

CLST HOLDINGS, INC.  
Form 10-Q  
July 14, 2009  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

x

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

For the quarterly period ended May 31, 2009

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)

**17304 Preston Road, Dominion Plaza, Suite 420  
Dallas, Texas**

**75-2479727**  
(I.R.S. Employer  
Identification No.)

**75252**

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(Address of principal executive offices)

(Zip Code)

**(972) 267-0500**

(Registrant's telephone number, including area code)

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). \* Yes  No

\* The registrant is not subject to the requirements of Rule 405 of Regulation S-T at this time.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

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

On July 13, 2009, there were 23,949,282 outstanding shares of common stock, \$0.01 par value per share.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****CLST HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(In thousands, except share and per share data)

|   | May 31,<br>2009 | November 30,<br>2008 |
|---|-----------------|----------------------|
| <b>ASSETS</b>   |                 |                      |
| Current assets:   |                 |                      |
| Cash and cash equivalents   | \$ 5,940        | \$ 9,754             |
| Notes receivable, net - current   | 8,865           | 8,698                |
| Accounts receivable - other   | 1,366           | 893                  |
| Prepaid expenses and other current assets   | 177             | 177                  |
| Total current assets  | 16,348          | 19,522               |
| Notes receivable, net - long-term   | 36,875          | 31,547               |
| Property and equipment, net   | 10              | 12                   |
| Deferred income taxes   | 4,786           | 4,786                |
| Other assets  | 990             | 863                  |
|   | \$ 59,009       | \$ 56,730            |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                 |                      |
| Current liabilities:  |                 |                      |
| Loan payable - current  | \$ 7,839        | \$ 7,436             |
| Notes payable - related parties   | 378             |                      |
| Accounts payable  | 14,628          | 14,512               |
| Income taxes payable  | 85              | 207                  |
| Accrued expenses  | 792             | 473                  |
| Total current liabilities   | 23,722          | 22,628               |
| Loans payable - long term   | 28,437          | 26,902               |
| Notes payable - related parties   | 290             |                      |
| Total liabilities   | 52,449          | 49,530               |
| Commitments and contingencies   |                 |                      |
| Stockholders' equity:   |                 |                      |
| Preferred stock, \$.01 par value, 5,000,000 shares authorized; none issued  |                 |                      |
| Common stock, \$.01 par value, 200,000,000 shares authorized; 24,583,306 and 21,187,229 shares issued, respectively, and 23,949,282 and 20,553,205 shares outstanding, respectively | 246             | 212                  |
| Additional paid-in capital  | 126,985         | 126,034              |

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|   |           |           |
|---|-----------|-----------|
| Accumulated other comprehensive income foreign currency translation adjustments | 217       | 217       |
| Accumulated deficit   | (119,241) | (117,616) |
|   | 8,207     | 8,847     |
| Less: Treasury stock (634,024 shares at cost)                                   | (1,647)   | (1,647)   |
|   | 6,560     | 7,200     |
|   | \$ 59,009 | \$ 56,730 |

See accompanying notes to unaudited consolidated financial statements.

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

Three and six months ended May 31, 2009 and 2008

(unaudited)

(In thousands, except per share data)

|   | Three months ended<br>May 31, |           | Six months ended<br>May 31, |           |
|---|-------------------------------|-----------|-----------------------------|-----------|
|   | 2009                          | 2008      | 2009                        | 2008      |
| <b>Revenues:</b>                                      |                               |           |                             |           |
| Interest income                                       | \$ 1,645                      | \$        | \$ 3,175                    | \$        |
| Other   | 142                           |           | 233                         |           |
| Total revenues  | 1,787                         |           | 3,408                       |           |
| Loan servicing fees                                   | 76                            |           | 382                         |           |
| Trust administrative fees                             | 3                             |           | 4                           |           |
| Provision for doubtful accounts                       | 600                           |           | 1,303                       |           |
| Interest expense                                      | 546                           |           | 1,082                       |           |
| General and administrative expenses                   | 1,746                         | 511       | 2,263                       | 969       |
| Operating loss  | (1,184)                       | (511)     | (1,626)                     | (969)     |
| <b>Other income (expense):</b>                        |                               |           |                             |           |
| Other, net  | 6                             | 87        | 9                           | 220       |
| Total other income                                    | 6                             | 87        | 9                           | 220       |
| Loss from continuing operations before income taxes   | (1,178)                       | (424)     | (1,617)                     | (749)     |
| Income tax expense (benefit)                          | (6)                           |           | 8                           | (5)       |
| Loss from continuing operations, net of taxes         | (1,172)                       | (424)     | (1,625)                     | (744)     |
| Discontinued operations, net of taxes of \$5 for 2008 |                               |           |                             | 10        |
| Net loss  | \$ (1,172)                    | \$ (424)  | \$ (1,625)                  | \$ (734)  |
| <b>Net loss per share:</b>                            |                               |           |                             |           |
| <b>Basic and diluted:</b>                             |                               |           |                             |           |
| Loss from continuing operations, net of taxes         | \$ (0.05)                     | \$ (0.02) | \$ (0.07)                   | \$ (0.04) |
| Discontinued operations, net of taxes                 |                               |           |                             |           |
| Net loss per share                                    | \$ (0.05)                     | \$ (0.02) | \$ (0.07)                   | \$ (0.04) |

