

CLST Holdings, Inc.
Form PRER14A
July 10, 2007
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No. 2)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
 Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
 Definitive Proxy Statement
 Definitive Additional Materials
 Soliciting Material Pursuant to §240.14a-12

CLST HOLDINGS, INC.

(Name of Registrant as Specified In Its Charter)

N/A

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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PRELIMINARY PROXY MATERIAL

CLST HOLDINGS, INC.,
formerly CellStar Corporation

[], 2007

To CLST Holdings, Inc. Stockholders:

You are cordially invited to attend the 2007 Annual Meeting of Stockholders of CLST Holdings, Inc., formerly CellStar Corporation, to be held at the Hilton Dallas Lincoln Centre, 5410 LBJ Freeway, Dallas, Texas, on Tuesday, July 31, 2007, at 10:00 a.m., Dallas time. CLST Holdings, Inc. is also sometimes referred to herein as *we*, *our*, *us*, or the *Company*.

The attached Notice of Annual Meeting and Proxy Statement fully describe the formal business to be transacted at the Annual Meeting, which consists of the election of one Class I director, one Class II director, and one Class III director of the Company and such other business as may properly come before the Meeting. The three nominees proposed by the Board of Directors for election are Jere W. Thompson as the Class I director for a term of one year, John L. (J.L.) Jackson as the Class II director for a term of two years, and Dale V. Kesler as the Class III director for a term of three years, all of whom are currently members of the Board. Robert A. Kaiser, a director of the Company, voted against the selection of these nominees by the Board.

Also attached is a copy of the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2006 and the amendment to that Report.

Directors and officers of the Company will be present to help host the Annual Meeting and to respond to any questions that our stockholders may have. I hope you will be able to attend.

Timothy S. Durham, Manoj Rajegowda and Mr. Kaiser (the *Durham Group*) are soliciting proxies for their election to the Board of Directors. The Board of Directors (excluding Mr. Kaiser) believes that its nominees, Mr. Thompson, Mr. Jackson and Mr. Kesler, are well-qualified to manage the Company in the stockholders' best interests, believes that a vote in favor of the election of Mr. Thompson, Mr. Jackson, and Mr. Kesler at the Annual Meeting is in the best interests of the stockholders and recommends a vote **FOR** the election of each such director. Accordingly, we urge you to review the accompanying material carefully and to return the enclosed WHITE proxy card promptly or vote via the Internet or by telephone.

Your vote is very important, regardless of the number of shares you own. If you send in a proxy card furnished by the Durham Group, you may change your vote by signing, dating and returning the enclosed WHITE proxy card or by voting via the Internet or by telephone.

To be elected, a nominee for director must receive the affirmative vote of the holders of a plurality of the votes cast at the Meeting. Only stockholders who owned shares of CLST Holdings, Inc. Common Stock at the close of business on June 27, 2007, the record date for the Annual Meeting, will be entitled to vote at the Annual Meeting. To vote your shares you may use the enclosed WHITE proxy card, vote via the Internet or by telephone, or attend the Annual Meeting and vote in person. **On behalf of the Board of Directors (excluding Mr. Kaiser), I urge you to complete, sign, date and return the enclosed WHITE proxy card, or vote via the Internet or by telephone, as soon as possible, even if you currently plan to attend the Annual Meeting.** If you attend the Annual Meeting, you may vote in person even if you have previously mailed a proxy or voted via the Internet or by telephone.

If you have any questions or need assistance voting your shares, please call D.F. King & Co., Inc. which is assisting us, toll-free at (888) 869-7406.

Thank you for your support of the Company. I look forward to seeing you at the Annual Meeting.

Sincerely,

Dale V. Kesler
Chairman of the Board

This Proxy Statement is dated [], 2007,
and is first being mailed to CLST Holdings, Inc. stockholders on or about [], 2007.

CLST HOLDINGS, INC.

601 S. Royal Lane
Coppell, TX 75019

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Date and Time: 10:00a.m., Dallas, Texas Time on Tuesday, July 31, 2007.

Place: Hilton Dallas Lincoln Centre, 5410 LBJ Freeway, Dallas, Texas 75240

Items of Business:

1. To elect one Class I director for a term expiring in 2008, one Class II director for a term expiring in 2009, and one Class III director for a term expiring in 2010; and
2. To transact such other business as may properly come before the Meeting.

