was allocated approximately 5.7% of AVM s earnings in 2005 and approximately 8.0% in 2004, amounting to \$1,889,476 and \$2,327,869 for 2005 and 2004, respectively.

Under the partnership agreement, Consulier may withdraw all or any portion of its capital upon 30 days written notice. AVM s general partner may also expel Consulier from the partnership, on 30 days written notice, through return of the balance of Consulier s capital.

**BIOSAFE SYSTEMS, LLC**

Consulier owns a 40% equity interest in BioSafe Systems, LLC. ( BioSafe ), a Connecticut limited liability corporation. BioSafe develops and markets environmentally safe products, alternatives to traditionally toxic pesticides. Consulier is entitled to representation on BioSafe s Board of Managers. BioSafe had revenues of \$6,317,456 and \$6,388,772 for fiscal 2005 and 2004, respectively. Steady and consistent progress has been made with respect to establishing an algaecide/fungicide product into the commercial greenhouse/nursery market. Sales in the 4<sup>th</sup> Quarter dropped 36.1% from 4<sup>th</sup> Quarter of 2004, as the company s customers were affected by the 19<sup>th</sup> worst year for U.S. extreme weather events in history.

**Table of Contents****ITEM 1. DESCRIPTION OF BUSINESS (CONTINUED)  
SYSTEMS TECHNOLOGIES, LLC**

During August 2002 the Company purchased a 14.25% interest in Systems Technologies, LLC ( ST, LLC ), a Nevada limited liability company. During the year ended December 31, 2005, the Company made additional contributions of \$3,367,000 to increase its investment in ST, LLC. As of December 31, 2005, the Company's interest in ST, LLC totaled 57.8%. ST, LLC is a member of Patient Care Technology Systems, LLC, a California limited liability company ( PCTS ). At December 31, 2005, ST, LLC's primary asset was its 75% investment in PCTS. The ST, LLC agreement stipulates that the Company receives allocated losses to the extent that the Company has made capital contributions during the current year or since inception. Consequently, the loss allocated to the Company is greater than 58%. The Company's majority shareholder owns approximately 23.6 %, and together with the Company's 57.8%, the ownership aggregates 81.4%. The Company can require the Company's majority shareholder to purchase its interest in ST, LLC for cash equal to the Company's total capital contributions in ST, LLC at any time with 60 days written notice. Management has evaluated ST, LLC's (primarily PCTS ) projections and related assumptions regarding their operations. In this regard, management periodically compares actual results to these projections. Should actual results be significantly less than the projection, a write down might be considered necessary.

PCTS markets the Amelior patient care systems which are data based integrated emergency room information systems. During 2005, PCTS focused on acquiring new products and marketing and selling its Amelior systems, greatly expanded and upgraded their sales force and by year end had fully operational installations in 63 facilities which can serve approximately 1,665,000 patients annually.

Financial Accounting Standards Board ( FASB ) interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51* ( FIN 46(R) ) requires a variable interest entity ( VIE ) to be consolidated if a party with an ownership, contractual or other financial interest in the VIE is obligated to absorb a majority of the risk of loss from the VIE's activities, is entitled to receive a majority of the VIE's residual returns (if no party absorbs a majority of the VIE's losses), or both. A variable interest holder that consolidates the VIE is called the primary beneficiary. Upon consolidation, the primary beneficiary generally must initially record all of the VIE's assets, liabilities and noncontrolling interests at fair value and subsequently account for the VIE as if it were consolidated based on majority voting interest.

The Company owns a 57.86% equity interest in ST, LLC, however, as stipulated in the amended operating agreement, losses are allocated first to the Company subject to its contributions from inception. Consequently, the loss allocated to the Company was greater than 57.8%. We began consolidating the balance sheet of ST, LLC in accordance with FIN 46(R), as of December 31, 2004. During the year ended December 31, 2004, the Company recorded the investment under the equity method. Effective April 1, 2005, the Company owned in excess of 50% of ST, LLC, thus also requiring consolidation. A cumulative effect adjustment was not recorded upon initial consolidation because the Company had previously recognized its allocated share of losses and our investment had been written down to zero at December 31, 2004. ST, LLC's surplus in stockholders' equity at the December 31, 2004 (adoption date), is reflected as a minority interest liability in the consolidated balance sheet.

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**(2) CORPORATE SEGMENT**

**GENERAL**

Consulier's Corporate Segment includes management and finance activities as well as consulting, engineering, new product development and business management. Since C-6 Products, Inc. was merged into the Company during the 3<sup>rd</sup> Quarter of 2004, the Company's only wholly owned subsidiary is Consulier International, Inc.

**ITEM 1. DESCRIPTION OF BUSINESS (CONTINUED)**

**(3) HEALTHCARE INFORMATION AND TRACKING SYSTEM**

PCTS markets the Amelior patient care systems which are data based integrated emergency room information systems. During the last Quarter of 2004, PCTS purchased Healthcare IT for \$1,240,000. Healthcare IT, Inc. is a provider of automatic tracking technology for emergency departments and Operating Rooms. The system tracks the real time status and location of patients and assets through wireless technology. During the third Quarter of 2005, PCTS purchased the Paper Template product line and technology from nuMedica, Inc. for \$592,223. Paper Templates can be used by hospital emergency departments that are not ready to convert to a data based computerized integrated information system. During the fourth Quarter of 2005, PCTS purchased emergency medical department tracking software from nuMedica, Inc. for \$150,000 to be integrated with the active tracking technology acquired from Healthcare IT. PCTS offers advanced clinical information systems to hospitals emergency department to which it will cross market the automatic tracking technology of Healthcare IT, and the Paper Template technology and emergency medical department patient tracking software acquired from nuMedica, Inc.

**ITEM 2. DESCRIPTION OF PROPERTY**

Consulier's headquarters are located in Riviera Beach, Florida, occupying approximately 500 square feet of office space in a building owned by Warren Mosler, the Company's majority shareholder.

Consulier owns a 47,000 square foot industrial warehouse in Medley, Florida, which is leased to Southeast Automotive Acquisition Company, a former subsidiary, for a five (5) year term which commenced on July 1, 2002 with an initial base rent of \$10,000 per month; the lease contains provisions for annual CPI rental increases and two (2) options to renew for additional terms of five (5) years each.

**ITEM 3. LEGAL PROCEEDINGS**

The Company, from time to time, is involved in routine litigation arising in the ordinary course of business. While the outcome of litigation can never be predicted with certainty, the Company does not believe that any existing litigation, individually or in aggregate, will have a material adverse effect upon the Company.

As of December 31, 2005, there were no legal proceedings pending against the Company or its subsidiaries nor did the Company have any knowledge of any proceedings which were being contemplated except a personal injury claim concerning a fall from a lifeguard stand manufactured by the Company (prior to 2000 in a previous line of business), which was filed on May 16, 2003. Although the outcome of any litigation cannot be guaranteed with certainty and the Company maintains insurance coverage for this type of claim, there is a good likelihood that the Company will succeed in its defense of this claim.

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

The election of five directors and the approval of independent auditors were submitted to a vote of shareholders by written agreement of holders of 4,390,826 shares of common stock in lieu of an annual meeting effective December 7, 2005. 88.4% elected the Directors and ratified the Goldstein Lewin & Co. appointment. No proxies or ballots were solicited from the remainder of the shareholders. Additionally, on December 30, 2005, an annual informational meeting of stockholders was held to fully comply with all securities laws, rules and regulations applicable to such meeting, including, without limitation, the Securities Act of 1933, as Amended ( Securities Act ), the Securities Exchange Act of 1934, as Amended (the Exchange Act ), and the rules and regulations promulgated under the Securities Act by the Securities and Exchange Commission.

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**Table of Contents****PART II****ITEM 5. MARKET FOR THE COMMON EQUITY AND RELATED STOCKHOLDER MATTERS  
MARKET PRICE AND DIVIDENDS**

The following table sets forth, for the periods indicated, the high and low bid prices for Consulier's common stock, as reported by NASDAQ.

| <b>Year Ended December 31, 2004</b> | <b>High</b> | <b>Low</b> |
|-------------------------------------|-------------|------------|
| First quarter                       | \$ 5.25     | \$ 2.50    |
| Second quarter                      | 4.00        | 2.75       |
| Third quarter                       | 3.40        | 2.25       |
| Fourth quarter                      | 5.50        | 2.75       |

| <b>Year Ended December 31, 2005</b> | <b>High</b> | <b>Low</b> |
|-------------------------------------|-------------|------------|
| First quarter                       | \$ 3.95     | \$ 3.00    |
| Second quarter                      | 15.00       | 3.00       |
| Third quarter                       | 9.94        | 3.07       |
| Fourth quarter                      | 8.20        | 4.50       |

As of March 21, 2006, there were approximately 340 record holders of Consulier's common stock. To date, Consulier has not paid any dividends on its common stock. Because of the financial requirements of the Company, the Board of Directors has no current intention to commence paying dividends. Future dividend policy will depend upon Consulier's profitability, capital requirements and other factors.