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Weighted average number of shares:

|                   |        |        |        |        |
|-------------------|--------|--------|--------|--------|
| Basic and diluted | 23,344 | 20,553 | 22,314 | 20,553 |
|-------------------|--------|--------|--------|--------|

See accompanying notes to unaudited consolidated financial statements.

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

Six months ended May 31, 2009 and 2008

(Unaudited)

(In thousands)

|                                     | Common Stock<br>Shares | Common Stock<br>Amount | Treasury Stock<br>Shares | Treasury Stock<br>Amount | Additional<br>paid-in<br>capital | Accumulated<br>other<br>comprehensive<br>income | Accumulated<br>deficit | Total    |
|-------------------------------------|------------------------|------------------------|--------------------------|--------------------------|----------------------------------|---|------------------------|----------|
| Balance at November 30, 2008        | 21,187                 | \$ 212                 | (634)                    | \$ (1,647)               | \$ 126,034                       | \$ 217  | \$ (117,616)           | \$ 7,200 |
| Comprehensive loss:                 |                        |                        |                          |                          |                                  |   |                        |          |
| Net loss                            |                        |                        |                          |                          |                                  |   | (1,625)                | (1,625)  |
| Total comprehensive loss            |                        |                        |                          |                          |                                  |   |                        | (1,625)  |
| Grant of restricted stock           | 1,200                  | 12                     |                          |                          | (12)                             |   |                        |          |
| Cancellation of restricted stock    | (300)                  | (3)                    |                          |                          | 3                                |   |                        |          |
| Amortization of restricted stock    |                        |                        |                          |                          | 86                               |   |                        | 86       |
| Stock issuance for notes receivable | 2,496                  | 25                     |                          |                          | 874                              |   |                        | 899      |
| Balance at May 31, 2009             | 24,583                 | \$ 246                 | (634)                    | \$ (1,647)               | \$ 126,985                       | \$ 217  | \$ (119,241)           | \$ 6,560 |
| Balance at November 30, 2007        | 21,187                 | \$ 212                 | (634)                    | \$ (1,647)               | \$ 126,034                       | \$ 217  | \$ (115,953)           | \$ 8,863 |
| Comprehensive loss:                 |                        |                        |                          |                          |                                  |   |                        |          |
| Net loss                            |                        |                        |                          |                          |                                  |   | (734)                  | (734)    |
| Total comprehensive loss            |                        |                        |                          |                          |                                  |   |                        | (734)    |
| Balance at May 31, 2008             | 21,187                 | \$ 212                 | (634)                    | \$ (1,647)               | \$ 126,034                       | \$ 217  | \$ (116,687)           | \$ 8,129 |

See accompanying notes to unaudited consolidated financial statements.