Who May Vote: You can vote if you were a stockholder of record as of the close of business on June 27, 2007, the record date for the Annual Meeting. Your vote is important. To be elected, a nominee for director must receive the affirmative vote of the holders of a plurality of the votes cast at the Annual Meeting. Stockholders may vote for or withhold voting for any or all nominees for the Board of Directors. Votes that are withheld will be counted toward the determination of whether a quorum exists, but will not be counted either for or against the election of the nominees and, therefore, will not affect the outcome of the election of directors. A complete list of CLST Holdings, Inc. stockholders entitled to vote at the Annual Meeting will be available for inspection at the principal executive offices of CLST Holdings, Inc. during regular business hours for a period of no less than ten days before the Annual Meeting and at the Annual Meeting.

How to Vote: **If your shares are held in registered/certificate form:**

1. *Vote by Internet:* Go to the website <http://www.proxyvoting.com/clst>. Have your 11-digit control number listed on the WHITE proxy card ready and follow the online instructions. The 11-digit control number is located in the rectangular box on the right side of your voting instruction form.
2. *Vote by Telephone:* Call toll-free (866) 540-5760. Have your 11-digit control number listed on the WHITE proxy card ready and follow the simple instructions.
3. *Vote by Mail:* Mark, sign, date and return your WHITE proxy card in the postage-paid return envelope provided.
4. *Vote in Person:* Attend the Annual Meeting on July 31, 2007 and vote your shares in person.

If your shares are held in the name of a bank, brokerage firm or other nominee:

1. *Vote by Internet:* Go to the website <http://www.proxyvote.com>. Have your 12-digit control number listed on the voting instruction form ready and follow the online instructions. The 12-digit control number is located in the rectangular box on the right side of your voting instruction form.
 2. *Vote by Telephone:* Call toll-free (800) 454-8683. Have your 12-digit control number listed on the voting instruction form ready and follows the simple instructions.
 3. *Vote by Mail:* Mark, sign, date and return your voting instruction form in the postage-paid return envelope provided.
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CLST HOLDINGS, INC.

**601 S. Royal Lane
Coppell, TX 75019**

**PROXY STATEMENT
FOR
ANNUAL MEETING OF STOCKHOLDERS**

To Be Held July 31, 2007

This Proxy Statement is furnished in connection with the solicitation of proxies (*Proxies*) by the Board of Directors of CLST Holdings, Inc., formerly CellStar Corporation (the *Company* or *CLST*), for use at the 2007 Annual Meeting of Stockholders (the *Meeting*) of the Company to be held at the Hilton Dallas Lincoln Centre, 5410 LBJ Freeway, Dallas, Texas, on Tuesday, July 31, 2007, at 10:00 a.m., Dallas time, or at such other time and place to which the Meeting may be adjourned. This Proxy Statement is dated [], 2007, and is first being mailed to CLST Holdings, Inc. stockholders on or about [], 2007.

All shares represented by valid Proxies, unless the stockholder specifies otherwise, will be voted FOR the election of the three persons named under Election of Directors as nominees for election as Class I, II, and III directors.

The board of directors of the Company (the *Board* or the *Board of Directors*) knows of no other business to be presented at the Meeting. If any other business is properly presented, the persons named in the enclosed Proxy have authority to vote on such matters in accordance with such persons' discretion. Where a stockholder has appropriately specified how a Proxy is to be voted, it will be voted accordingly.

Timothy S. Durham, Manoj Rajegowda and Robert A. Kaiser (the *Durham Group*) are soliciting proxies for their election to the Board of Directors. The Board of Directors (excluding Mr. Kaiser, who is currently a director of CLST) believes that its nominees, Jere W. Thompson, John L. (J.L.) Jackson, and Dale V. Kesler, are well-qualified to manage the Company in the best interests of all the stockholders. Furthermore, all of the current members of the Board of Directors believe that they have acted in the best interests of all stockholders during their terms as directors.

A stockholder executing a Proxy retains the right to revoke it at any time prior to exercise at the Meeting. A Proxy may be revoked by delivery of written notice of revocation to the Secretary of the Company, by execution and delivery of a later Proxy, by voting via the Internet or by telephone or by voting the shares in person at the Meeting.