**NASDAQ LISTING**

Consulier's common stock (Symbol: CSLR) is listed on the NASDAQ SmallCap Market and has been traded thereon since Consulier's initial public offering in May 1989.

**ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION  
FORWARD LOOKING STATEMENTS**

Statements made in this Management's Discussion and Analysis and elsewhere in this Annual Report that state Consulier's or management's intentions, hopes, beliefs, expectations or predictions of the future contain forward looking statements. Such forward looking statements include, without limitation, statements regarding Consulier's planned capital expenditure requirements, cash and working capital requirements, Consulier's expectations regarding the adequacy of current financing arrangements, product demand and market growth, other statements regarding future plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. It should be noted that Consulier's actual results could differ materially from those contained in such forward looking statements mentioned above due to adverse changes in any number of factors that affect Consulier's business including, without limitation, risks associated with investing in BioSafe, AVM and ST, LLC, and the marketing of Cra-Z Soap products, manufacturing and supply risks, risks concerning the protection of Consulier's patents, reliance upon distributors, regulatory risks, risks of expansion, product liability and other risks described herein.

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**ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (CONTINUED)  
CRITICAL ACCOUNTING POLICIES**

Management believes the following critical accounting policies affect the significant judgments and estimates used in the preparation of the consolidated financial statements:

The Company's consolidated balance sheet includes the assets and liabilities of ST, LLC, as of December 31, 2004, which was consolidated as a variable interest entity through April 1, 2005. The Company began consolidating ST, LLC under traditional consolidation rules subsequent to April 1, 2005 because it had acquired more than a 50% ownership interest. The consolidated statement of operations reflects the operations of ST, LLC for the year ended December 31, 2005 and reflects the allocated loss from ST, LLC for 2004. The financial activity is consolidated at December 31, 2005 and for the year ended December 31, 2005.

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.

Financial Reporting Release No. 60, as released by the U.S. Securities and Exchange Commission, encourages all companies to include a discussion of critical accounting policies or methods used in the preparation of consolidated financial statements. Note 1 to the Company's consolidated financial statements includes a summary of the significant accounting policies and methods used in the preparation of Consulier's consolidated financial statements.

**PARTNERSHIP AND LIMITED LIABILITY COMPANY INVESTMENTS**

The Company's Partnership and Limited Liability Company investments, both of which are less than 50% interests, are accounted for using the equity method. Income or loss is allocated by the investee to Consulier based on the partnership and LLC agreements.

**REVENUE RECOGNITION**

Sales are recorded upon shipment of goods to customers for the Company's household and tool products. 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.

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 are included in software license updates and product

**Table of Contents****ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (CONTINUED)  
REVENUE RECOGNITION (CONTINUED)**

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 use estimates in connection with the determination of the amount of software and services revenues to be recognized in each accounting period.

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) customer payment is deemed fixed or determinable and free of contingencies or significant uncertainties; and (4) collection is probable.

Substantially all new software license revenue is 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 are 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 are 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.

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, as measured by the renewal rate offered to the customer.

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**ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (CONTINUED)  
REVENUE RECOGNITION (CONTINUED)**

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 bundled 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.

**USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

**RESULTS OF OPERATIONS**

**CONSOLIDATED OPERATING RESULTS FROM CONTINUING OPERATIONS** During the twelve months ended December 31, 2005, sales increased \$907,766 to \$956,392 over the prior twelve months. Total operating costs and expenses increased by \$8,207,450 as a result of the consolidation of ST, LLC.

Other income, consisting primarily of investment income, less net undistributed loss of equity investees reflects a total other income of \$2,033,410 in 2005, compared to total loss from other income of \$3,326,815 during 2004. The primary reason for the increase in other income was due to the consolidation of ST, LLC in 2005 as opposed to the equity method of accounting for the loss \$6,029,544 in 2004.

**INVESTMENT IN AVM** Investment income from Consulier's AVM limited partnership interest was \$1,889,476 in 2005, an 18.8% decrease from 2004 income of \$2,327,869. This represents annualized returns of 102% and 126% on Consulier's average investment during the years ended December 31, 2005 and 2004, respectively.

**INVESTMENT IN BIOSAFE** Equity in income of BioSafe was \$236,604 in 2005, a 17.5% decrease over 2004 income of \$286,953. This represents the Company's 40% interest in BioSafe's net income of approximately \$591,000 in 2005, compared to approximately \$717,000 in 2004. The Company received distributions from BioSafe of \$125,104.

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**ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (CONTINUED)  
OUTLOOK FOR 2006**

Based on AVM's recent operations and operating results over the past five years, management expects continued annualized returns in 2006 on Consulier's limited partnership investment. However, there is no guarantee that the returns of 102% and 126% in 2005 and 2004, respectively, will be maintained.

Consulier International, Inc. has been developing new retail and distribution outlets locally, nationally and internationally. There are several trade shows scheduled for marketing the Cra-Z Hand and All Purpose Cleaner throughout 2006 and the internet web site continues to be a good lead generator with applications for distribution being received through the site from countries all over the world and new marketing materials are being developed. BioSafe Systems, LLC ended 2005 at only 1.1% below 2004 sales in spite of 2005 being the third worst year for U.S. extreme weather events in US history. The agricultural segment actually finished the year ahead of 2004 net income by 2.1%. The company continues to emphasize tight controls over raw materials and supply costs, and were able to slightly grow gross margins in 2005. A per pallet fuel surcharge was initiated in the final quarter to offset the impact of oil prices on freight rates.

The Company intends to substantially increase its investment in ST, LLC over the next three to five years. While the exact amount of the Company's future investment has not been quantified at this time, it is expected that the investment will be between \$5 million and \$7 million. The exact amount will be based upon market acceptance of PCTS's Amelior products and the need for investment funds. PCTS currently has contracts for 10 additional installations which are scheduled to be in place during the 2<sup>nd</sup>, 3<sup>rd</sup>, and 4<sup>th</sup> quarters of 2006. The new installations which should serve approximately 340,000 patients would bring the estimated number of patients to approximately 2,000,000 annually. During 2006 PCTS plans to expand its product scope to incorporate solutions for departments in addition to Emergency Room, such as Operating Room, ICU and Labor & Delivery. PCTS plans to concentrate on selling and marketing their newly acquired Active Tracking solutions, emergency medical department patient tracking technology and Paper Templates, and further developing their product offerings by developing strategic partnerships with vendors that offer unique technologies and augment their core emergency department information system.

**LIQUIDITY AND CAPITAL RESOURCES**

At December 31, 2005, Consulier's cash totaled \$274,820 as compared to \$117,124 at December 31, 2004, an increase of \$157,696. Net cash used by operations was \$7,724,867 in 2005, compared to net cash provided by operations of \$483,788 in 2004. Net cash used by operations is a result of the consolidation of ST, LLC as opposed to reporting on the equity method.

Net cash provided by investing activities was \$680,081 in 2005, compared to net cash used in investing activities of \$1,282,666 in 2004. The increase is primarily due to the consolidation of ST, LLC as opposed to reporting the contributions to ST, LLC on the equity method in 2004.

Net cash provided by financing activities was \$7,202,482 in 2005, compared to net cash used in financing activities of \$86,611 in 2004. The increase was primarily due to the consolidation of ST, LLC as opposed to reporting the contributions to ST, LLC on the equity method in 2004 and additional loans from the Company's majority shareholder.

