

CLST Holdings, Inc.  
Form 10-Q  
October 10, 2007

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended August 31, 2007

OR

o

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

For the transition period from            to

Commission File Number 0-22972

**CLST HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**75-2479727**

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

**15950 N. Dallas Parkway, Tower II, Suite 400  
Dallas, Texas**

(Address of principal executive offices)

**75248**

(Zip Code)

**(972) 361-8428**

(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (check one)

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

On October 9, 2007, there were 20,553,205 outstanding shares of common stock, \$0.01 par value per share.

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CLST HOLDINGS, INC.

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## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements

CLST HOLDINGS, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(unaudited)

(In thousands, except share and per share data)

	August 31, 2007	November 30, 2006
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 17,073	\$ 20,673
Accounts receivable - other	12,077	
Deferred income taxes		917
Prepaid expenses	1,912	346
Assets of discontinued operations - U.S., Miami, Mexico and Chile operations		203,164
Total current assets	31,062	225,100
Property and equipment, net	8	32
Deferred income taxes	4,786	6,655
Other assets	289	4,193
	\$ 36,145	\$ 235,980
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Notes payable	\$	\$ 33,469
Current portion - Term loan		1,000
Accounts payable	14,805	16,222
Accrued expenses	1,186	3,642
Income taxes payable	192	963
Liabilities of discontinued operations - U.S., Miami, Mexico and Chile		152,839
Total current liabilities	16,183	208,135
12% Senior subordinated notes		1,915
Term loan		9,160
Total liabilities	16,183	219,210
Stockholders' equity:		
Preferred stock, \$.01 par value, 5,000,000 shares authorized; none issued		
Common stock, \$.01 par value, 200,000,000 shares authorized; 21,187,229 and 21,188,129 shares issued, and 20,553,205 and 21,158,740 shares outstanding, respectively	212	212
Additional paid-in capital	126,034	124,346
Accumulated other comprehensive loss - foreign currency translation adjustments	410	(8,603)
Cash dividends (\$1.50 per common share)	(30,830)	

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Accumulated deficit	(74,217)	(99,091)
	21,609	16,864
Less: Treasury stock (634,024 and 29,389 shares at cost, respectively)	(1,647)	(94)
	19,962	16,770
	\$ 36,145	\$ 235,980

See accompanying notes to unaudited consolidated financial statements.

**CLST HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(unaudited)

(In thousands, except per share data)

	Three months ended August 31,		Nine months ended August 31,	
	2007	2006	2007	2006
Revenues	\$	\$	\$	\$
Cost of sales				
Gross profit				
Selling, general and administrative expenses	1,901	3,358	14,009	9,589
Operating loss	(1,901)	(3,358)	(14,009)	(9,589)
Other income (expense):				
Interest expense		(123)	(245)	(401)
Loss on settlement of note receivable related to sale of Asia-Pacific			(537)	
Gain on sale of building				240
Other, net	559	(20)	953	11
Total other income (expense)	559	(143)	171	(150)
Loss from continuing operations before income taxes	(1,342)	(3,501)	(13,838)	(9,739)
Benefit for income taxes	(458)	(995)	(13,084)	(3,592)
Loss from continuing operations	(884)	(2,506)	(754)	(6,147)
Discontinued operations, net of taxes	58	3,478	25,628	11,955
Net income (loss)	\$ (826)	\$ 972	\$ 24,874	\$ 5,808
Net income (loss) per share:				
Basic:				
Loss from continuing operations	\$ (0.04)	\$ (0.12)	\$ (0.04)	\$ (0.31)
Discontinued operations	0.00	0.17	1.25	0.59
Net income (loss)	\$ (0.04)	\$ 0.05	\$ 1.21	\$ 0.28
Diluted:				
Loss from continuing operations	\$ (0.04)	\$ (0.12)	\$ (0.04)	\$ (0.31)
Discontinued operations	0.00	0.17	1.25	0.59

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Net income (loss)	\$	(0.04)	\$	0.05	\$	1.21	\$	0.28
Weighted average shares outstanding:								
Basic		20,553		20,405		20,558		20,384
Diluted		20,553		20,405		20,558		20,384
Cash dividends declared per share of common stock	\$	1.50	\$		\$	1.50	\$	

See accompanying notes to unaudited consolidated financial statements.

**CLST HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME**

Nine months ended August 31, 2007 and 2006

(Unaudited)

(In thousands, except per share data)

	Common Stock Shares	Common Stock Amount	Additional paid- in capital	Accumulated other comprehensive loss	Cash Dividends	Accumulated deficit	Treasury stock	Total
Balances at November 30, 2006	21,188	\$ 212	\$ 124,346	\$ (8,603)		\$ (99,091)	\$ (94)	16,770
Comprehensive income:								
Net income						24,874		24,874
Foreign currency translation adjustment				9				9
Realized foreign currency translation adjustment				9,004				9,004
Total comprehensive loss								33,887
Cancellation of restricted stock	(1)							
Amortization of restricted stock			1,677					1,677
Stock option expense			11					11
Cash dividends (\$1.50 per common share)					(30,830)			(30,830)
Treasury stock							(1,553)	(1,553)
Balances at August 31, 2007	21,187	\$ 212	\$ 126,034	\$ 410	\$ (30,830)	\$ (74,217)	\$ (1,647)	19,962
Balances at November 30, 2005	20,827	\$ 208	\$ 123,554	\$ (7,673)		\$ (105,998)		\$ 10,091
Comprehensive income:								
Net income						5,808		5,808
Foreign currency translation adjustment				(811)				(811)
Total comprehensive income								4,997
Grant of restricted stock	425	4	(4)					
Cancellation of restricted stock	(72)							
Amortization of restricted stock			469					469
Stock option expense			75					75
Treasury stock	(14)						(45)	(45)
Balances at August 31, 2006	21,166	\$ 212	\$ 124,094	\$ (8,484)		\$ (100,190)	\$ (45)	15,587

See accompanying notes to unaudited consolidated financial statements.





**CLST HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Nine months ended August 31, 2007 and 2006

(Unaudited)

(In thousands)

	2007	2006
Cash flows from operating activities:		
Net income	\$ 24,874	\$ 5,808
Adjustments to reconcile net income to net cash provided by operating activities		
Stock based compensation	1,688	543
Depreciation and amortization	95	115
Fixed assets impairment	14	
Deferred taxes	2,786	(927)
Gain on sale of building		(240)
Changes in operating assets and liabilities:		
Accounts receivable-other	(343)	1,005
Prepaid expenses	(1,566)	(366)
Other assets	2,611	504
Accounts payable	(1,417)	
Accrued expenses	(2,456)	1,933
Income taxes payable	(771)	(21,501)
Discontinued operations - U.S., Miami, Mexico, and Chile operations	(24,656)	33,783
Net cash provided by operating activities	859	20,657
Cash flows from investing activities:		
Purchases of property and equipment	(3)	(15)
Proceeds from sale of U.S., Miami, Mexico and Chile operations	72,410	
Proceeds from sale of building		1,742
Discontinued operations - U.S., Miami, Mexico, and Chile operations	(150)	(400)
Net cash provided by investing activities	72,257	1,327
Cash flows from financing activities:		
Borrowings on notes payable	190,225	470,808
Payments on notes payable	(223,694)	(477,293)
Borrowings on Term Loan	1,890	
Payments on Term Loan	(12,050)	
Purchase of Treasury Stock	(340)	(45)
Redemption of 12% Senior Subordinated Notes	(1,915)	
Dividend	(30,830)	
Additions to deferred loan costs	(2)	(154)
Net cash used in financing activities	(76,716)	(6,684)

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Net increase (decrease) in cash and cash equivalents	(3,600)	15,300
Cash and cash equivalents at beginning of period	20,673	3,810
Cash and cash equivalents at end of period	\$ 17,073	\$ 19,110
Non-Cash Investing Activity - accounts receivable other proceeds not yet received from U.S. Sale transaction	\$ 11,734	\$
Non-Cash Financing Activity - Treasury Stock	\$ 1,213	\$
Cash paid during the period for:		
Income taxes	\$ 1,071	\$

See accompanying notes to unaudited consolidated financial statements.