BACKGROUND

The Company's last annual meeting was held in November 2004, and the next regularly scheduled annual meeting would have been in May 2005. However, the Company was not able to have a meeting in May 2005 because the Company was unable to timely file the Company's current reports on Form 10-K for fiscal 2004 or Forms 10-Q for the first, second and third quarters of 2005 until it resolved accounting issues relating to certain accounts receivables and revenues in its Asia Pacific Region. The Company became current with all of its periodic filings in October 2005 (the 2004 Form 10-K was filed September 6, 2005, and the Forms 10-Q for the first, second and third quarters of 2005 were filed October 11, 2005). At that time, the Company evaluated whether or not to hold an annual meeting. However, there was a concern that if any members of the current Board decided not to accept a nomination for re-election the Company would have a difficult time finding new independent directors to fill the vacancies in light of the Company's issues in its Asia-Pacific region. The Company was particularly concerned that if Mr. Kesler refused to stand for re-election, the Company would be left without an Audit Committee Chairman. Mr. Kesler had expressed concerns about the viability of the Company and the adequacy of its internal controls and

wanted the Company to examine the possibility of being acquired. Because the Company was at that time exploring strategic alternatives to enhance stockholder value, including the sale of the Company, it decided to postpone the annual meeting since stockholder approval would be required for any sale or merger, and it would be inefficient and more costly to hold two separate meetings. The process went on longer than expected, and the sale of the Company was not concluded until March 30, 2007.

Contacts with Certain Stockholders

The Company has had the following contacts and interactions with Messrs. Durham, Kaiser and Rajegowda and their affiliates relating to and leading up to the solicitation by the Durham Group:

On July 12, 2006, Mr. Durham and two of his associates met with Mr. Kaiser and Ms. Sherrian Gunn, currently the Company's Chief Executive Officer, President, and Chief Financial Officer. The purpose of the meeting was discuss the condition of the Company. During the meeting, Mr. Kaiser commented that he was working with a fatigued Board. Mr. Durham asked if they would consider selling the Company to enable them to leave the Board. He also said that something may need to be done to get some of the directors off the Board and to add new Board members. Mr. Kaiser said that they wanted the Company to engage in a transaction that would give the directors an easy way to leave the Board. In response to a question about why the Company had not held an annual meeting of stockholders, Mr. Kaiser said that Mr. Kesler would be up for re-election and that Mr. Kaiser was concerned that Mr. Kesler would not accept the nomination, and that the Board would lose its Chairman of the Audit Committee. One of Mr. Durham's associates suggested the name of a potential nominee for director who could be Chairman of the Audit Committee.

On December 21, 2006, Mr. Brian Ladin of Bonanza Capital, Ltd., a stockholder of the Company, sent a letter to the Board criticizing the directors for authorizing the Company to enter into the agreement to sell the Company's United States and Miami-based Latin American operations. Among other things, Mr. Ladin demanded that the directors, excluding Mr. Kaiser, immediately resign from the Board.

On January 4, 2007, management of the Company met with Mr. Ladin, Mr. Timothy Durham, and other stockholders to discuss the Company's recent announcement that it had entered into agreements to sell the Company's United States and Miami-based Latin American operations and the sale of the Company's Mexico operations.

On March 28, 2007, the Company's stockholders approved the sale of the Company's United States and Miami-based Latin American operations and the sale of the Company's Mexico operations, which transactions were subsequently consummated, and adopted a plan of dissolution for the Company.

On March 28, 2007, Mr. Ladin sent a letter to the Board requesting the directors work with significant stockholders of the Company to nominate a slate of at least four directors to oversee the dissolution of the Company.

On April 3, 2007, Mr. Richard D. Squires, a stockholder of the Company, sent a letter to the Board and management requesting a meeting to discuss the dissolution of the Company.

On April 6, 2007, Ms. Elaine Flud Rodriguez, the Company's General Counsel, sent letters to Mr. Ladin and Mr. Squires that, among other things, said that the Board was aware of its duties to act in the best interests of all stockholders and to implement the dissolution plan the stockholders approved. In addition, the Board believed that execution of the plan in the manner described in the proxy statement for the special meeting of stockholders would maximize stockholder value, and would realize the maximum amount of cash for distribution to stockholders as quickly as possible. The letters also offered Mr. Ladin and Mr. Squires the opportunity to meet with Mr. Kesler and Mr. Jackson.