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**ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (CONTINUED)  
LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)**

The ability of Consulier to continue to generate cash flow in excess of its operating requirements depends in the short-term almost entirely on the performance of its limited partnership investment in AVM. Consulier cannot, with any degree of assurance, predict whether there will be a continuation of the net return experienced in the period the AVM limited partnership interest has been owned. 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 of any intention on its part to redeem the partnership interest, there can be no assurance that AVM will not do so in the future. Consulier is planning to continue to invest in ST, LLC and estimates an additional investment of \$5 million to \$7 million, at which time the goal is for ST, LLC to be at the break-even point for its operations. The Company does not trade derivative instruments. The Company is invested in AVM, which enters various transactions involving derivatives and other off-balance sheet financial instruments. These derivatives and off-balance sheet instruments are subject to varying degrees of market and credit risk.

**IMPACT OF INFLATION AND CHANGING PRICES**

Management does not consider the impact of inflation on Consulier's operations to be material. The operating segments of its businesses had inventories of \$64,581 as of December 31, 2005. Considering the dollar value of inventory and the gross profit margins generated by sales, moderate rates of inflation should have little, if any, effect on the business. Product development expenditures will be significantly reduced, but such expenditures should not be significantly affected by inflation.

**ITEM 7. FINANCIAL STATEMENTS**

See table of contents to Financial Statements on page F-1.

**ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND  
FINANCIAL DISCLOSURE**

**CHANGES IN CERTIFYING ACCOUNTANTS**

None.

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**ITEM 8a. CONTROLS AND PROCEDURES**

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of the end of the period covered by the annual report, being December 31, 2005, we have carried out an evaluation of the effectiveness of the design and operation of our Company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of our Company's management including our Company's President along with our company's Chief Financial Officer. Based upon that evaluation, our Company's President along with our Company's Chief Financial Officer concluded that our Company's disclosure controls and procedures are effective. Based upon that evaluation, no change in our Company's internal controls over financial reporting has occurred during the quarter then ended, which has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Disclosure controls and procedures and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time period specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure the information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 is accumulated and communicated to management including our President and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

**Table of Contents****PART III****ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS;  
COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT****DIRECTORS**

| <b>Director Name</b> | <b>Age</b> | <b>Since</b> | <b>Positions and Offices Held and Principal Occupation or Other Employment during the Past Five Years</b>   |
|----------------------|------------|--------------|---|
| Warren B. Mosler     | 56         | 1985         | Chairman of the Board, 1985 to present. President and Chief Executive Officer, June 1985 to May 1994. In February 1999, Mr. Mosler reassumed the positions of President and Chief Executive Officer. Principal in AVM, L.P., a broker/dealer engaged in arbitrage and government securities trading, 1983 to present.   |
| Alan R. Simon, Esq.  | 55         | 1985         | General Counsel, Treasurer and Secretary since November 2001. 1982 to present, private practice of law in Palm Beach Gardens, Florida. President of Consulier International, Inc.   |
| Burck E. Grosse      | 76         | 1992         | 1991 to present, President, BG Consulting Group, Inc. July 1987 to 1991, Senior Vice President, Lear Group, Inc., general contracting firm. 1948 to 1987, General Motors Corporation. Last position General Director, Technical Service; responsible for coordination of all technical service functions for GM car and truck division.   |
| Jean-Pierre Arnaud   | 58         | 2005         | Mr. Arnaud worked for Eastman Kodak Company in the USA and UK in various areas involving health imaging, including manufacturing, sales, marketing, and management. In 1991 Mr. Arnaud performed financial auditing services for Fotcor (Brazil). During 1991, he received his M.A. in International and Public Affairs, International Business and Finance from Columbia University. |
| Dr. Skender Fani     | 66         | 1999         | Dr. Fani is the Chairman of the Board of Otis Elevators, Austria. Dr. Fani is a corporate lawyer in Austria, also specializing in sports and entertainment law. For the past 20 years he has represented top sports and entertainment personalities throughout Europe.  |

No family relationships exist among the directors and officers of Consulier. Messrs. Mosler and Simon have been directors since the inception.

**EXECUTIVE OFFICERS**

The principal occupation of each executive officer of Consulier is set forth below. All of the executive officers are elected annually, or until their successors have been duly elected.

Warren B. Mosler, 56, is the Chairman of the Board of Directors. Mr. Mosler has served as Chairman since the inception of Consulier and as Chief Executive Officer from inception to March 1989 and from August 1989 to May 1994. In February 1999 Mr. Mosler reassumed the positions of President and Chief



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**ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS;  
COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT (CONTINUED)  
EXECUTIVE OFFICERS (CONTINUED)**

Executive Officer. From 1983 to the present, Mr. Mosler has been a principal in AVM, LP, a broker/dealer engaged in arbitrage and government securities trading in West Palm Beach, Florida.

Alan R. Simon, 55, is a director, and has served as the Corporation's General Counsel and its Secretary-Treasurer since November 2001. He has been in the private practice of law in Boca Raton, Florida since 1982, and has relocated his practice to Palm Beach Gardens, Florida in 2001. He is also President of Consulier International, Inc.

Tony Marsico was the founder and president of Healthcare Information Technology, Inc. from 1997 through 2004, when its assets were purchased by Patient Care Technology Systems, LLC. Mr. Marsico served as Vice President of RCTS heading several departments ranging from active tracking to customer service from 2004 until he became President and CEO of PCTS. Mr. Marsico holds a Masters Degree in Technical and Scientific Communications from Miami University of Ohio and a B.S. degree in Physics and Mathematics from Wolford College.

**IDENTIFICATION OF AUDIT COMMITTEE**

The Audit Committee of the Company is currently composed of three directors (Burck E. Grosse, Jean-Pierre Arnaud and Skender Fani) and operates under a written charter adopted by the Board of Directors. The Company's audit committee is responsible for: (1) selection and oversight of our independent accountant; (2) establishing procedures for the receipt, retention and treatment of complaints regarding accounting, internal controls and auditing matters; (3) establishing procedures for the confidential, anonymous submission by our employees of concerns regarding accounting and auditing matters; (4) engaging outside advisors; and, (5) funding for the outside auditor and any outside advisors engagement by the audit committee.

**AUDIT COMMITTEE FINANCIAL EXPERT**

The Company's board of directors does not have an audited committee financial expert, within the meaning of such phrase under applicable regulations of the Securities and Exchange Commission, serving on its audit committee. The board of directors believes that all members of its audit committee are financially literate and experienced in business matters, and that one or more members of the audit committee are capable of (i) understanding generally accepted accounting principles (GAAP) and financial statements, (ii) assessing the general application of GAAP principles in connection with our accounting for estimates, accruals and reserves, (iii) analyzing and evaluating our financial statements, (iv) understanding our internal controls and procedures for financial reporting; and (v) understanding audit committee functions, all of which are attributes of an audit committee financial expert. However, the board of directors believes that there is not any audit committee member who has obtained these attributes through the experience specified in the SEC's definition of audit committee financial expert. Further, like many small companies, it is difficult for the Company to attract and retain board members who qualify as audit committee financial experts, and competition for these individuals is significant. The board believes that its current audit committee is able to fulfill its role under SEC regulations despite not having a designated audit committee financial expert.

**CODE OF BUSINESS CONDUCT AND ETHICS**

The Company has adopted a comprehensive code of ethics that applies to its principle officers and persons performing similar functions.

**Table of Contents****ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS;  
COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT (CONTINUED)  
CODE OF BUSINESS CONDUCT AND ETHICS (CONTINUED)**

The Company is committed to sound principles of corporate governance. The Company has adopted standards of business conduct applicable to all of its Board members and employees including the Chief Executive Officer and the Secretary/Treasurer.

**ITEM 10. EXECUTIVE COMPENSATION  
SUMMARY COMPENSATION TABLE**

The following table sets forth the aggregate compensation paid to Consulier's Chief Executive Officer for the last three years:

**SUMMARY COMPENSATION TABLE**

| <b>Name and Principal Position</b>                               | <b>Fiscal<br/>Year</b> | <b>Salary</b> | <b>All Other<br/>Compensation</b> |
|--|------------------------|---------------|-----------------------------------|
| Warren B. Mosler,<br>Chairman of the Board,<br>President and CEO | 2005                   | \$75,000      | \$                                |
|  | 2004                   | \$75,000      | \$                                |
|  | 2003                   | \$75,000      | \$                                |

Certain columns have been omitted from the above table because there is no compensation required to be reported in such columns.

**OPTION/SAR GRANTS IN LAST FISCAL YEAR NEED TO CONFIRM**

There were no stock options/SARs granted to executive officers during 2005 requiring disclosure.

**AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END  
OPTION/SAR VALUES**

There were no stock options/SARs exercised during 2005 and no stock options/SARs outstanding at December 31, 2005.