**CLST HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**(1) Summary of Significant Accounting Policies**

*(a) Basis for Presentation*

Although the interim consolidated financial statements of CLST Holdings, Inc., formerly CellStar Corporation, and subsidiaries (the Company) are unaudited, Company management is of the opinion that all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the results have been reflected therein. Operating revenues and net income (loss) for any interim period are not necessarily indicative of results that may be expected for any other interim period or for the entire year.

These statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended November 30, 2006. The consolidated financial statements include the accounts of all subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

The Company has reclassified to discontinued operations, for all periods presented, the results and related charges for the North American and Latin American Regions. (See footnote 2.)

*(b) Accounts Receivable*

In determining the adequacy of the allowance for doubtful accounts, management considers a number of factors including the aging of the receivable portfolio, customer payment trends, financial condition of the customer, economic conditions in the customer's country, and industry conditions. Actual results could differ from those estimates. We write off our fully reserved accounts receivable when we have exhausted all collection efforts. Trade accounts receivable are included in assets held for sale or assets of discontinued operations.

*(c) Inventories*

Inventories are stated at the lower of cost (primarily on a moving average basis) or market and are comprised of finished goods. In determining the adequacy of the reserve for inventory obsolescence, management considers a number of factors including the aging of the inventory, recent sales trends, industry market conditions, and economic conditions. In assessing the reserve, our management also considers price protection credits or other incentives the Company has received from the vendor. Actual results could differ from those estimates. Inventories are included

in assets held for sale or assets of discontinued operations.

**(2) Discontinued Operations**

On December 18, 2006, we entered into a definitive agreement (the "U.S. Sale Agreement") with a wholly owned subsidiary of Brightpoint, Inc., an Indiana corporation ("Brightpoint"), providing for the sale of substantially all of the Company's United States and Miami-based Latin American operations and for the buyer to assume certain liabilities related to those operations (the "U.S. Sale"). Our operations in Mexico and Chile and other businesses or obligations of the Company were excluded from the transaction.

Our Boards of Directors and Brightpoint unanimously approved the proposed transaction set forth in the U.S. Sale Agreement. The purchase price was \$88 million in cash, subject to adjustment based on changes in net assets from December 18, 2006 to the closing date. The U.S. Sale Agreement also required the buyers to deposit \$8.8 million of the purchase price into an escrow account for a period of six months from the closing date. As of October 4, 2007, we have received approximately \$7.6 million of the amounts held in the escrow account, which such amount includes accrued interest. Approximately \$1.4 million of the amount originally placed in escrow remains in escrow and is the subject of claims by Brightpoint. These claims are disputed by the Company.

Also on December 18, 2006, we entered into a definitive agreement (the "Mexico Sale Agreement") with Soluciones Inalámbricas, S.A. de C.V. ("Wireless Solutions") and Prestadora de Servicios en Administración y Recursos Humanos, S.A. de C.V. ("Prestadora"), two affiliated Mexican companies, providing for the sale of all of the Company's Mexico operations (the "Mexico Sale"). The Mexico Sale was a stock acquisition of all of the outstanding shares of the Company's Mexican subsidiaries, and includes our interest in Comunicación Inalámbrica Inteligente, S.A. de C.V. ("CII"), our joint venture with Wireless Solutions. Our Board of Directors unanimously approved the proposed transaction set forth in the Mexico Sale Agreement. Under the terms of the transaction, we received \$20 million in cash, and are to receive our pro rata share of CII profits from January 1, 2007, up to the consummation of the transaction, within 150 days from the closing date. We have not received any pro-rata share of the CII profits and other terms required as of 150 days from the closing date. A demand for payment and other required terms of the agreement was sent to the purchasers on September 11, 2007. While we believe that CII was profitable and therefore the purchasers owe the Company its pro rata share, the purchasers are disputing this claim. We anticipate further negotiations to resolve the issue.

We filed a proxy statement with the SEC on February 20, 2007, which more fully describes the U.S. and Mexico Sale transactions. Both of the transactions were subject to customary closing conditions and the approval of our stockholders, and the transactions were not dependent upon each other. The proxy statement also included a plan of dissolution, which provides for the complete liquidation and dissolution of the Company after the completion of the U.S. Sale, and a proposal to change the name of the Company from CellStar Corporation to CLST Holdings, Inc.

On March 22, 2007, we signed a letter of intent to sell our operations in Chile to a group that includes local management for approximately book value.

On March 28, 2007, our stockholders approved the U.S. Sale, the Mexico Sale, the plan of dissolution, and the name change to CLST Holdings, Inc. We continue to follow the plan of dissolution. Consistent with the plan of dissolution and its fiduciary duties, our board of directors will continue to consider the proper implementation of the plan of dissolution and the exercise of the authority granted to it thereunder, including the authority to abandon the plan of dissolution. Among other matters being considered, our board of directors also is considering whether it would be in the best interest of the Company to de-register with the Securities and Exchange Commission and thereby eliminate the Company's responsibilities to file reports with the Securities and Exchange Commission.

The U.S. Sale closed on March 30, 2007. At closing, \$53.6 million was received and \$11.5 million is included in accounts receivable other in the accompanying balance sheet for August 31, 2007; \$8.8 million of which was placed in an escrow account and subject to any indemnity claims by the buyers of the company's U.S. business. A portion of the proceeds from the sale was used to pay off the Company's bank debt (see footnote 6). We recorded a pre-tax gain of \$51.3 million on the transaction during the three months ended May 31, 2007. The buyer of the Company's U.S. business has asserted total claims for indemnity against the escrow of approximately \$1.4 million. The Company has objected to these claims, and anticipates negotiations with the buyer of the Company's U.S. business in connection therewith. The estimated purchase price of \$65.1 million is based upon estimated net working capital as of the closing date and may be adjusted based upon the audited actual net working capital. Discussions between the Company and buyer of the Company's assets are ongoing regarding the working capital adjustment. The buyer of the Company's U.S. business also has proposed negative adjustments to the net working capital of approximately \$1.4 million. These claims for adjustment are largely the same as the claims for indemnity asserted against the escrow account. The agreements between the Company and the buyer of its U.S. business contemplate negotiations between the parties thereto with respect to indemnity claims and claims for a working capital adjustment. On October 4, 2007, the Company received approximately \$7.6 million of the amounts held in the escrow account, which such amount includes accrued interest.

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The Mexico Sale closed on April 12, 2007, and we recorded a loss on the transaction of \$7.0 million primarily due to accumulated foreign currency translation adjustments as well as expenses related to the transaction. We had approximately \$9.1 million of accumulated foreign currency translation adjustments related to Mexico. As the proposed sale did not meet the criteria to classify the operations as held for sale under SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, as of February 28, 2007, we recognized the \$9.1 million as a charge upon the closing of the Mexico Sale. Again, as described above, we have sent a demand for payment and other required terms of the agreement to the purchasers, and if such amounts are received an additional gain will be recorded.

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On June 11, 2007, we completed the sale of our operations in Chile. The purchase price and cash transferred from the operations in Chile prior to closing totaled \$2.5 million, and we recorded a pre-tax gain of \$0.6 million on the transaction during the quarter ending August 31, 2007. With the completion of the sale of our operations in Chile, we no longer have any operating locations.