On April 11, 2007, Mr. Kesler and Mr. Jackson met with Mr. Squires and on April 12, 2007, they met with Mr. Ladin. The purpose of the meetings was to discuss Mr. Squires' and Mr. Ladin's concerns about the dissolution of the Company and the distribution of the Company's assets and their views about potential Board members. In the meeting with Mr. Squires, he said that he wanted the Board to be comprised of three directors: Mr. Kaiser, another current director, and a designee of Mr. Squires. He believed Mr. Kaiser's stock ownership in the Company made him a better representative of the stockholders than the other directors. In addition, he wanted the Company to liquidate its assets and distribute proceeds as quickly as possible and not wait for resolution of the Securities and Exchange Commission's investigation described in the proxy statement for the special meeting of stockholders held March 28, 2007 (the *SEC Investigation*), only retaining those amounts required pursuant to the agreement to sell the Company's United States and Miami-based Latin American operations. Mr. Ladin voiced similar positions in his meeting with Mr. Kesler and Mr. Jackson, except that he demanded that a dividend be paid to the stockholders within two weeks and said that if the current Board did not agree to step down, he would initiate a proxy contest to nominate a slate of directors to the Board that would include Mr. Kaiser.

On April 13, 2007, Mr. Durham's attorney sent a letter to the Board demanding that the Board immediately call an annual meeting of stockholders for a date not later than May 31, 2007, for the purpose of filling all of the authorized seats on the Board and for considering any proposals properly made by stockholders for consideration at the meeting. The letter also demanded that the Board give Mr. Durham the opportunity to propose to the Board one or more persons for nomination by the Board to stand for election in the proposed meeting or to propose persons for inclusion in the Company's proxy materials as nominees for election to the Board. In the event the Board did not respond to this demand for an annual meeting, the letter also demanded that Mr. Kaiser, in his capacity as Chairman of the Board, call a special meeting of stockholders for the purposes described above. By letter to the other directors dated April 14, 2007, Mr. Kaiser called a special meeting. After a discussion of this matter with the full Board at a meeting on April 17, 2007, he withdrew his call for the special meeting when the Board decided to hold an annual meeting by the end of June, 2007.

On April 23, 2007, Mr. Ladin wrote the directors requesting that the Company call an annual stockholders meeting for the week of June 4, 2007. The main purpose of the meeting would be to elect directors to the Board.

On April 26, 2007, Mr. Kesler, Mr. Jackson, Ms. Rodriguez and outside counsel for the Company met with Mr. Durham, his attorney, and Mr. Pat O'Donnell, a stockholder of the Company and a member of a group of stockholders, including Mr. Durham, that had jointly filed a Schedule 13D. The purpose of the meeting was to discuss Mr. Durham's desire that the current Board resign and that the Board should consist of between five and seven persons, none of whom should be current or former officers or directors of the Company and all of whom should be persons nominated by or representing major stockholders of the Company. Mr. Durham and Mr. O'Donnell said that they both wanted to be on the new Board. Mr. Durham and Mr. O'Donnell believed that the major stockholders of the Company were better suited to conduct the Company's business in the foreseeable future in a manner that maximizes the value of the interests of all of the Company's stockholders than the existing Board. Mr. Durham and Mr. O'Donnell expressed a desire to meet with major stockholders of the Company to discuss having representation on the Board.

On April 26, 2007 the Company announced that it intended to hold an annual stockholders meeting on or before June 29, 2007 to elect the entire Board.

On April 28, 2007, Mr. Durham's attorney sent a letter to the Company's outside counsel memorializing the April 26th meeting.

On May 7, 2007, Mr. Kesler and Mr. Jackson met with Mr. Marcelo Claire, a stockholder of the Company, and his attorney to hear Mr. Claire's views about the management of the Company. Mr. Claire said that he would like the Board to distribute the proceeds from the asset sales as soon as possible consistent with the related agreements and hoped there would be some way for the distribution to be made without regard to the resolution of the SEC Investigation. He also proposed that the Board consist of only one independent director.

On May 8, 2007, Mr. Jackson and Ms. Gunn held a telephonic discussion with representatives of MC Investment Partners, a stockholder of the Company, including Mr. Rajegowda. They, too, expressed the desire to have the proceeds distributed as promptly as possible and that the SEC Investigation be addressed in a way that would not delay the distribution. The representatives also said that they had no issues with the Board or management of the Company.