**LONG-TERM INCENTIVE AND PENSION PLANS**

On January 1, 1998 employees of Consulier became members of the Mosler Auto Care Center, Inc. 401(k) Retirement Plan (the Plan). The Plan allows employees to save up to 15% of their gross pay. Consulier may match a percentage of the employees' savings contributions or provide more money, through discretionary contributions. During 2005 and 2004 there were no matching or discretionary contributions made by the Company to employees' accounts. The benefit derived by employees was the tax deferral on earnings until they receive them as benefits. Mr. Mosler and the directors do not participate in this Plan.

The employees of Patient Care Technology Systems (which is 75% owned by ST, LLC) are members of a 401(k) retirement plan. This plan allows employees to save up to 100% of compensation to a maximum of \$15,000 as prescribed by the Internal Revenue Service code. The company does not contribute to the plan or match any employee contribution.

**Table of Contents****ITEM 10. EXECUTIVE COMPENSATION (CONTINUED)  
COMPENSATION OF DIRECTORS**

Directors are compensated \$100 for attendance at each Board of Directors meeting.

**ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following officers and directors of Consulier beneficially own the indicated number of shares of Common Stock of Consulier as of December 31, 2005:

| <b>Title of Class</b> | <b>Name and Address of Beneficial Owner</b>   | <b>Amount and Nature Of Beneficial Ownership</b> | <b>Percent of Class at December 31, 2005</b> |
|-----------------------|---|--|--|
| Common Stock          | Warren B. Mosler<br>5000 Estate Southgate<br>Christainsted, USVI 00820              | 4,358,100  | 83.1%  |
| Common Stock          | Alan R. Simon<br>8295 North Military Trail, Suite C<br>Palm Beach Gardens, FL 33410 | 201,368(1)                                       | 3.8%   |
| Common Stock          | Burck E. Grosse<br>11 Huntly Circle<br>Palm Beach Gardens, FL 33418                 | 10,000<br>4,569,468                              | (2)<br>87.1%                                 |
|                       | All directors and executive<br>Officers as a group (3 people)                       | 4,569,468  | 87.1%  |

(1) Includes options to acquire 190,000 shares of Consulier common stock from Mr. Mosler at \$1.25 per share.

(2) Does not exceed one (1%) percent of the class.

**ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

In May 2000, Consulier moved its headquarters to Riviera Beach, Florida occupying approximately 500 square feet of office space in a building owned by Warren B. Mosler, Consulier's Chairman of the Board, President and CEO.

**LEASE OF REAL ESTATE**

Consulier owns a 47,000 square foot industrial warehouse in Medley, Florida, which is leased to Southeast Automotive Acquisition Company, its former subsidiary, for a five (5) year term which commenced July 1, 2002 with an initial base rent of \$10,000 per month; the lease contains provisions for annual CPI rental increases and two

(2) options to renew for additional terms of five (5) years each.

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**ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K**

(a) Exhibits See index subsequent to Annual Report.

(b) No reports on Form 8-K were filed during the last quarter of the period covered by this report.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

**AUDIT FEES**

The aggregate audit fees billed to Consulier by Goldstein Lewin & Co. for professional services rendered for the audited annual financial statements included in our Annual Report on Form 10-KSB for the year ended December 31, 2004 and for the review of quarterly financial statements included in our Quarterly Report on Form 10-QSB for the quarters ended March 31, 2005, June 30, 2005 and September 30, 2005 was \$153,339.

**AUDIT-RELATED FEES**

None.

**TAX FEES**

None.

**ALL OTHER FEES**

None.

**AUDIT COMMITTEE POLICIES**

Effective May 6, 2003, the Securities and Exchange Commission adopted rules that require that before our independent auditor is engaged by us to render any auditing or permitted non-audit related service, the engagement be: approved by our audit committee; or

entered into pursuant to pre-approval policies and procedures established by the audit committee, provided the policies and procedures are detailed as to the particular service, the audit committee is informed of each service, and such policies and procedures do not include delegation of the audit committee's responsibilities to management.

The audit committee pre-approves all services provided by our independent auditors, including those set forth above. The audit committee has considered the nature and amount of fees billed by Goldstein Lewin & Co. and believes that the provision of services for activities unrelated to the audit is compatible with maintaining Goldstein Lewin & Co.'s independence.

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**SIGNATURES**

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed by the undersigned, thereunto duly authorized.

**CONSULIER ENGINEERING, INC.**

*Dated: April 17, 2006*

By: */s/ Warren B. Mosler*  
*Warren B. Mosler*  
*Chairman of the Board of Directors,*  
*President and Chief Executive Officer*

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

| <b>Name</b>                   | <b>Title</b>   | <b>Date</b>    |
|-------------------------------|--|----------------|
| <i>/s/ Warren B. Mosler</i>   | Chairman of the Board of Directors,<br>President and Chief Executive Officer | April 17, 2006 |
| Warren B. Mosler              |  |                |
| <i>/s/ Alan R. Simon</i>      | Secretary, Treasurer   | April 17, 2006 |
| Alan R. Simon                 |  |                |
| <i>/s/ Burck E. Grosse</i>    | Director   | April 17, 2006 |
| Burck E. Grosse               |  |                |
| <i>/s/ Skender Fani</i>       | Director   | April 17, 2006 |
| Skender Fani                  |  |                |
| <i>/s/ Jean-Pierre Arnaud</i> | Director   | April 17, 2006 |
| Jean-Pierre Arnaud            |  |                |

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**CONSULIER ENGINEERING, INC. AND SUBSIDIARIES  
FORM 10-KSB ITEM 7 CONSOLIDATED FINANCIAL STATEMENTS  
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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Stockholders and Board of Directors  
Consulier Engineering, Inc. and Subsidiaries  
Riviera Beach, Florida

We have audited the accompanying consolidated balance sheet of Consulier Engineering, Inc. and Subsidiaries as of December 31, 2005 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the two years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Consulier Engineering, Inc. and Subsidiaries as of December 31, 2005 and the results of their operations and their cash flows for each of the two years then ended in conformity with U.S. generally accepted accounting principles.

/s/ Goldstein Lewin & Co.  
Certified Public Accountant

April 14, 2006  
Boca Raton, Florida

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

**NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**NATURE OF BUSINESS**

Consulier Engineering, Inc. (Consulier) and its subsidiaries are engaged in three primary business lines: the distribution of ownership in limited liability companies, medical software activities and Captain Cra-Z Soap . Consulier International, Inc. (a subsidiary) markets and distributes Captain Cra-Z Soap . Consulier's income is derived from ownership of limited liability companies and limited partnership interests (Note 9) in BioSafe Systems, LLC ( BioSafe ), Systems Technologies, LLC ( ST, LLC ) 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 is a majority member (75%) of Patient Care Technology Systems, LLC ( PCTS ) which develops and licenses data based integrated emergency room information systems Amelior ED . Mosler's ownership in ST, LLC was approximately 24% as of December 31, 2005. On September 28, 2004, PCTS acquired all of the assets and assumed certain liabilities of Healthcare Information Technology, Inc. ( HIT ), a provider of passive tracking technologies for emergency departments and operating rooms. The software technologies acquired from HIT tracks the status and location of patients and assets through wireless badges worn by people and staff or attached to equipment in the emergency department and ancillary areas. On July 15, 2005 and November 10, 2005, PCTS, LLC acquired certain assets of nuMedica, Inc. ( nuMedica ), which designs, customizes, markets, sells and distributes paper templates used for diagnostic purposes in emergency medical departments (Note 4). On October 8, 2004, the Company merged C-6 Products, Inc., a wholly-owned subsidiary, into Consulier Engineering, Inc. C-6 Products, Inc. distributed the Tool Topper™ products.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**BASIS OF CONSOLIDATION**

The accompanying consolidated financial statements include Consulier and its wholly-owned subsidiary, Consulier International, Inc. and majority-owned ST, LLC, (collectively known as the Company ). The Company began consolidating ST, LLC, a variable interest entity ( VIE ), as of December 31, 2004. Effective April 1, 2005, Consulier increased its ownership in ST, LLC to 58% (Note 2).

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%. For investments in partnerships that meet the criteria of a VIE and where the Company is deemed to be the primary beneficiary for accounting purposes, such entities are consolidated effective December 31, 2004 (Note 2).