The results of discontinued operations for U.S., Miami, Mexico and Chile for the three and nine months ended August 31, 2007 and 2006, are as follows (in thousands):

	Three months ended August 31,		Nine months ended August 31,					
	2007	2006	2007	2006				
Revenues	\$	\$	237,775	\$	276,334	\$	660,261	
Cost of sales			221,342		258,234		609,050	
Gross profit			16,433		18,100		51,211	
Selling, general and administrative expenses			9,035		15,057		27,386	
Operating income (loss)			7,398		3,043		23,825	
Other income (expense):								
Interest expense			(472)		(2,201)		(2,351)	
Loss on sale of accounts receivable			(937)		(670)		(1,759)	
Minority Interest			(775)		(1,420)		(2,016)	
Gain on transactions		549			44,837			
Other, net			90		126		137	
Total other income (expense)		549	(2,094)		40,672		(5,989)	
Income before income taxes		549	5,304		43,715		17,836	
Provision for income taxes		491	1,826		18,087		5,881	
Total discontinued operations	\$	58	\$	3,478	\$	25,628	\$	11,955

A summary of the assets and liabilities of the U.S., Miami, Mexico and Chile operations at August 31, 2007 and November 30, 2006, as previously reported is as follows (in thousands):

	August 31, 2007	November 30, 2006	
Current assets	\$	\$	196,626
Non-current assets			6,538
Total assets			203,164
Current liabilities			152,839
	\$	\$	50,325



### **(3) Stock-Based Compensation**

We have granted stock options to directors, officers and key employees of the Company for purchase of the Company's common stock pursuant to the CellStar Corporation 2003 Long-Term Incentive Plan (the "2003 Plan"), the CellStar Corporation 1993 Amended and Restated Long-Term Incentive Plan and our 1994 Amended and Restated Director Non-Qualified Stock Option Plan. Options granted generally vest ratably over four year periods.

We are currently using the Black-Scholes option pricing model to determine the fair value of all option grants. We did not grant any options during the nine months ended August 31, 2007 and 2006. We do not expect to issue any stock-based compensation in future periods.

During 2005 and 2006, we granted shares of restricted stock to our executive officers, directors and certain employees pursuant to the 2003 Plan. The shares of restricted stock vest in thirds over a three-year period, beginning on the first anniversary of the grant date. The restricted stock will become 100% vested if any of the following occur: (i) the participant's death; (ii) the termination of the participant's service as a result of disability; (iii) the termination of the participant without cause; (iv) the participant's voluntary termination after the attainment of age 65; or (v) a change in control. The total value of the awards, \$2.6 million, was expensed over the service period. The 2003 Plan permits withholding of shares by the Company upon vesting to pay withholding tax. These withheld shares are considered as treasury stock and are available to be re-issued under the 2003 Plan. During the year ended November 30, 2006, 144,025 shares vested, of which 29,389 shares were withheld by the Company to pay withholding tax. On March 7, 2007, 129,082 shares vested, of which 20,775 were withheld by the Company to pay withholding tax.

At February 28, 2007, the total remaining unearned compensation related to restricted stock awards was \$1.5 million which was to be amortized over the service periods through March 2009. However, as a result of the closing of the U.S. Sale transaction, all restricted stock vested and the expense of \$1.5 million was recognized in the quarter ended May 31, 2007 and 109,426 shares were withheld by the Company to pay withholding taxes. Included in selling general and administrative expense is \$0.2 million of expenses related to the restricted stock grants for the three months ended August 31, 2006, and \$1.7 million and \$0.5 million of expenses for the nine months ended August 31, 2007 and 2006, respectively. There were no such expenses recorded during the third quarter of 2007, and the Company does not anticipate any expenses in future periods.

The Company expects to terminate its stock based compensation plans in the fourth quarter of 2007.

### **(4) Settlement of note receivable related to the sale of Asia-Pacific**

On March 5, 2007, we announced that we had signed an agreement, effective February 27, 2007, with Fine Day Holdings Limited ("Fine Day") and Mr. Horng An-Hsien ("Mr. Horng"), the Chairman and sole shareholder of Fine Day, and formerly an executive officer of the Company, accepting a settlement of an outstanding note receivable related to the September 2005 sale of our Hong Kong and People's Republic of China ("PRC") operations.

Since September 2, 2005, Fine Day had made timely interest payments to us on the promissory note. However, Fine Day informed us in February 2007 that it would not be able to pay quarterly interest payments or the principal amount of the note at maturity after the March 1, 2007

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interest payment. In settlement of the outstanding note, we agreed to accept a \$650,000 cash payment, along with the transfer to the Company of all of Mr. Horng's shares of our common stock, approximately 474,000 shares. The carrying value of the note, prior to the agreement, was \$2.4 million. As a result of the settlement, we recorded a loss of \$0.5 million for the quarter ended February 28, 2007. The shares of stock were valued at \$2.56 per share based on the closing price on April 12, 2007. The transaction closed on April 12, 2007, and we recorded an additional loss of \$43,000 during the quarter ended May 31, 2007 to reflect the change in the value of the stock up to the time of closing. At August 31, 2007, the shares of stock previously owned by Mr. Horng are included in treasury stock.

**(5) Net Income (Loss) Per Share**

Options to purchase 0.3 million and 0.4 million shares of common stock for the three months and nine months ended August 31, 2007, respectively, and 0.5 million for the three and nine months ended August 31, 2006, respectively, were not included in the computation of diluted earnings per share because the exercise price was higher than the average market price. 775,369 for the three months ended August 31, 2006, and 253,069 and 695,201 shares of unvested restricted stock for the nine months ended August 31, 2007 and 2006, respectively, were not included because of the loss from continuing operations.

	Three Months Ended August 31,		Nine Months Ended August 31,	
	2007	2006	2007	2006
<b>Basic:</b>				
Loss from continuing operations	\$ (884)	\$ (2,506)	\$ (754)	\$ (6,147)
Discontinued operations	58	3,478	25,628	11,955
Net income (loss)	\$ (826)	\$ 972	\$ 24,874	\$ 5,808
Weighted average number of shares outstanding	20,553	20,405	20,558	20,384
Loss from continuing operations	\$ (0.04)	\$ (0.12)	\$ (0.04)	\$ (0.31)
Discontinued operations	0.00	0.17	1.25	0.59
Net income (loss) per share	\$ (0.04)	\$ 0.05	\$ 1.21	\$ 0.28
<b>Diluted:</b>				
Loss from continuing operations	\$ (884)	\$ (2,506)	\$ (754)	\$ (6,147)
Discontinued operations	58	3,478	25,628	11,955
Net income (loss)	\$ (826)	\$ 972	\$ 24,874	\$ 5,808
Weighted average number of shares outstanding	20,553	20,405	20,558	20,384
<b>Effect of dilutive securities:</b>				
Restricted stock and options				
Weighted average number of shares outstanding including effect of dilutive securities	20,553	20,405	20,558	20,384
Loss from continuing operations	\$ (0.04)	\$ (0.12)	\$ (0.04)	\$ (0.31)
Discontinued operations	0.00	0.17	1.25	0.59
Net income (loss) per share	\$ (0.04)	\$ 0.05	\$ 1.21	\$ 0.28

**(6) Debt**

Debt consisted of the following at August 31, 2007, and November 30, 2006 (in thousands):

	August 31, 2007	November 30, 2006
Revolving credit facility	\$	\$ 33,469
Term loan		10,160
12% Senior subordinated notes		1,915
Total debt	\$	\$ 45,544

On March 31, 2006, we entered into an Amended & Restated Loan and Security Agreement (the Amended Facility) with a bank, which extended the term of the previous facility until September 27, 2009. The borrowing rate under the Amended Facility was prime for the prime rate option and London Interbank Offered Rate (LIBOR) plus 2.5% for the LIBOR option.