On May 11, 2007, Ms. Rodriguez had a telephonic discussion with representatives of Stark Investments, a stockholder of the Company. They said that, in the absence of other information, they would be inclined not to change the members of the Board, but that they might be willing to support a slate of nominees who would make a distribution to stockholders prior to the resolution of the SEC Investigation if they understood the motives of those nominees and the nominees were committed to following the plan of dissolution approved by the Company's stockholders.

On May 14, 2007, Mr. Kaiser wrote a letter to the other directors that, among other things, suggested that the number of directors be reduced to three and that Mr. Kesler, Mr. Jackson, and Mr. Kaiser be the three directors.

On May 16, 2007, Mr. Ladin wrote a letter to Mr. Kesler, Mr. Jackson and Mr. Kaiser that said that the best interests of the stockholders would be served by the immediate election of Mr. Durham and Mr. Ladin to the Board of Directors to serve along with Mr. Kaiser until the annual stockholders meeting could be held. On May 17, 2007, Mr. Squires wrote a letter to the same persons containing the same request as Mr. Ladin's letter.

On May 18, 2007, Mr. Kesler sent a letter to Stark Investments, Mr. Durham, Mr. Claire, Mr. Ladin, Mr. Squires, Mr. Rajegowda, and Moorehead Communications, Inc., significant stockholders of the Company, stating the Company's intention to hold an annual stockholders meeting to elect the entire Board and reiterating that the Board intended to make distributions, including a \$1.00 dividend, to stockholders as promptly as possible but not until the SEC Investigation was resolved. The letter also proposed that the current Board would have no objection to considering the election of a new slate of directors who represent the interests of all stockholders under the following circumstances: (i) the addressees of the letter and other stockholders they chose to contact submit to the Board a slate of nominees for director that they would like the Board to consider nominating in the Company's annual meeting proxy statement; (ii) the slate would have the written support of holders of a majority of outstanding shares of the Company's common stock or a lesser amount if the number of shares supporting the slate that would, if voted at the annual meeting, be sufficient to ensure the election of the slate against any other slate of nominees; (iii) a description of the qualifications of each nominee, his or her affiliations with any stockholders, his or her plans for conducting the dissolution of the Company, including a commitment to the payment of all of the net proceeds to stockholders, and other information required by Article 9(c) of the Company's Amended and Restated Certificate of Incorporation or the Securities and Exchange Commission's proxy rules; and (iv) an explanation of how they would address the concern that Grant Thornton LLP (*Grant Thornton*), the Company's auditors, and Ms. Gunn had expressed about continuing as the Company's auditors and as Chief Executive Officer if a new Board is elected. The letter also said that the annual meeting would be held during July, 2007. The letter requested a response by June 1, 2007.

On May 18, 2007, Mr. Durham's attorney sent a letter to Mr. Kesler in response to Mr. Kesler's letter dated the same day. The letter stated that Mr. Durham was disappointed in the Board's proposal described above and believed that the Board breached its fiduciary duties by placing conditions on stockholder participation in the director nominating process that were not present in the Company's Bylaws, Amended and Restated Certificate of Incorporation or applicable law and breach. The letter also requested that the Company provide Mr. Durham with copies of all written communications and written summaries of all oral communications between Grant Thornton and members of the Board or management (i) in which Grant Thornton indicated concern and uncertainty about continuing as the Company's auditors if a new Board is elected, (ii) indicated the persons who Grant Thornton preferred to be members of the Board and the reasons those persons are suited to be members of the Board, and (iii) relating to the make up of the Board or which sought to influence Grant Thornton's opinion of Mr. Durham or other prospective nominees for the Board. The letter also requested copies of the minutes of the Board meeting and other materials at which the proposal by the Board outlined in the May 18th letter were adopted.

On May 19, 2007, Mr. Ladin wrote a letter to Mr. Kesler, Mr. Jackson, and Mr. Kaiser repeating his proposal in his letter dated May 16, 2007, that the best interests of the stockholders would be served by the immediate election of Mr. Durham and Mr. Ladin to the Board to serve along with Mr. Kaiser until the annual stockholders meeting could be held and providing biographical and other information about these persons.