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

**NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**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, revenue reserves, inventory reserves, depreciation and amortization, taxes, contingencies and impairment allowances. Such estimates are reviewed on an on-going basis and actual results could differ from these estimates and those differences may be material.

**CASH AND CASH EQUIVALENTS**

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company had no restricted cash equivalents as of December 31, 2005.

**ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS**

The Company evaluates the collectibility of its accounts receivable based on a combination of factors. In cases where the Company is aware of circumstances that may impair a specific customer's ability to meet its financial obligations to the Company, the Company records a specific allowance against amounts due to us, and thereby reduce the net recognized receivable to the amount the Company reasonably believes will be collected. For all other customers, the Company recognizes allowances for doubtful accounts based on the length of time the receivables are past due, the current business environment and historical experience.

Accounts receivable are customer obligations due under normal trade terms. Management performs continuing credit evaluations of customers' financial condition and generally does not require collateral. Management reviews accounts receivable on a monthly basis to determine if any receivables will potentially be uncollectible. The Company includes any accounts receivable balances that are determined to be uncollectible, along with a general reserve, in its overall allowance for doubtful accounts. The general reserve is based upon historical collection experience, current economic conditions and market conditions. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. Based on the information available, management believes its allowance for doubtful accounts as of December 31, 2005 is adequate. However, actual write-offs might exceed the recorded allowance.

**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. However, ST, LLC's customers typically have been well-established hospitals or medical facilities. However, 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.

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

**NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

To date, ST, LLC 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 reduction in revenues from existing customers could materially and adversely affect the Company's operating results. Approximately 60% of the Company's software licensing fees are derived from 3 customers. Customer A, B and C represented approximately 25%, 20% and 15%, respectively, of total software licensing fees. ST, LLC 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.

**INVENTORIES**

Inventories are stated at the lower of cost (first-in, first-out method) or market by analyzing market conditions, current sales prices, inventory costs, and inventory balances. The Company evaluates inventory balances for excess quantities and obsolescence on a regular basis by analyzing backlog, estimated demand, inventory on hand, sales levels and other information. Based on that analysis, the Company's management estimates the amount of provisions made for obsolete or slow moving inventory.

**PROPERTY AND EQUIPMENT**

Property and equipment are recorded at cost, less accumulated depreciation. Property and equipment under capital leases, if any, are stated at the lower of the present value of the minimum lease payments at the beginning of the lease term or the fair value at the inception of the lease. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Amortization expense on assets acquired under capital leases, if any, is included in depreciation expense. The costs of leasehold improvements are amortized over the lesser of the lease term or the life of the improvement.

**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.

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 \$309,944 for the year ended December 31, 2005. Accumulated amortization totaled \$619,920 at December 31, 2005.

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

**NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**INTANGIBLE ASSETS**

Intangible assets consist of customer lists acquired in connection with the acquisition of certain assets from HIT (Note 2) and nuMedica (Note 4), which are being amortized, over three to five years, using the straight-line method, and non-compete agreements, which are 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.

**LONG-LIVED ASSETS IMPAIRMENTS AND DISPOSALS**

The Company accounts for long-lived assets in accordance with the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company compares the carrying amount of the asset to the estimated undiscounted future cash flows expected to result from the use of the asset. If the carrying amount of the asset exceeds estimated expected undiscounted future cash flows, the Company records an impairment charge for the difference between the carrying amount of the asset and its fair value. The estimation of fair value is generally measured by discounting expected future cash flows at the Company's incremental borrowing rate or fair value, if available.

**PARTNERSHIP AND LIMITED LIABILITY COMPANIES INVESTMENTS**

The Company's investments in AVM and Biosafe are less than 50% ownership and are accounted for using the equity method. ST, LLC was consolidated under the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 46(R), *Consolidation of Variable Interest Entities* (FIN 46(R)), from December 31, 2004 through March 31, 2005. Effective April 1, 2005, the Company owned in excess of 50% of ST, LLC (Note 2), thereby requiring consolidation. The Company owns less than 20% 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 companies 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.

Due to the Company's partnership agreement with ST, LLC and ST, LLC's operating agreement with PCTS, LLC, the Company was exposed to the majority of risk related to the activities of ST, LLC and PCTS, LLC. Therefore, in accordance with FIN 46R, the Company considered ST, LLC as a variable interest entity that required consolidation into 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 partnership 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.

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

**NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**PARTNERSHIP AND LIMITED LIABILITY COMPANIES INVESTMENTS (CONTINUED)**

The Company has elected, as permitted under FIN 46R, not to restate prior year's financial statements. In 2004, the investment in ST, LLC was carried on the equity method of accounting. As a result of consolidating ST, LLC, a minority interest was created representing the other members.

**STOCK-BASED COMPENSATION**

In previous years, the Company granted stock options to employees under stock option plans that are more fully described in Note 11. The Company accounted for those plans using the intrinsic value method under Accounting Principles Board ( APB ) Opinion No. 25, *Accounting for Stock Issued to Employees*. All options under such plans, granted in previous years, expired during 2001 and no new options were granted in 2005 and 2004. As such, there is no proforma effect on net income (loss) and earnings (loss) per share if the Company had applied the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, and SFAS No. 148

*Accounting for Stock-Based Compensation Transition and Disclosure*.

**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 are 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 use estimates in connection with the determination of the amount of software and services revenues to be recognized in each accounting period.

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) customer payment is deemed fixed or determinable and free of contingencies or significant uncertainties; and (4) collection is probable. Substantially all new software license revenue is 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

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

**NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**REVENUE RECOGNITION (CONTINUED)**

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 are 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 are 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. 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

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

**REVENUE RECOGNITION (CONTINUED)**

deferred and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognized as revenue.

**ADVERTISING AND MARKETING COSTS**

Advertising and marketing costs are expensed as incurred and amounted to \$324,754 and \$8,736 for the years ended December 31, 2005 and 2004, respectively.

**RECLASSIFICATIONS**

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

**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.

As part of the process of preparing our consolidated financial statements, the Company is required to estimate its income taxes in each of the jurisdictions in which it operates. This process involves estimating current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the Company's consolidated balance sheet. The Company then assesses the likelihood that the deferred tax assets will be recovered from future taxable income and to the extent it believes that recovery is not likely, it establishes a valuation allowance. To the extent the Company establishes a valuation allowance or changes this allowance in a period, it includes an expense or a benefit within the tax provision in the Company's statement of operations.

**EARNINGS (LOSS) PER COMMON SHARE**

Earnings (loss) per common share - basic is computed as net income (loss) divided by the weighted average number of common shares outstanding during the year. Earnings (loss) per common share - diluted is based on the weighted average of common shares and dilutive potential common shares outstanding during the year. Common stock equivalents, if any, are not included in the calculation of diluted earnings (loss) per common share diluted for the year ended December 31, 2005 and 2004, as their effect would be anti-dilutive. As of December 31, 2005 and 2004, the Company did not have any common stock equivalents.

**COMPREHENSIVE INCOME (LOSS)**

Comprehensive income (loss) represents the change in net assets of the Company during the period from transactions and other events and circumstances from non-owner sources. The Company did not have any sources of other comprehensive income (loss) as of December 31, 2005 and 2004.

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

**FAIR VALUE OF FINANCIAL INSTRUMENTS**

SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, requires disclosures of information about the fair value of certain financial instruments for which it is practicable to estimate the value. For purposes of this disclosure, the fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties other than in a forced sale or liquidation.

The carrying amounts of the Company's financial instruments, including cash and cash equivalents, accounts receivables, income taxes receivable, accounts payable and accrued liabilities approximate fair value because of their short maturities. The carrying amount of investments approximate fair value based upon the recoverability of these assets.

**EFFECTS OF RECENT ACCOUNTING PRONOUNCEMENTS**

In December 2004, the FASB issued SFAS No. 123R, *Share-Based Payment*, which requires all companies to measure compensation cost for all share-based payments, including employee stock options, at fair value. SFAS No. 123R is effective for public companies for interim or annual period beginning after June 15, 2005, except small business issuers (as defined in SEC Regulation S-B), for which the effective date is December 15, 2005. The Company does not believe that the impact of SFAS No. 123R will be significant to the Company's overall results of operations or financial position.