At November 30, 2006, we had outstanding \$1.9 million of 12% Senior Subordinated Notes (the Senior Notes) due January 2007 bearing interest at 12%.

On August 31, 2006, we entered into a Term Loan and Security Agreement (the Term Loan) with a finance company for up to \$12.3 million to refinance the Senior Notes. The borrowing rate under the Term Loan was LIBOR plus 7.5%, or a base rate plus an applicable margin. The Term Loan was to mature September 27, 2009. The Term Loan was to be amortized to an outstanding balance of \$10 million at the rate of approximately \$1 million per year payable in quarterly installments beginning September 30, 2006, with interest-only payments thereafter throughout the remainder of the Term Loan.

On March 30, 2007, the outstanding balances, including accrued interest, under the Amended Facility of \$13.1 million and Term Loan of \$11.9 million were paid off using the proceeds from the U.S. Sale. An early termination fee of \$0.5 million was paid in conjunction with the payoff of the Amended Facility and was recognized as a charge to earnings in the quarter ended May 31, 2007.

**(7) Commitments and Contingencies**

In February 2006, we received from the SEC a subpoena requiring production of certain documents relating to the Company's Asia-Pacific Region, which the Company exited in September 2005. The subpoena was issued in connection with a fact-finding inquiry under a formal order of investigation issued by the SEC. On June 26, 2007, we received a letter from the staff of the Securities and Exchange Commission giving notice of the completion of their investigation with no enforcement action recommended to the Commission.

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We are party to various other claims, legal actions and complaints arising in the ordinary course of business. Our management believes that the disposition of these matters will not have a materially adverse effect on our consolidated financial condition or results of operations.

We have agreements with two employees to assist with the final wind down of the Company. Under the agreements the employees are to receive their base salary as well as a bonus upon the completion of certain objectives during the liquidation process. The maximum payment remaining under these agreements at August 31, 2007 is \$0.5 million. In addition, we have an agreement, terminable by either party at will, with our Chief Executive Officer pursuant to which he receives \$20,000 per month for consulting services.

The Company has been informed of the existence of an investigation that may relate to the Company or its South American operations. Specifically, the Company understands that authorities in a foreign country are reviewing allegations from unknown parties that remittances were made from South America to Company accounts in the

United States in 1999. The Company does not know the nature or subject of the investigation, or the potential involvement, if any, of the Company or its former subsidiaries. The Company does not know if allegations of wrongdoing have been made against the Company, its former subsidiaries or any current or former Company personnel or if any of them are subjects of the investigation. However, the fact that the Company is aware of an allegation of transfer of money from South America to the United States and that investigators may have questioned witnesses about such alleged transfers means that the Company cannot rule out the possibility of involvement.

**(8) New Accounting Pronouncements**

In July 2006, FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109, which clarifies the accounting for uncertainty in tax positions. This interpretation requires that we recognize in our financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective as of the beginning of the Company's 2008 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to retained earnings. The Company is currently evaluating the impact of adopting FIN 48 on our financial statements.

From time to time, new accounting pronouncements are issued by the FASB or other standards setting bodies which we adopt as of the specified effective date. Unless otherwise discussed, our management believes the impact of recently issued standards which are not yet effective will not have a material impact on our consolidated financial statements upon adoption.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Overview

We have sold all of our major assets and only a small administrative staff remains to wind up our business. Our stockholders approved the U.S. Sale, the Mexico Sale, the plan of dissolution, and the name change to CLST Holdings, Inc. on March 28, 2007, and we continue to follow the plan of dissolution. However, consistent with the plan of dissolution and its fiduciary duties, our board of directors will continue to consider the proper implementation of the plan of dissolution and the exercise of the authority granted to it thereunder, including the authority to abandon the plan of dissolution. Our board of directors also is considering whether it would be in the best interest of the Company to de-register with the Securities and Exchange Commission and thereby eliminate the Company's responsibilities to file reports with the Securities and Exchange Commission.

In the proxy statement filed on February 20, 2007, related to the Special Meeting of stockholders, we estimated that our stockholders would receive distributions in an aggregate amount between \$2.91 and \$3.25 per share of common stock. As of July 6, 2007, the Company estimated that stockholders of the Company will receive distributions in an aggregate amount between \$2.91 and \$3.03 per share of common stock. As of October 5, 2007, we estimate that the range in distributions to stockholders is between \$2.39 and \$2.99. The most recent change in the estimated range resulted primarily from (i) management's estimates of the anticipated expenses that may be incurred as a result of claims relating to the Company's former Latin American operations which were not contemplated by the Company's former management and whose effect was thus not included in the former estimate range; (ii) claims asserted by Brightpoint in the amount of approximately \$1.4 million for indemnity under the agreement relating to the sale of the Company's U.S. business; (iii) failure by the buyer of the Company's Mexican business to remit amounts contemplated to be received, with respect to profits from January 1, 2007, up to the consummation of the transaction; (iv) increased costs related to stockholder issues, including expenses associated with the filing of our proxy statement for the Annual Stockholders meeting held on July 31, 2007 and related solicitation expenses (approximately \$0.9 million), and expenses of our current board associated with the same meeting (approximately \$0.3 million).

On July 19, 2007, we paid a \$1.50 per share dividend, resulting in the distribution to stockholders of approximately \$30.8 million. Thus of the \$2.39 to \$2.99 that we currently anticipate distributing to stockholders, \$1.50 has already been paid.

As stated in our proxy statement filed on February 20, 2007, related to the Special Meeting of stockholders, the estimated distributions are estimates only and not guarantees. They do not reflect the total range of possible outcomes. The amount and timing of the distributions are subject to uncertainties and depend on the resolution of contingencies. We cannot assure that available cash amounts received from the sale of assets will be adequate to provide for our obligations, liabilities, expenses and claims. Consequently, there can be no assurance that any further amounts will be paid to stockholders or the timing of any such payments if they are made.

### Sale Transactions

On December 18, 2006, we entered into a definitive agreement (the "U.S. Sale Agreement") with a wholly owned subsidiary of Brightpoint, Inc., an Indiana corporation ("Brightpoint"), providing for the sale of substantially all of our United States and Miami-based Latin American operations and for the buyer to assume certain liabilities related to those operations (the "U.S. Sale"). Our operations in Mexico and Chile and other businesses or obligations of the Company were excluded from the transaction.

Our Boards of Directors and Brightpoint unanimously approved the proposed transaction set forth in the U.S. Sale Agreement. The purchase price was \$88 million in cash, subject to adjustment based on changes in net assets from December 18, 2006 to the closing date. The U.S. Sale Agreement also required the buyers to deposit \$8.8 million of the purchase price into an escrow account for a period of six months from the closing date.

Also on December 18, 2006, we entered into a definitive agreement (the Mexico Sale Agreement ) with Soluciones Inalámbricas, S.A. de C.V. ( Wireless Solutions ) and Prestadora de Servicios en Administración y Recursos Humanos, S.A. de C.V. ( Prestadora ), two affiliated Mexican companies, providing for the sale of all of the



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Company's Mexico operations (the Mexico Sale). The Mexico Sale was a stock acquisition of all of the outstanding shares of our Mexican subsidiaries, and includes our interest in Comunicación Inalámbrica Inteligente, S.A. de C.V. (CII), our joint venture with Wireless Solutions. Under the terms of the transaction, we received \$20 million in cash, and are to receive our pro rata share of CII profits from January 1, 2007, up to the consummation of the transaction, within 150 days from the closing date. Our Board of Directors unanimously approved the proposed transaction set forth in the Mexico Sale Agreement. We have not received any pro-rata share of the CII profits and other terms required as of 150 days from the closing date. A demand for payment and other required terms of the agreement was sent to the purchasers on September 11, 2007. While we believe that CII was profitable and therefore the purchasers owe the Company its pro rata share, the purchasers are disputing this claim. We anticipate further negotiations to resolve the issue.