On May 22, 2007, outside counsel for the Company sent a letter to Mr. Durham's attorney in response to his letter of May 18, 2007 to Mr. Kesler. Counsel's letter stated that Mr. Durham was free to participate in any director nominating process pursuant to the Company's bylaws, the Company's certificate of incorporation, or applicable law, and that the proposal by the Board in the letter from Mr. Kesler gave Mr. Durham and other stockholders a means by which their nominees could become the only nominees named in the Company's proxy statement and did not take away any other rights they may have. The letter also clarified the fact that with respect to the views of Grant Thornton set forth in Mr. Kesler's letter, there were no written communications between Grant Thornton and members of the Company's Board or management in which Grant Thornton indicated some concern and uncertainty about continuing as the Company's auditors if a new Board is elected. The letter stated that (i) management orally described to Grant Thornton the concerns certain stockholders expressed about the composition of the Board, (ii) Grant Thornton orally informed management that they do not ordinarily provide services to companies that are in liquidation, but, following their client reacceptance process regarding the Company, they would continue to represent the Company as it goes through the liquidation process pursuant to the plan approved by the stockholders, (iii) if there were changes to such plan, or if the Company decided not to follow the plan, Grant Thornton would need to reevaluate their client reacceptance decision, (iv) Grant Thornton orally informed management that, as an ordinary part of their practice, when there is a change in management or the board of a client, they perform an evaluation of the client to determine if they will continue as the company's auditors, (v) Grant Thornton did not orally or in writing indicate any persons they preferred to be members of the Board, and (vi) neither the Company nor its representatives, directors, officers, or employees had any written or oral communications with Grant Thornton relating to the make up of the Board other than described in the letter or that sought to influence Grant Thornton's opinion of prospective nominees for the Board. The letter also said that Ms. Gunn may need to reevaluate her desire to remain in the same management capacity if the Company were to change the plan of dissolution or choose not to follow the plan approved by the stockholders, or if changes were made in the make-up of the Board. In addition, the letter excerpted relevant portions of Board minutes relating to the letter.

Grant Thornton advised the Company that the reduction of the number of directors to three, as described under "Election of Directors," would not of itself cause them to reevaluate their continued service as the Company's auditors. They also advised the Company that the election of one or more of the

nominees from the Durham Group would, consistent with clause (iv) in the immediately preceding paragraph, cause them to undertake their normal evaluation of the Company to determine if they would continue as the Company's auditors. This process would, among other things, involve discussions with the newly elected directors to determine the effect the election of any such persons had on the Company's governance and strategic direction.

On May 25, 2007, Mr. Durham filed a petition in Delaware Chancery Court seeking, among other things, an order pursuant to Section 211 of the Delaware General Corporation Law compelling the Company to hold an annual meeting of stockholders. Mr. Durham has taken no action with respect to this complaint since the Company set the annual meeting for July 31, 2007.

On June 5, 2007, the Nominating Committee of the Board, consisting of Mr. Thompson (Chairman), Mr. Kesler, Mr. Jackson, and Dr. Da Hsuan Feng, met to discuss the slate of directors to be approved by the Board. Present were Mr. Thompson, Mr. Kesler, and Mr. Jackson. Dr. Feng was unable to attend. The Committee noted that the May 18, 2007 letter from Mr. Kesler to significant stockholders had requested a response from them by June 1, 2007 if they wanted the Board to consider a slate of nominees proposed by the significant stockholders. There was no response. The Committee requested that Mr. Kesler contact Mr. Durham, Mr. Ladin, and Mr. Squires to see if they would be willing to be nominated by the Board for election as a director of the Company. The Committee recessed the meeting and reconvened it on June 6, 2007, with the same members present. Mr. Kesler reported that Mr. Durham would be interested in serving as a director, but that he would need to know who the other nominees would be, Mr. Ladin agreed to serve on the Board, and Mr. Squires was not interested in becoming a director. After reviewing biographical information regarding Mr. Durham and Mr. Ladin and discussing their qualifications and the qualification of each current member of the Board, the Committee determined that it would recommend to the Board that Mr. Kesler, Mr. Jackson, and Mr. Durham be the nominees for director at the annual meeting. If Mr. Durham declined to be a nominee, Mr. Thompson would take his place.