In July 2005, the FASB issued Emerging Issue Task Force (EITF) Abstract No. 05-6, *Determining the Amortization period for Leasehold Improvements Purchased After Lease Inception or Acquired in a Business Combination* (EITF No. 05-6), which addressed the amortization period for leasehold improvements made on operating leases acquired significantly after the beginning of the lease. The EITF is effective for leasehold improvements made in periods beginning after June 29, 2005. We adopted the provisions of EITF No. 05-6 on July 1, 2005, which did not have a material impact to the Company's overall results of operations or financial position.

In June 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*, a replacement of APB Opinion No. 20 and FASB Statement No. 3. SFAS No. 154 will become effective for accounting changes and correction of errors made in fiscal year 2006 and beyond. The effect of this statement on the Company's consolidated financial statements will depend on the nature and significance of future accounting changes subject to this statement.

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs*, an amendment of ARB No. 43, Chapter 4. SFAS No. 151 requires certain abnormal expenditures to be recognized as expenses in the current period. It also requires that the amount of fixed production overhead allocated to inventory be based on the normal capacity of the production facilities. The standard will become effective in fiscal year 2006. SFAS No. 151 is not expected to have a material effect on the Company's consolidated financial statements.



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CONSULIER ENGINEERING, INC. AND SUBSIDIARIES  
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**NOTE 2: ACCOUNTING FOR VARIABLE INTEREST ENTITY (VIE)**

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51* ( FIN No. 46R ). In December 2003, the FASB modified FIN No. 46R to make certain technical corrections and address certain implementation issues that had arisen. FIN No. 46R provides a new framework for identifying VIEs and determining when a company should include the assets, liabilities, noncontrolling interests and results of activities of a VIE in its financial statements and deferred the effective date for us until December 31, 2004.

In general, a VIE is an entity used to conduct activities or hold assets that either (1) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (2) has a group of equity owners that are unable to make significant decisions about its activities, or (3) has a group of equity owners that do not have the obligation to absorb losses or the right to receive returns generated by its operations.

FIN No. 46R requires a VIE to be consolidated if a party with an ownership, contractual or other financial interest in the VIE is obligated to absorb a majority of the risk of loss from the VIEs activities, is entitled to receive a majority of the VIEs residual returns (if no party absorbs a majority of the VIEs losses), or both. A variable interest holder that consolidates the VIE is called the primary beneficiary. Upon consolidation, the primary beneficiary generally must initially record all of the VIEs assets, liabilities and noncontrolling interests at fair value and subsequently account for the VIE as if it were consolidated based on majority voting interest.

The Company began consolidating the balance sheet and operations of ST, LLC in accordance with FIN No. 46R as of December 31, 2004. This entity qualified as a VIE under FIN No. 46R during that period, and we were the primary beneficiary. Previously the Company carried the investment under the equity method.

On April 1, 2005 (date of the amendment to the operating agreement), the Company's ownership in ST, LLC increased to 54%, thereby requiring consolidation.

Consulier can require Consulier's 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 \$13 million since inception and has no remaining net investment at December 31, 2005.

The following table sets forth the pro-forma consolidated results of operations for the years ended December 31, 2005 and 2004 giving effect to the consolidation of ST, LLC, as if the Company had consolidated this entity as of the beginning of the periods presented:

|   | <b>Year Ended<br/>December 31,<br/>(In thousands)</b> |             |
|---|---|-------------|
|   | <b>2005</b>   | <b>2004</b> |
| Revenue   | \$ 956  | \$ 672      |
| Net Income (Loss)                               | \$ (1,363)  | \$ (6,030)  |
| Net Income (Loss per Share - Basic and Diluted) | \$ (.26)  | \$ (1.15)   |

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

**NOTE 3: DEFERRED IMPLEMENTATION COSTS**

Deferred implantation costs as of December 31, 2005 totaled \$1,279,549 and represented equipment purchased for customers, payroll and payroll related expenses for customer contract 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 4: ACQUISITION**

On July 15, 2005, PCTS, LLC entered into an asset purchase agreement to acquire certain assets of nuMedica, a California corporation, for \$592,223. The purchase price included registered and unregistered copyrights, trade secrets, customer lists and non-compete agreements to be paid upon execution of all non-compete agreements. nuMedica is engaged in the design, customization, marketing, sale and distribution of paper templates used for diagnostic purposes in emergency medical departments.

On November 10, 2005, PCTS also entered into an asset purchase agreement with nuMedica, providing for the acquisition of certain additional assets of nuMedica's patient tracking division. The purchase price specified in the agreement was \$150,000, payable in cash upon the completion of certain terms of the asset purchase agreement. The purchase price included registered and unregistered copyrights of the tracking software and customer lists. Pursuant to the asset purchase agreement, PCTS will not assume any debt, obligations, or other liabilities arising out of the seller's business or operations as of November 10, 2005. With the acquisition, the Company expects to integrate the patient tracking software with software technologies acquired from HIT and increase its customer base in the passive tracking technologies for emergency departments and operating rooms.

The Company has determined that both purchases are not a significant transaction under Regulation S-B. Allocation of the purchase price is as follows:

|                            |                |
|----------------------------|----------------|
| FormED Software            | \$ 252,223     |
| TrackingED Module Software | 113,500        |
| Customer List              | 174,500        |
| Non-Compete Agreements     | 200,000        |
| Computer Equipment         | 2,000          |
| <br>                       |                |
| Total Purchase Price       | <br>\$ 742,223 |

**NOTE 5: 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 \$213,000 as of December 31, 2005.

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CONSULIER ENGINEERING, INC. AND SUBSIDIARIES  
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**NOTE 5: CONCENTRATION OF CREDIT RISK (CONTINUED)**

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 60% of the Company's software licensing fees are derived from 3 customers. Customer A, B and C represented approximately 25%, 20% and 15%, respectively, of total software licensing fees.

**NOTE 6: RECEIVABLES**

Receivables consist of the following as of December 31, 2005:

|                                      |            |
|--------------------------------------|------------|
| Trade receivables                    | \$ 482,848 |
| Due from AVM                         | 73,422     |
| Due from BioSafe                     | 50,041     |
| Less allowance for doubtful accounts | (81,667)   |
|                                      | \$ 524,644 |

**NOTE 7: PROPERTY AND EQUIPMENT**

Property and equipment consists of the following as of December 31, 2005:

|                                | <b>Range of<br/>Useful<br/>Lives<br/>(Years)</b> |              |
|--------------------------------|--|--------------|
| Building and Improvements      | 30   | \$ 830,463   |
| Land                           | N/A  | 412,000      |
| Computer Hardware and Software | 3-5  | 1,572,440    |
| Machinery and Equipment        | 5-7  | 242,692      |
| Furniture and Fixtures         | 5-7  | 139,361      |
|                                |  | 3,196,956    |
| Less: Accumulated Depreciation |  | (897,348)    |
|                                |  | \$ 2,299,608 |

Depreciation expense totaled \$390,988 for the year ended December 31, 2005. During the year ended December 31, 2005, the Company disposed of certain computer hardware and software held at two hospitals and its offices with a net asset value of \$63,499 at the date of disposal. Accordingly, a loss on disposal of equipment of \$63,499 has been included in cost of revenue on the accompanying consolidated statement of operations.

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CONSULIER ENGINEERING, INC. AND SUBSIDIARIES  
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**NOTE 8: INTANGIBLE ASSETS**

Intangible assets at December 31, 2005 consist of:

|                                | <b>Range of<br/>Useful<br/>Lives<br/>(Years)</b> |              |
|--------------------------------|--|--------------|
| Customer List                  | 3-5  | \$ 1,389,500 |
| Non-Compete Agreements         | 1  | 200,000      |
|                                |  | 1,589,500    |
| Less: Accumulated Amortization |  | (405,945)    |
|                                |  | \$ 1,183,555 |

Estimated future amortization is as follows:

|                          |  |              |
|--------------------------|--|--------------|
| YEAR ENDING DECEMBER 31, |  |              |
| 2006                     |  | \$ 417,834   |
| 2007                     |  | 301,167      |
| 2008                     |  | 279,804      |
| 2009                     |  | 184,750      |
|                          |  | \$ 1,183,555 |

**NOTE 9: PARTNERSHIP AND LIMITED LIABILITY COMPANIES INVESTMENTS**

The limited partnership and limited liability company interests consist of Consulier's investment in AVM, and BioSafe, respectively.