We filed a proxy statement with the SEC on February 20, 2007, which more fully describes the U.S. and Mexico Sale transactions. Both of the transactions were subject to customary closing conditions and the approval of our stockholders, and the transactions were not dependent upon each other. The proxy statement also included a plan of dissolution, which provides for the complete liquidation and dissolution of the Company after the completion of the U.S. Sale, and a proposal to change the name of the Company from CellStar Corporation to CLST Holdings, Inc.

On March 22, 2007, we signed a letter of intent to sell our operations in Chile to a group that includes local management for approximately book value.

On March 28, 2007, our stockholders approved the U.S. Sale, the Mexico Sale, the plan of dissolution, and the name change to CLST Holdings, Inc. We continue to follow the plan of dissolution. Consistent with the plan of dissolution and its fiduciary duties, our board of directors will continue to consider the proper implementation of the plan of dissolution and the exercise of the authority granted to it thereunder, including the authority to abandon the plan of dissolution.

The U.S. Sale closed on March 30, 2007. At closing, \$53.6 million was received and \$11.5 million is included in accounts receivable other in the accompanying balance sheet for August 31, 2007; \$8.8 million of which is in an escrow account, some of which, subject to any indemnity claims by the buyers of the company's U.S. business, is expected to be released six months from the closing date of the sale. We recorded a pre-tax gain of \$51.3 million on the transaction during the three months ended May 31, 2007 (See note 6).

The buyer of the Company's U.S. business has asserted total claims for indemnity against the escrow of approximately \$1.4 million. The Company has objected to these claims, and anticipates negotiations with the buyer of the Company's U.S. business in connection therewith. The estimated purchase price of \$65.1 million is based upon estimated net working capital as of the closing date and may be adjusted based upon the audited actual net working capital. Discussions between the Company and buyer of the Company's assets are ongoing regarding the working capital adjustment. The buyer of the Company's U.S. business also has proposed negative adjustments to the net working capital of approximately \$1.4 million. These claims for adjustment are largely the same as the claims for indemnity asserted against the escrow account. The agreements between the Company and the buyer of its U.S. business contemplate negotiations between the parties thereto with respect to indemnity claims and claims for a working capital adjustment. On October 4, 2007, the Company received approximately \$7.6 million of the amounts held in the escrow account, which such amount includes accrued interest.

The Mexico Sale closed on April 12, 2007, and we recorded a loss on the transaction of \$7.0 million primarily due to accumulated foreign currency translation adjustments as well as expenses related to the transaction. We had approximately \$9.1 million of accumulated foreign currency translation adjustments related to Mexico. As the proposed sale did not meet the criteria to classify the operations as held for sale under SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, as of February 28, 2007, we recognized the \$9.1 million as a charge upon the closing of the Mexico Sale. We have not received any pro-rata share of profits and other terms required as of 150 days from the

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closing date under the Mexico Sale. A demand for payment and other required terms of the agreement was sent to the purchasers, and if such amounts are received an additional gain will be recognized.

On June 11, 2007, we completed the sale of our operations in Chile. The purchase price and cash transferred from the operations in Chile prior to closing totaled \$2.5 million, and we recorded a gain of pre-tax \$0.6 million on the transaction during the quarter ending August 31, 2007. With the completion of the sale of our operations in Chile, we no longer have any operating locations.

#### Management and Board Changes

On March 30, 2007, in connection with the closing of the U.S. Sale, Mr. Robert Kaiser resigned as Chief Executive Officer and President of the Company. Mr. Mike Farrell was named as Chief Executive Officer and President, in addition to his existing capacity as Treasurer and Chief Administrative Officer. As a result of the closing of the U.S. Sale, on April 9, 2007, Mr. Mike Farrell resigned as President, Chief Executive Officer, Chief Administrative Officer and Treasurer and Mr. Juan Martinez Jr. resigned as Vice President, Corporate Controller. On April 9, 2007, Ms. Sherrian Gunn was named President and Chief Executive Officer of the Company. Also, on April 16, 2007, Mr. Raymond Durham resigned as Senior Vice President and Chief Financial Officer, and on May 18, 2007, Ms. Elaine Rodriguez resigned as Senior Vice President, General Counsel, and Secretary of the Company. On April 16, 2007, Ms. Gunn was named Chief Financial Officer in addition to her existing capacity as President and Chief Executive Officer. On August 31, 2007, Ms. Gunn resigned as President and Chief Executive and Chief Financial Officer of the Company, and Robert Kaiser was subsequently elected on September 25, 2007 to replace her in each of those positions.

While Ms. Rodriguez resigned from her previous positions as Senior Vice President, General Counsel, and Secretary of the Company and terminated her employment agreement, she remained employed by the Company as an at-will employee without an employment agreement. On July 5, 2007, the Board named Ms. Rodriguez as Secretary of the Company. On August 7, 2007, the Board named Timothy S. Durham, a director, as Secretary of the Company and removed Ms. Rodriguez from that position.

As a result of the U.S. Sale, executive officers and certain employees were entitled to payments under existing employment contracts or change of control agreements. We recognized an expense of \$6.6 million for the quarter ended May 31, 2007, related to payments under these agreements. In addition, upon the closing of the Mexico Sale, an additional \$0.3 million related to such payments was expensed for the quarter ended May 31, 2007.

On July 31, 2007, we held our annual stockholder meeting (the Annual Meeting) in order to elect the board of directors (the Board). The Company's slate of director nominees consisted of Jere W. Thompson as the Class I director for a term of one year, John 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 were current members of the Board. Timothy S. Durham, a significant stockholder in the Company, filed a definitive proxy statement with the Securities and Exchange Commission on July 12, 2007 in opposition to the Company's proxy statement, whereby he urged the Company's stockholders to elect a different slate of directors consisting of Robert Kaiser as the Class I director for a term of one year, Manoj Rajegowda as the Class II director for a term of two years, and Timothy S. Durham as the Class III director for a term of three years. On August 7, 2007 the Annual Meeting was reconvened to announce the final results of the stockholder vote.

At the Annual Meeting, the stockholders elected Timothy S. Durham as a Class III director for a term of three years and Manoj Rajegowda as a Class II director for a term of two years, and reelected Robert Kaiser, who was a current member of the Company's Board but was not up for reelection on the Company's slate, as a Class I director for a term of one year. The Board subsequently appointed Mr. Kaiser as Chairman of the Board and Mr. Durham as Secretary of the Company.



Cautionary Statements

On February 20, 2007, we filed a proxy statement with the SEC recommending that stockholders approve the U.S. Sale, the Mexico Sale, and a plan of liquidation and dissolution for the Company. On March 28, 2007, our stockholders approved these proposals, and the U.S. Sale closed on March 30, 2007 and the Mexico Sale closed on April 12, 2007. Also on June 11, 2007, we sold our Chile operations and as a result, we no longer have any revenue generating operations. Prior to the closing of the U.S. Sale, the Mexico Sale and the Chile Sale, our operating performance was subject to a variety of risks, which are more fully described in Item 1A of our Annual Report on Form 10-K for the fiscal year ended November 30, 2006, and our proxy statement filed February 20, 2007. The amount and timing of any distributions paid to stockholders in connection with the liquidation and dissolution of the Company are subject to uncertainties and depend on the resolution of certain contingencies more fully described in the proxy statement.