On June 7, 2007, the Board met to, among other things, approve the slate of nominees for director to be submitted to the stockholders. Present were Mr. Kesler, Mr. Jackson, Mr. Thompson, and Mr. Kaiser. Dr. Feng was unable to attend. Mr. Thompson gave the report of the Nominating Committee and its recommendation that the slate of nominees be Mr. Kesler, Mr. Jackson, and Mr. Durham. If Mr. Durham, declined to be nominated, Mr. Thompson would be the third nominee. The Board approved the recommendation, with Mr. Kaiser voting against it. Dr. Feng later advised the Company that he approved of these nominees. Mr. Kesler recessed the meeting to place a telephone call to Mr. Durham to see if he would agree to be a nominee for director. Mr. Kesler reported that Mr. Durham wanted to think about whether he would accept the nomination and respond later. In a telephonic conversation after the Board meeting, Mr. Durham's lawyer told outside counsel for the Company that Mr. Durham would accept nomination if he was allowed to designate a majority of the persons to be nominated for election to the Board. That condition was unacceptable to the Company.

On June 18, 2007, representatives of the Company's proxy solicitors spoke with Mr. Rajegowda, who criticized the Company for (i) having too many employees, (ii) paying the Chief Executive Officer too much money, and (iii) delaying the distribution of the proceeds from the asset sales. He said that MC Investment Partners could not support the slate of nominees proposed in the Company's preliminary proxy statement.

On June 20, 2007, Mr. Durham's attorney sent a letter to the Company's Corporate Secretary, on behalf of Mr. Durham, giving notice that Mr. Durham intended to nominate at the annual meeting Mr. Durham, Mr. Kaiser, and Mr. Rajegowda to serve as directors of the Company. According to Mr. Kaiser, Mr. Durham nominated him because if Ms. Gunn left the Company, Mr. Kaiser would have the knowledge and experience to take her place as Chief Executive Officer, President, and Chief Financial Officer.

On June 22, 2007, Mr. Durham's attorney sent a letter, to the Company requesting certain stockholder materials, including a list of holders of the Company's outstanding shares of Common Stock and other related records and documents. The Company agreed to provide the materials as required by the Securities and Exchange Commission's proxy rules.

On June 28, 2007, counsel for Mr. Durham called outside counsel for the Company and proposed that the Company consider nominating a joint slate of nominees with Mr. Durham for election at the annual meeting. The slate would consist of Mr. Durham, Mr. Kaiser, and another nominee selected by the Nominating Committee. The Company declined Mr. Durham's proposal.

July 2, 2007, the Company notified Mr. Durham's attorney by letter that the nomination of the nominees of the Durham Group had been made in accordance with the time and information requirements of Article 9(c) of the Company's Amended and Restated Certificate of Incorporation.

Intentions of Mr. Kesler, Mr. Jackson, and Mr. Thompson

In the plan of dissolution approved during the Company's special meeting of stockholders on March 28, 2007, the Company stated that no distribution of proceeds from the asset sales would be made until the SEC Investigation was resolved. On June 26, 2007, the Company received a letter from the staff of the Securities and Exchange Commission giving notice of the completion of their investigation related to the Company's Asia-Pacific Region with no enforcement action recommended to the Commission. Consequently, on June 27, 2007, the Board declared a cash distribution of \$1.50 per share on common stock to stockholders of record July 9, 2007. The distribution will be paid no later than July 19, 2007.

If elected as directors, Mr. Kesler, Mr. Jackson, and Mr. Thompson intend to make additional distributions to stockholders in accordance with the plan of dissolution, but there can be no assurance of the timing and amount of any such distributions.

In addition, if elected as directors, Mr. Kesler, Mr. Jackson, and Mr. Thompson intend to reduce the annual retainer fee paid to each director who is not an officer or other employee of the Company from \$25,000 to \$10,000, to reduce the amount paid to each director from \$1,500 to \$750 for each meeting of the Board of Directors or committee of the Board of Directors that he attends and to reduce the amount paid from \$750 to \$500 for each telephonic Board of Directors or committee meeting that he attends. Consistent with current practice, to the extent that any committee meeting is held on the same day as a full Board of Directors meeting or another committee meeting, only one \$750 or \$500 fee (as applicable) would be paid.

RECORD DATE AND VOTING SECURITIES

The record date for determining the stockholders entitled to notice of and to vote at the Meeting and any postponements and adjournments thereof was the close of business on June 27, 2007 (the **Record Date**), at which time the Company had issued and outstanding 20,553,205 shares of common stock, par value \$0.01 per share (**Common Stock**). Common Stock is the only class of outstanding voting securities of the Company.