**AVM, L.P**

Consulier owned approximately 7.5% of AVM capital as of December 31, 2005 and 2004. Based on capital and earnings distributions provided in the partnership agreement, Consulier was allocated approximately 5.7% and 8.0% of AVM's earnings during 2005 and 2004, respectively. 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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CONSULIER ENGINEERING, INC. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 9: PARTNERSHIP AND LIMITED LIABILITY COMPANIES INVESTMENTS (CONTINUED)**  
**AVM, L.P (CONTINUED)**

Following is a summary of the financial information of AVM as of and for the years ended December 31:

|   | <b>2005</b>   | <b>2004</b>   |
|---|---------------|---------------|
| Cash  | \$ 34,994,266 | \$ 23,269,632 |
| Due from brokers                            | 1,179,326     | 3,995,000     |
| Securities owned                            | 303,292       | 462,752       |
| Investment in affiliate and other assets    | 5,623,132     | 6,416,144     |
| <br>  |               |               |
| Total assets                                | \$ 42,100,016 | \$ 34,143,528 |
| <br>  |               |               |
| Due to brokers                              | \$ 400,766    | \$ 2,390,854  |
| Customer payables & subordinated borrowings | 14,079,768    | 2,033,504     |
| Other liabilities                           | 1,264,978     | 1,868,368     |
| Anticipated partners' withdrawals           | 1,821,946     | 3,318,247     |
| <br>  |               |               |
| Total liabilities                           | 17,567,458    | 9,610,973     |
| <br>  |               |               |
| Partners' capital                           | 24,532,558    | 24,532,555    |
| <br>  |               |               |
| Total liabilities and partners' capital     | \$ 42,100,016 | \$ 34,143,528 |
| <br>  |               |               |
| Revenue                                     | \$ 61,831,503 | \$ 68,651,275 |
| <br>  |               |               |
| Net income                                  | \$ 33,328,159 | \$ 29,364,096 |
| <br>  |               |               |
| Consulier's share of AVM's earnings         | \$ 1,889,476  | \$ 2,327,869  |

The carrying value of Consulier's investment in AVM was \$1,852,133 at December 31, 2005.

**BIOSAFE'S SYSTEMS, LLC**

Consulier owns a 40% interest in BioSafe. At December 31, 2005 and 2004 BioSafe's summarized financial information was as follows:

|              | <b>(Unaudited)</b> |              |
|--------------|--------------------|--------------|
|              | <b>2005</b>        | <b>2004</b>  |
| Total Assets | \$ 2,013,243       | \$ 1,720,486 |

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|                               |              |              |
|-------------------------------|--------------|--------------|
| Total Liabilities             | \$ 179,985   | \$ 183,525   |
| Revenue                       | \$ 6,317,456 | \$ 6,388,772 |
| Costs and Expenses            | 5,697,647    | 5,671,389    |
| Net Income                    | \$ 619,809   | \$ 717,383   |
| Consulier s Share of Earnings | \$ 236,604   | \$ 286,953   |

The carrying value of Consulier s investment in BioSafe was \$731,533 at December 31, 2005.

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

**NOTE 10: INCOME TAXES**

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

| <b>CONTINUING OPERATIONS</b> | <b>2005</b>  | <b>2004</b>    |
|------------------------------|--------------|----------------|
| Current:                     |              |                |
| Federal                      | \$           | \$ (651,068)   |
| State                        | 10,635       | 28,420         |
|                              | 10,635       | (622,648)      |
| Deferred:                    |              |                |
| Federal                      | (606,799)    | (409,257)      |
| State                        | (91,379)     | (213,030)      |
|                              | (698,178)    | (622,287)      |
| Total income tax (benefit)   | \$ (687,543) | \$ (1,244,935) |

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

|  | <b>2005</b>  | <b>2004</b>    |
|--|--------------|----------------|
| Tax expense (benefit) at statutory rate                      | \$ (616,396) | \$ (1,095,030) |
| State income tax expense (benefit) net of federal tax effect | (71,147)     | (149,905)      |
| Other  |              |                |
| Income tax (benefit)   | \$ (687,543) | \$ (1,244,935) |

During the year ended December 31, 2005, the Company generated a Federal tax net operating loss that is to be carried-back to prior year operating income, giving rise to an income tax refund. As of December 31, 2005, the Company had federal tax loss carry-forwards of \$4,428,897, and state tax loss carry-forwards of approximately \$7,194,876 available to reduce future years' income for state tax purposes through 2023.

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

|                                 | <b>2005</b> | <b>2004</b> |
|---------------------------------|-------------|-------------|
| Depreciation                    | \$ 17,653   | \$ 17,653   |
| Allowance for doubtful accounts | 30,543      | 30,543      |
| Tax loss carry forward          | 1,610,224   | 922,701     |
| Other                           | 16,425      | 16,405      |
| Accrued Wages                   | 48,919      | 48,919      |

|                              |              |              |
|------------------------------|--------------|--------------|
| Total Net Deferred Tax Asset | \$ 1,723,764 | \$ 1,036,221 |
|------------------------------|--------------|--------------|

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

**NOTE 10: INCOME TAXES (CONTINUED)**

Deferred tax assets and liabilities are reflected on the balance sheet as of December 31, 2005 as follows:

|                                    |              |
|------------------------------------|--------------|
| Net Short-Term Deferred Tax Assets | \$ 87,883    |
| Net Long-Term Deferred Tax Assets  | 1,635,881    |
| <br>                               |              |
| Net Deferred Tax Assets            | \$ 1,723,764 |

**NOTE 11: STOCKHOLDERS EQUITY**  
**STOCK OPTION PLANS**

Consulier established a Tandem Stock Option Plan ( Tandem Plan ) and an Incentive Stock Option Plan ( Incentive Plan ) covering current employees and former employees who currently work for Mosler Auto Care Center, Inc. ( MACC ). Under the Tandem Plan, qualified and non-qualified options may be granted (Note 16).

The Tandem Plan provides that an aggregate of 200,000 options to purchase shares of Consulier s common stock may be granted to officers, directors and other key employees of Consulier and MACC. The Incentive Plan provides that an aggregate of 100,000 options to purchase shares of Consulier s common stock may be granted to officers and other key employees of Consulier. The options under both plans are exercisable after two years of continuous employment or service and have a maximum life of ten years from the date of grant.

Options to purchase 61,232 shares of Consulier s common stock by employees were exercised in fiscal 2000. Loans totaling \$76,540 were made to these employees for a term up to five years at an 8% annual interest rate for the exercise. At December 31, 2005, \$6,651 remains outstanding and is recorded as notes receivable for common stock, included as a reduction of stockholders equity.

On October 8, 1991, the majority shareholder of the Company granted options to one of the officers of the Company to purchase common stock of the Company from that primary shareholder. As of December 31, 2005, the remaining balance of these options amounted to 190,000 shares at \$1.25 per share. Since the issuance of these options in 1991 and all subsequent revisions made to the options were for reasons unrelated to the business of Consulier Engineering, Inc., no accounting recognition was reflected on the books and records of the Company in 1991 nor at the time of any subsequent extension.

**CAPITAL STOCK**

On December 31, 2004 a former bondholder exercised warrants to purchase 40,000 shares of common stock at \$1.75 per share for cash of \$70,000.

During December 2004, the Company repurchased 19,123 shares of its common stock from one of its former bondholders for \$3.50 per share for a total purchase price of \$66,936.

On December 31, 2004, 4,807 shares of stock were issued to a related party for cash of \$16,825 (approximately \$3.50 per share, the then market price).

During the year ended December 31, 2005, the Company did not issue any shares of its common stock.

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CONSULIER ENGINEERING, INC. AND SUBSIDIARIES  
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**NOTE 11: STOCKHOLDERS EQUITY (CONTINUED)****COMMON STOCK WARRANTS**

In connection with the issuance of the bonds in prior years, Consulier issued warrants to purchase shares of its common stock at a purchase price of \$1.75 per share. The fair value of the warrants represented an original issue discount, which is being amortized over the remaining term of the bonds. The allocated value of the warrants has been recorded as additional paid-in-capital.

The following represents the stock option activity during the years ended December 31, 2005 and 2004:

|                              | <b>OPTIONS</b> | <b>WEIGHTED<br/>AVERAGE<br/>PRICE</b> |
|------------------------------|----------------|---------------------------------------|
| Balance at January 1, 2004   | 470,000        | \$ 3.16                               |
| Options granted              |                |                                       |
| Options exercised            | 40,000         | 1.25                                  |
| Options expired              | 30,000         | 1.25                                  |
| <br>                         |                |                                       |
| Balance at December 31, 2004 | 400,000        | 3.50                                  |
| Options granted              |                |                                       |
| Options exercised            |                |                                       |
| Options expired              |                |                                       |
| <br>                         |                |                                       |
| Balance at December 31, 2005 | 400,000        | \$ 3.50                               |

Options outstanding as of December 31, 2005 were to expire on February 28, 2006, however, on February 27, 2006, the Company extended the expiration date through February 28, 2007.