In the plan of dissolution approved during our Special Meeting of stockholders on March 28, 2007, we stated that no distribution of proceeds from the U.S. and Mexico sales would be made until the investigation by the SEC was resolved (see Part II, Item 1- Legal Proceedings for more information). On June 26, 2007, we received a letter from the staff of the SEC giving notice of the completion of their investigation with no enforcement action recommended to the Commission. On June 27, 2007, our Board declared a cash distribution of \$1.50 per share on common stock to stockholders of record as of July 9, 2007. On July 19, 2007, we issued the \$1.50 per share dividend in the total amount of \$30.8 million. We anticipate that we will make additional distributions; however, there can be no assurance of the timing and amount of any such distributions. The risks associated with the plan of dissolution are more fully described in the proxy statement. Any one, or a combination of those risk factors could cause our actual distributions to vary materially from anticipated results or other expectations expressed in our forward-looking statements.

Special Cautionary Notice Regarding Forward-Looking Statements

Certain of the matters discussed in this Quarterly Report on Form 10-Q may constitute forward-looking statements for purposes of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (as so amended the Exchange Act ), and, as such, may involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. When used in this report, the words anticipates, estimates, believes, continues, expects, intends, may, might, could, should, likely, and similar are intended to be among the statements that identify forward-looking statements. Statements of various factors that could cause the actual results, performance or achievements of the Company to differ materially from the Company's expectations ( Cautionary Statements ) are disclosed in this report, including, without limitation, those statements made in conjunction with the forward-looking statements and otherwise herein. All forward-looking statements attributable to the Company are expressly qualified in their entirety by the Cautionary Statements.

**Three Months Ended August 31, 2007, Compared to Three Months Ended August 31, 2006**

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses were approximately \$1.9 million for the quarter ended August 31, 2007 compared to approximately \$3.4 million for the same quarter in 2006. Selling and general administrative expenses were down considerably as we have taken steps to reduce employees and expenses as a result of the wind down of operations.

*Interest Expense.* We paid off our existing debt in March 2007 in conjunction with the U.S. Sale transaction. Since we paid off our debt, there was no interest expense incurred during the quarter ended August 31, 2007. Interest expense was \$123 thousand for the quarter ended August 31, 2006. Interest expense related to the Amended Facility and the Term Loan has been allocated to discontinued operations based on working capital, and total interest expense was \$0.6 million in 2006.

*Income Taxes.* We had an income tax benefit of approximately \$0.5 million for the quarter ended August 31, 2007 compared to approximately \$1.0 million for the same quarter in 2006. Discontinued operations, net of taxes included in the consolidated statement of operations is shown net of taxes of approximately \$0.5 million for the three months ended August 31, 2007, reflecting a tax rate of 35% on gains on sales. The difference between these amounts and the Company's consolidated provision has been included in as a tax benefit in continuing operations for the three months ended August 31, 2007. Additionally, in the quarter ended August 31, 2007, the Company adjusted its tax rate on gains on sales of discontinued operations from 34% to 35% resulting in an increase in the tax impact on discontinued operations of approximately \$0.3 million for the three months ended August 31, 2007. In 2007 and 2006, we utilized the loss from continuing operations as well as net operating losses from prior years that previously had valuation allowances to offset income from discontinued operations (except for certain minimum taxes, withholding taxes and taxes related to CII). The benefit received in 2007 was partially reduced by the closing of the Mexico Sale, which increased the deferred income tax valuation allowance by approximately \$2.7 million as no future taxable income will be generated from the Mexico operations.

In assessing the realizability of deferred income tax assets, management considers whether it is more likely than not that the deferred income tax assets will be realized. At August 31, 2007, we had net deferred income tax assets, net of valuation allowances, of \$4.8 million, a significant portion of which relates to net operating loss carryforwards. The ultimate realization of deferred income tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences are deductible. Our management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, including settlement of liabilities less than their recorded amounts, and tax planning strategies in making this assessment. Included in accounts payable at August 31, 2007, is approximately \$14.2 million associated with liabilities from which we expect to be absolved in the liquidation process where net operating loss carryforwards will be used to offset any tax liability associated with the debt relief.

*Discontinued Operations.* On June 11, 2007, we completed the sale of our operations in Chile. Accordingly, as discussed in Note 2 to the consolidated financial statements, the results of Chile have been reclassified to Discontinued Operations.



**Nine Months Ended August 31, 2007, Compared to Nine Months Ended August 31, 2006**

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses for the nine months ended August 31, 2007 were approximately \$14.0 million in 2007 compared to approximately \$9.6 million for the same period in 2006. There was an increase in payroll due to payments under existing employment contracts or change of control agreements and vesting of restricted stock totaling \$8.4 million, which such amounts were primarily as a result of the U.S. Sale. The increase in payroll was partially offset by a decline in other selling and general administrative expenses as a result of the wind down of operations.

*Interest Expense.* Interest expense for the nine months ended August 31, 2007 was approximately \$0.2 million compared to approximately \$0.4 million for the same period in the prior year. We paid off our existing debt in March 2007 in conjunction with the U.S. Sale transaction. Interest expense related to the Amended Facility and the Term Loan has been allocated to discontinued operations based on working capital. The total interest expense was approximately \$2.4 million in 2007 and approximately \$2.7 million in 2006.

*Settlement of note receivable related to the sale of Asia-Pacific.* On March 5, 2007, we announced that we had signed an agreement, effective February 27, 2007, with Fine Day and Mr. Horng, the Chairman and sole shareholder of Fine Day, and formerly an executive officer of the Company, accepting a settlement of an outstanding note receivable related to the September 2005 sale of our Hong Kong and PRC operations.

From September 2, 2005, Fine Day had made timely interest payments to us on the promissory note. However, Fine Day informed us in February 2007 that it would not be able to pay quarterly interest payments or the principal amount of the note at maturity. In settlement of the outstanding note, we agreed to accept a \$650,000 cash payment, along with the transfer to the Company of all of Mr. Horng's shares of our common stock, approximately 474,000 shares. The transaction closed on April 12, 2007. The shares of stock were valued at \$2.56 per share based on the closing price on April 12, 2007. The carrying value of the note, prior to the agreement, was \$2.4 million. As a result of the settlement, we recorded a loss of \$0.5 million for the nine months ended August 31, 2007. At August 31, 2007, the shares of stock previously owned by Mr. Horng are included in treasury stock.

*Income Taxes.* We have an income tax benefit of approximately \$13.1 million for the nine months ended August 31, 2007 and approximately \$3.6 million for the same period in 2006. Discontinued operations, net of taxes included in the consolidated statement of operations is shown net of taxes of approximately \$18.1 million for the nine months ended August 31, 2007 reflecting a tax rate of 35% on gains on sales. The difference between these amounts and the Company's consolidated provision has been included in as a tax benefit in continuing operations for the nine months ended August 31, 2007. Additionally, for the nine months ended August 31, 2007 the Company adjusted its tax rate on gains on sales of discontinued operations from 34% to 35% resulting in an increase in the tax impact on discontinued operations of approximately \$0.3 million for the nine months ended August 31, 2007. In 2007 and 2006, we used the loss from continuing operations as well as net operating losses from prior years that previously had valuation allowances to offset income from discontinued operations except for certain minimum taxes, withholding taxes and taxes related to CII. The benefit in 2007 was partially reduced by the closing of the Mexico Sale which increased the deferred income tax valuation allowance by approximately \$2.7 million as no future taxable income will



be generated from the Mexico operations.