QUORUM AND VOTING

The presence at the Meeting, in person or by Proxy, of the holders of at least a majority of the outstanding shares of Common Stock as of the Record Date is necessary to constitute a quorum for the conduct of business at the Meeting. Each share of Common Stock represented at the Meeting in person or by Proxy will be counted toward a quorum. If a quorum is not present, then, in accordance with the bylaws of the Company, Proxies will be used to vote for adjournment. Each share of Common Stock is entitled to one vote with respect to all matters presented for stockholder vote at the Meeting.

To be elected, the nominees for election as a Class I, II or III director must receive the affirmative vote of the holders of a plurality of the votes cast at the Meeting. Stockholders may vote for or withhold voting for any or all nominees for the Board of Directors. Votes that are withheld will be counted toward the determination of whether a quorum exists, but will not be counted either for or against the election of the nominees and, therefore, will not affect the outcome of the election of directors.

Broker non-votes (that is, shares held by brokers or nominees as to which the brokers have no discretionary power to vote on a particular matter and have received no instructions from the persons entitled to vote such shares), if any, will be counted as present for purposes of determining the presence of a quorum. However, for purposes of determining the outcome of any matter as to which the broker has indicated on the Proxy or otherwise advised the Company that it does not have discretionary voting authority, those shares will be treated as not entitled to vote with respect to that matter.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table sets forth information with respect to the number of shares of Common Stock beneficially owned as of June 27, 2007, by each person known by the Company to beneficially own more than 5% of the outstanding shares of Common Stock. Unless otherwise noted, the persons named in the table have sole voting and investment power with respect to all shares of Common Stock beneficially owned by them.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class(1)
Michael A. Roth and Brian J. Stark c/o Stark Investments 3600 South Lake Drive St. Francis, Wisconsin 53235	3,262,254 (2)	15.9 %
Timothy S. Durham, Patrick J. O'Donnell, Henri B. Najem, Jr., Anthony P. Schilchte, David Tornek, Neil E. Lucas, Terry G. Whitesell, and Jonathan B. Swain 111 Monument Circle, Suite 4800 Indianapolis, Indiana 46204-2415	1,882,441 (3)	9.2 %
S. Nicholas Walker, The Lion Fund Limited, York Lion Fund, L.P., York Liquidity, LP, York Asset Management Limited, and York GP, Ltd. Deltec House Lyford Cay P.O. Box N1717 Nassau NP, Bahamas	1,446,470 (4)	7.0 %

(1) Based on 20,553,205 shares outstanding as of June 27, 2007.

(2) Based on a Form 4 filed with the Securities and Exchange Commission (the **SEC**) on January 23, 2007, by Michael A. Roth and Brian J. Stark, filing as joint filers pursuant to Rule 13d-1(k) under the Securities Exchange Act of 1934, as amended (the **Exchange Act**). Mr. Roth and Mr. Stark reported shared voting and dispositive power with respect to all shares owned in an amended Schedule 13G filed on February 14, 2007.

(3) Based on preliminary proxy materials filed by the Durham Group with the SEC on July 9, 2007. Each individual owner reported on an amended Schedule 13D filed with the SEC on June 1, 2007, sole voting and dispositive power with respect to his individual shares.

(4) Based on a Schedule 13G filed with the SEC on July 6, 2007. Each individual owner reported sole voting and dispositive power with respect to his or its individual shares.

SECURITY OWNERSHIP OF MANAGEMENT

The following table sets forth information with respect to the number of shares of Common Stock beneficially owned as of June 27, 2007, by (i) each individual acting as the Company's Chief Executive Officer, or in a similar capacity, during fiscal 2006, and each of the Company's four other most highly compensated executive officers who were serving as such on November 30, 2006, based on salary and bonus earned during fiscal 2006 (collectively, the *Named Executive Officers*); (ii) each current director of the Company and (iii) all directors and executive officers of the Company as a group. Unless otherwise noted, the persons named in the table have sole voting and investment power with respect to all shares of Common Stock beneficially owned by them.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class(1)
Robert A. Kaiser	331,148 (2)	1.6 %
Michael J. Farrell	58,537	*
Elaine Flud Rodriguez	30,541	*
Raymond L. Durham	29,403	*
Juan Martinez Jr.	10,269	*
Da Hsuan Feng	14,000	*