**NOTE 12: RELATED PARTY TRANSACTIONS****DUE FROM RELATED PARTIES**

Amounts due from related parties totaled \$226,160 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 two employees within one year as of December 31, 2005. Accordingly, the Company has classified \$200,000 as a non-current asset on the consolidated balance sheet as of December 31, 2005.

**NOTE PAYABLE RELATED PARTY**

During fiscal 2005, the Company issued unsecured promissory notes to the majority stockholder for a total of \$4,024,080 to meet operating funding requirements. These promissory notes accrue interest at 10% per annum, compounding monthly. Interest only payments are payable annually on the anniversary dates of each of the promissory notes. Promissory notes and any accrued interest are due on demand anytime after 10 years from the applicable date of the note. The Company may not prepay the principal balance without prior consent of the majority stockholder.

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**NOTE 12: RELATED PARTY TRANSACTIONS (CONTINUED)****RELATED PARTY PAYABLE**

Amounts due to related party represents advances made to the Company and accrued interest on the note payable related party. The advances are non-interest bearing and are due on demand.

**OTHER**

For other related party transactions see Notes 9, 11 and 15.

**NOTE 13: BUSINESS SEGMENT INFORMATION****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 companies, 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 an investment limited partnership and a limited liability company. The corporate segment is engaged in management of the business and finance activities. Segment information as of and for the years ended December 31, 2005 and 2004 are as follows:

**Year Ended December 31, 2005**

|                                 | <b>Distribution<br/>Activities</b> | <b>Income<br/>(Loss)<br/>Derived<br/>From<br/>Ownership<br/>of<br/>Investments</b> | <b>Corporate<br/>Activities</b> | <b>Medical<br/>Software<br/>Activities</b> | <b>Total</b>  |
|---------------------------------|------------------------------------|--|---------------------------------|--|---------------|
| Revenue (b)                     | \$ 32,957                          | \$   | \$                              | \$ 923,435                                 | \$ 956,392    |
| Operating Income (Loss)         | (18,832)                           |  | (517,795)                       | (7,316,115)                                | (7,852,742)   |
| Other Income (Loss)             |                                    | 2,126,080  | 73,983                          | (166,653)                                  | 2,033,410     |
| Minority Interest               |                                    |  |                                 | 3,768,643                                  | 3,768,643     |
| Income Tax Benefit<br>(Expense) | 6,591                              | (744,128)  | 155,334                         | 1,269,746                                  | 687,543       |
| Net Income (Loss) (a)           | (12,241)                           | 1,381,952  | (288,478)                       | (2,444,379)                                | (1,363,146)   |
| Total Assets                    | \$ 79,645                          | \$ 2,707,129   | \$ 3,687,179                    | \$ 4,870,011                               | \$ 11,343,964 |

**Year Ended December 31, 2004**

|                                 | <b>Distribution<br/>Activities</b> | <b>LLC<br/>Activities</b> | <b>Corporate<br/>Activities</b> | <b>Medical<br/>Software<br/>Activities</b> | <b>Total</b> |
|---------------------------------|------------------------------------|---------------------------|---------------------------------|--|--------------|
| Revenue (b)                     | \$ 48,626                          | \$                        | \$                              | \$   | \$ 48,626    |
| Operating Income (Loss)         | (167,482)                          |                           | (385,576)                       |  | (553,058)    |
| Other Income (Loss)             |                                    | 1,699,634                 | 87,907                          | (5,114,356)                                | (3,326,815)  |
| Income Tax Benefit<br>(Expense) | 48,626                             | (543,883)                 | 95,254                          | 1,644,938                                  | 1,244,935    |
| Net Income (Loss) (a)           | (118,856)                          | 1,155,751                 | (202,415)                       | (3,469,418)                                | (2,634,938)  |
| Total Assets                    | \$ 82,284                          | \$ 2,472,166              | \$ 3,191,553                    | \$ 2,873,172                               | \$ 8,619,175 |

- (a) All interest expense incurred by the Company was allocated to the Corporate Activities Segment.
- (b) There was no inter-segment revenue during the year.

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

**NOTE 14: EARNINGS (LOSS) PER SHARE**

Basic and diluted earnings (loss) per share for the years ended December 31:

|   | <b>2005</b>    | <b>2004</b>    |
|---|----------------|----------------|
| BASIC AND DILUTED (LOSS) PER SHARE COMPUTATION: |                |                |
| NUMERATOR:                                      |                |                |
| Net (Loss)                                      | \$ (1,363,146) | \$ (2,634,938) |
| DENOMINATOR:                                    |                |                |
| Average number of common shares outstanding     | 5,243,105      | 4,942,577      |
| Basic and Diluted (Loss) per Share              | \$ (0.26)      | \$ (0.53)      |

Common stock equivalents were not included in the calculation of diluted loss per common share for the years ended December 31, 2005 and 2004, as their effect would be anti-dilutive.

**NOTE 15: COMMITMENTS AND CONTINGENCIES****LINE OF CREDIT**

On July 30, 2005, the Company renewed line of credit agreement ( borrowing ) with a financial institution in an amount not to exceed \$2,000,000. The borrowings under this agreement bear interest at either a LIBOR based rate plus a margin of 2.10% (4.8% and 4.5%, respectively at December 31, 2005 and December 31, 2004). The borrowings are collateralized by primarily all assets of the Company, by collateral pledged by the principal shareholder, WBM Investors Limited Partnership (partially owned by the majority shareholder) and AVM, L.P. The revolving credit agreement matures on July 29, 2006. At December 31, 2005, the Company borrowed \$2,000,000 under this credit agreement.

On January 5, 2006, the Company issued an unsecured promissory note to the majority stockholder for \$2,001,441 to repay the line of credit. The promissory note accrues interest at 6.5% per annum and is due upon demand.

**LEGAL PROCEEDING**

From time to time, the Company is involved in lawsuits and claims incidental 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.

**LEASES**

PCTS has two non-cancelable operating leases for office space for its California office and North Carolina offices. The leases expire on August 25, 2010 and September 30, 2010 for the California and North Carolina offices, respectively.

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

**NOTE 15: COMMITMENTS AND CONTINGENCIES (CONTINUED)****LEASES (CONTINUED)**

Minimum future lease payments under non-cancelable operating leases having remaining terms in excess of 1 year as of December 31, 2005 for each of the next 5 years and in the aggregate amounted to:

| YEAR ENDING DECEMBER 31, |              |
|--------------------------|--------------|
| 2006                     | \$ 329,801   |
| 2007                     | 340,857      |
| 2008                     | 352,046      |
| 2009                     | 363,374      |
| 2010                     | 347,811      |
|                          | \$ 1,733,889 |

Rent expense for the year ended December 31, 2005 totaled approximately \$290,535. The Company did not incur any rent expense during the year ended December 31, 2004.

**LEASE OF REAL ESTATE**

Consulier leases its industrial warehouse to Southeast with a base rent of \$10,000 per month for the first year, adjusted for any cost of living adjustments every succeeding year over the lease term. The term of this lease is 5 years, ending on June 30, 2007. Southeast is also responsible to pay 100% of the real estate taxes during the term of the lease.

Rental income totaled \$120,000 for the years ended December 31, 2005 and 2004, and is included in other income on the consolidated statements of operations.

**NOTE 16: 401(k) PLAN**

PCTS maintains a 401(k) Employee Retirement Plan to provide all qualified employees with retirement benefits. Presently, the Company pays the administrative cost of the plan, and does not make any matching contributions to participants.

**NOTE 17: SUBSEQUENT EVENT**

On February 1, 2006, the Company approved the sale of up to 5,000 shares of its treasury stock at \$4.70 per share to MACC.

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**FORM 10-KSB ITEM 13  
EXHIBITS**

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| Exhibit 31(i) Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  | E-1         |
| Exhibit 31(ii) Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | E-2         |
| Exhibit 32(i) Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)                        | E-3         |
| Exhibit 32(ii) Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)                       | E-4         |