In assessing the realizability of deferred income tax assets, management considers whether it is more likely than not that the deferred income tax assets will be realized. For further discussion, please see page 18.

*Discontinued Operations.* As discussed in Note 2 to the Consolidated Financial Statements, during the second quarter of 2007, we sold our operations in the U.S., Miami and Mexico and during the third quarter of 2007 sold our operations in Chile.

**Liquidity and Capital Resources**

The following table summarizes our contractual obligations at August 31, 2007 (amounts in thousands):

	Total	Payments Due By Period			
		Less than One Year	One to Three Years	Four to Five Years	More than Five Years
Continuing operations					
Employee contracts	\$ 518	518			
Total contractual obligations	\$ 518	518			

Prior to the sales of our operations, we were able to use funds generated from each of the respective operations, trade credit lines available from our suppliers, borrowings under our revolving credit facility, factoring of accounts receivable, and sale of assets to meet our operating needs.

On March 31, 2006, we entered into an Amended & Restated Loan and Security Agreement (the Amended Facility ) with a bank, which extended the term of our previous facility until September 27, 2009. The borrowing rate under the Amended Facility was prime for the prime rate option and London Interbank Offered Rate ( LIBOR ) plus 2.5% for the LIBOR option.

At November 30, 2006, we had outstanding \$1.9 million of 12% Senior Subordinated Notes (the Senior Notes ) due January 2007 bearing interest at 12%.

On August 31, 2006, we entered into a Term Loan and Security Agreement (the Term Loan ) with a finance company for up to \$12.3 million to refinance the Senior Notes. The borrowing rate under the Term Loan was LIBOR plus 7.5%, or a base rate plus an applicable margin. The Term Loan was to mature September 27, 2009. The Term Loan was to be amortized to an outstanding balance of \$10 million at the rate of approximately \$1 million per year payable in quarterly installments beginning September 30, 2006, with interest-only payments thereafter throughout the remainder of the Term Loan.

On March 30, 2007, the outstanding balances, including accrued interest, under the Amended Facility of \$13.1 million and Term Loan of \$11.9 million were paid off using the proceeds from the U.S. Sale. An early termination fee of \$0.5 million was paid in conjunction with the pay off of the Amended Facility and was recognized as a charge to earnings in the quarter ended May 31, 2007.

We have agreements with two employees to assist with final wind down of the Company. Under the agreements the employees are to receive their base salary as well as a bonus upon the completion of certain objectives during the liquidation process. The maximum payment remaining under these agreements at August 31, 2007 is \$0.5 million, and we expect to pay these amounts out of our available cash.

Included in accounts payable at August 31, 2007, is approximately \$14.2 million associated with liabilities from which we expect to be resolved in the liquidation process where net operating loss carryforwards will be used to offset any tax liability associated with the debt relief.

The U.S. Sale closed on March 30, 2007. At closing, \$53.6 million was received and \$11.5 million is included in accounts receivable other in the accompanying balance sheet for August 31, 2007; \$8.8 million of which was deposited in an escrow account. The buyer of the Company's U.S. business has asserted total claims for indemnity against the escrow of approximately \$1.4 million, and the remainder, approximately \$7.6 million, including accrued interest, was distributed to the Company on October 4, 2007. The Company has objected to the buyer's indemnity claims, and anticipates negotiations with the buyer of the Company's U.S. business in connection therewith. The estimated purchase price of \$65.1 million is based upon estimated net working capital as of the closing date and may be adjusted based upon the audited actual net working capital. Discussions between the Company and buyer of the Company's assets are ongoing regarding the working capital adjustment. The buyer of the Company's U.S. business

also has proposed negative adjustments to the net working capital of approximately \$1.4 million. These claims for adjustment are largely the same as the claims for indemnity asserted against the escrow account. The agreements between the Company and the buyer of its U.S. business contemplate negotiations between the parties thereto with respect to indemnity claims and claims for a working capital adjustment.

### **Critical Accounting Policies and New Accounting Pronouncements**

Note 1 of the Notes to the Consolidated Financial Statements, included in the Company's Annual Report on Form 10-K for the year ended November 30, 2006, includes a summary of the significant accounting policies and methods used in the preparation of our Consolidated Financial Statements. There were no changes during the nine months ended August 31, 2007, to the significant accounting policies used in the preparation of our Consolidated Financial Statements.

In July 2006, FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109, which clarifies the accounting for uncertainty in tax positions. This interpretation requires that we recognize in our financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective as of the beginning of our 2008 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to retained earnings. We are currently evaluating the impact of adopting FIN 48 on our financial statements.

From time to time, new accounting pronouncements are issued by the FASB or other standards setting bodies which we adopt as of the specified effective date. Unless otherwise discussed, our management believes the impact of recently issued standards which are not yet effective will not have a material impact on our consolidated financial statements upon adoption.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

#### Foreign Exchange Risk and Derivative Financial Instruments

At August 31, 2007, we had no foreign operations and therefore had no foreign exchange exposure. We do not expect to have foreign exchange exposure in future periods.

#### Interest Rate Risk

We have sold substantially all of our assets and deposited the proceeds with investment accounts with banks. Our income from these deposits will fluctuate with rates of interest paid on those accounts. We do not engage in hedging strategies or other transactions related to the risks associated with changes in interest rates on demand deposits.

**Item 4. Controls and Procedures**

Our management, with the participation of the Chief Executive and Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive and Financial Officer has concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the rules and forms of the SEC.

There were changes in our internal control over financial reporting during the quarter ended August 31, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We completed the U.S. Sale on March 30, 2007 and the Mexico Sale on April 12, 2007. In conjunction with the U.S. and Mexico Sales, a substantial number of our employees either resigned or transferred to the acquiring entities. Also as a result of the U.S. Sale, the previous Chief Executive Officer, Chief Administrative Officer, and Chief Financial Officer resigned. To supplement controls, we used consultants to perform reviews of certain key reconciliations and accounting records that were previously performed by employees. On June 11, 2007, we

completed the sale of our operations in Chile. We anticipate that changes will continue to be made to our internal controls as a result of the reduction of employees and consolidation of functions to reflect our new size and on-going wind down of operations.

## Part II OTHER INFORMATION

### Item 1. Legal Proceedings

In February 2006, we received from the SEC a subpoena requiring production of certain documents relating to the Company's Asia-Pacific Region, which we exited in September 2005. The subpoena was issued in connection with a fact-finding inquiry under a formal order of investigation issued by the SEC. On June 26, 2007, we received a letter from the staff of the Securities and Exchange Commission giving notice of the completion of their investigation with no enforcement action recommended to the Commission.

The Company has been informed of the existence of an investigation that may relate to the Company or its South American operations. Specifically, the Company understands that authorities in a foreign country are reviewing allegations from unknown parties that remittances were made from South America to Company accounts in the United States in 1999. The Company does not know the nature or subject of the investigation, or the potential involvement, if any, of the Company or its former subsidiaries. The Company does not know if allegations of wrongdoing have been made against the Company, its former subsidiaries or any current or former Company personnel or if any of them are subjects of the investigation. However, the fact that the Company is aware of an allegation of transfer of money from South America to the United States and that investigators may have questioned witnesses about such alleged transfers means that the Company cannot rule out the possibility of involvement.

We are party to various claims, legal actions and complaints arising in the ordinary course of business. Our management believes that the disposition of these matters will not have a materially adverse effect on the consolidated financial condition or results of operations of the Company.

### Item 1A. Risk Factors

On February 20, 2007, we filed a proxy statement with the SEC recommending that stockholders approve, among other proposals, the U.S. Sale, the Mexico Sale, and a plan of liquidation and dissolution for the Company. On March 28, 2007, our stockholders approved these proposals, and the U.S. Sale closed on March 30, 2007 and the Mexico Sale closed on April 12, 2007. Also on June 11, 2007, we sold our Chile operations and now have no revenue generating operations. Prior to the closing of the U.S. Sale, the Mexico Sale and the Chile Sale, our operating performance was subject to a variety of risks, which are more fully described in Item 1A of our Annual Report on Form 10-K for the fiscal year ended November 30, 2006, and our proxy statement filed on February 20, 2007. As a result of the transactions described above, our risk factors have materially changed and should reflect the following:

*The amount and timing of any distributions paid to stockholders in connection with the liquidation and dissolution of the Company are subject to uncertainties and depend on the resolution of certain contingencies more fully described in the proxy statement.*

In the proxy statement, we provided an estimated range of distributions to stockholders following the liquidation and dissolution of the Company, including a dividend of one dollar to be paid within sixty days following the closing of the U.S. Sale and the Mexico Sale. In the plan of dissolution approved during our Special Meeting of stockholders on March 28, 2007, we stated that no distribution of proceeds from the U.S. and Mexico sales would be made until the investigation by the Securities and Exchange Commission (SEC) was resolved. On June 26, 2007, we

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received a letter from the staff of the SEC giving notice of the completion of their investigation with no enforcement action recommended to the Commission. On June 27, 2007, our board of directors declared a cash distribution of \$1.50 per share on common stock to stockholders of record July 9, 2007. As of July 9, 2007, there were 20,553,205 shares outstanding. On July 19, 2007, we issued \$1.50 per share dividend in the total amount of \$30.8 million. We anticipate that we will make additional distributions; however, there can be no assurance of the timing and amount of any such distributions. The risks associated with the plan of dissolution are more fully described in the proxy statement. Any one, or a combination, of those risk factors could cause our actual distributions to vary materially from expectations expressed in our proxy statement for the Special Meeting.

As of October 5, 2007, we estimate that the range in distributions to stockholders is between \$2.39 and \$2.99. The most recent change in the estimated range resulted primarily from (i) management's estimates of the anticipated expenses that may be incurred as a result of claims relating to the Company's former Latin American operations which were not contemplated by the Company's former management and whose effect was thus not included in the former estimate range; (ii) claims asserted by Brightpoint in the amount of approximately \$1.4 million for indemnity under the agreement relating to the sale of the Company's U.S. business; (iii) failure by the buyer of the Company's Mexican business to remit amounts contemplated to be received, with respect to profits from January 1, 2007, up to the consummation of the transaction; (iv) increased costs related to stockholder issues, including expenses associated with the filing of our proxy statement for the Annual Stockholder's meeting held on July 31, 2007 and related solicitation expenses (approximately \$0.9 million), and expenses of our current board associated with the same meeting (approximately \$0.3 million).



**Item 4. Submission of Matters to a Vote of Security Holders**

On July 31, 2007, we held our annual stockholder meeting (the *Annual Meeting*) in order to elect the board of directors. The Company's slate of director nominees consisted of Jere W. Thompson as the Class I director for a term of one year, John 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 were current members of the board. Timothy S. Durham, a significant stockholder in the Company, filed a definitive proxy statement with the SEC on July 12, 2007 in opposition to the Company's proxy statement, whereby he urged the Company's stockholders to elect a different slate of directors consisting of Robert Kaiser as the Class I director for a term of one year, Manoj Rajegowda as the Class II director for a term of two years, and Timothy S. Durham as the Class III director for a term of three years. The Annual Meeting was called to order on July 31, 2007 and then adjourned after all ballots were cast to allow the independent inspector appointed by the board, IVS Associates, Inc., to count the ballots and tabulate the votes. On August 7, 2007 the Annual Meeting was reconvened to announce the final results of the stockholder vote.

At the Annual Meeting, the stockholders elected Timothy S. Durham as a Class III director for a term of three years and Manoj Rajegowda as a Class II director for a term of two years, and reelected Robert Kaiser, who was a current member of the Company's board of directors but was not up for reelection on the Company's slate, as a Class I director for a term of one year.

The results of the stockholders' votes are as follows:

<b>(i) Timothy S. Durham</b>	
Number of Votes For	8,418,359
Number of Votes Against	6,787,314
Number of Votes Abstained	4,175
<b>(ii) Manoj Rajegowda</b>	
Number of Votes For	8,407,653
Number of Votes Against	6,787,314
Number of Votes Abstained	14,881
<b>(iii) Robert A. Kaiser</b>	
Number of Votes For	8,397,552
Number of Votes Against	6,787,314
Number of Votes Abstained	24,982
<b>(iv) Dale V. Kesler</b>	
Number of Votes For	6,679,386
Number of Votes Against	8,422,534
Number of Votes Abstained	107,928
<b>(v) John L. Jackson</b>	
Number of Votes For	6,679,766
Number of Votes Against	8,422,534
Number of Votes Abstained	107,548

(vi) Jere W. Thompson

Number of Votes For	6,679,766
Number of Votes Against	8,422,534
Number of Votes Abstained	107,548

**Item 5. Other Information**

As previously reported, on December 18, 2006, we entered into a definitive agreement (the "U.S. Sale Agreement") with a wholly owned subsidiary of Brightpoint, Inc., an Indiana corporation ("Brightpoint"), providing for the sale of substantially all of the Company's United States and Miami-based Latin American operations and for the buyer to assume certain liabilities related to those operations (the "U.S. Sale"). Our operations in Mexico and Chile and other businesses or obligations of the Company were excluded from the transaction.

Our Boards of Directors and Brightpoint unanimously approved the proposed transaction set forth in the U.S. Sale Agreement. The purchase price was \$88 million in cash, subject to adjustment based on changes in net assets from December 18, 2006 to the closing date. The U.S. Sale Agreement also required the buyers to deposit \$8.8 million of the purchase price into an escrow account for a period of six months from the closing date. As of October 4, 2007, we have received \$7.6 of the amounts held in the escrow account, which such amount includes accrued interest. Approximately \$1.4 million of the amount originally placed in escrow remains in escrow and is the subject of claims by Brightpoint. These claims are disputed by the company.

**Item 6. Exhibits**

- 3.1 Amended and Restated Certificate of Incorporation of CellStar Corporation (the "Certificate of Incorporation"). (1)
- 3.2 Certificate of Amendment to Certificate of Incorporation. (2)
- 3.3 Certificate of Amendment to Certificate of Incorporation dated as of February 20, 2002. (3)
- 3.4 Certificate of Amendment to Certificate of Incorporation filed on April 3, 2007. (4)
- 3.5 Amended and Restated Bylaws of CellStar Corporation, effective as of May 1, 2004. (5)
- 31.1 Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (6)
- 32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (6)

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(1) Previously filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended August 31, 1995, and incorporated herein by reference.

(2) Previously filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 1998, and incorporated herein by reference.

(3) Previously filed as an exhibit to the Company's Annual Report Form on Form 10-K for the fiscal year ended November 30, 2002 and incorporated herein by reference.

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(4) Previously filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended February 28, 2007, and incorporated herein by reference.

(5) Previously filed as an exhibit to the Form 10-Q for the quarter ended May 31, 2004, and incorporated herein by reference.

(6) Filed herewith.

**Signatures**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CLST HOLDINGS, INC.

By: */s/ ROBERT A. KAISER*  
Robert A. Kaiser  
Chief Executive Officer, President,  
Chief Financial Officer, Treasurer  
(Principal Financial Officer)

October 10, 2007