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

Six months ended May 31, 2009 and 2008

(Unaudited)

(In thousands)

|   | 2009       | 2008      |
|---|------------|-----------|
| Cash flows from operating activities:   |            |           |
| Net loss  | \$ (1,625) | \$ (734)  |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: |            |           |
| Stock based compensation  | 86         |           |
| Provision for doubtful accounts   | 1,303      |           |
| Depreciation  | 2          |           |
| Non-cash interest expense   | 58         |           |
| Amortization of notes receivable acquisition costs  | 56         |           |
| Changes in operating assets and liabilities:  |            |           |
| Accounts receivable - other   | (809)      | 5,161     |
| Prepaid expenses and other current assets   |            | 311       |
| Other assets  | (185)      | 271       |
| Accounts payable  | 116        | 164       |
| Income taxes payable  | (122)      |           |
| Accrued expenses  | 319        | (613)     |
| Net cash provided by (used in) operating activities                                       | (801)      | 4,560     |
| Cash flows from investing activities:   |            |           |
| Purchases of property and equipment   |            | (3)       |
| Notes receivable collections  | 5,663      |           |
| Acquisition of notes receivable   | (4,028)    |           |
| Additions to notes receivable acquisition costs   | (151)      |           |
| Net cash provided by (used in) investing activities                                       | 1,484      | (3)       |
| Cash flows from financing activities:   |            |           |
| Payments on notes payable   | (4,497)    |           |
| Net cash used in financing activities   | (4,497)    |           |
| Net increase (decrease) in cash and cash equivalents                                      | (3,814)    | 4,557     |
| Cash and cash equivalents at beginning of period  | 9,754      | 11,799    |
| Cash and cash equivalents at end of period  | \$ 5,940   | \$ 16,356 |

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Non-Cash Investing and Financing Activities:

|  |    |       |    |
|--|----|-------|----|
| Acquisition of notes receivable for common stock               | \$ | 899   | \$ |
| Acquisition of notes receivable for debt                       | \$ | 7,273 | \$ |
| Acquisition of notes receivable for accounts receivable, other | \$ | 336   | \$ |
| Returned notes receivable in exchange for reduction of debt    | \$ | 170   | \$ |

See accompanying notes to unaudited consolidated financial statements.

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**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. Net income (loss) for any interim period is not necessarily indicative of results that may be expected for any other interim period or for the entire year.

On November 10, 2008, we purchased all of the outstanding equity interests of FCC Investment Trust I, and on December 12, 2008 we purchased certain receivables, installment sales contracts and related assets owned by SSPE Investment Trust I and SSPE, LLC. Subsequently, on February 13, 2009, we purchased assets owned by Fair Finance Company, an Ohio corporation (**Fair**), James F. Cochran, Chairman and Director of Fair, and by Timothy S. Durham, Chief Executive Officer and Director of Fair and an officer, director and stockholder of our Company. Messrs. Durham and Cochran own all of the outstanding equity of Fair. The Board of Directors (the **Board**) believes that each of these acquisitions will be a better investment return for our stockholders when compared to the recent changes to interest rates and other investment alternatives. Although we are now engaged in the business of holding and collecting consumer notes receivable, we have not abandoned our plan of dissolution. We believe that should we decide that continuing with the plan of dissolution is in the best interest of our stockholders, we will be able to dispose of these assets on favorable terms prior to the time that we would be in a position to make a final distribution to stockholders and terminate our corporate existence.

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) Notes 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. The Company will establish an allowance for doubtful accounts for all receivables. The allowance will be based on defaulted receivables as defined in the Company's financing arrangements. Under those arrangements, a defaulted receivable is one where the customer has not made a payment for the most recent 120 day period. Under such circumstances, the

remaining balance will not be allowed in the borrowing base which helps determine the amount of allowed borrowings. On a quarterly basis, the Company will adjust the allowance for doubtful accounts to a minimum amount equal to the defaulted receivables. The Company may from time to time make additional increases to the allowance based on business circumstances. Once the note receivable is in default, the Company will no longer accrue, for financial reporting purposes, interest earned on the note receivable. Should the note receivable return to a non-default status, then the Company will resume accruing interest on the note receivable. The majority of the notes receivable have collateral in various forms, which may include a second lien position on the borrower's home or property.

***(c) Revenue Recognition***

Revenues consist of interest earned, late fees and other miscellaneous charges. Revenues are not accrued on accounts over 120 days without payment activity, unless payment activity resumes.

***(d) Discounts and Deferred Costs***

We have recorded assets related to purchase discounts on certain notes receivables, deferred acquisition costs related to the purchase of certain notes receivables and deferred loan costs associated with certain Company obligations. Both the purchase discounts and the deferred acquisition cost are amortized over the remaining principal balance of the notes receivable and are recorded as contra revenue. The deferred loan costs are amortized over the remaining outstanding balance of the Company obligation and are recorded in operating interest expense. Any prepayment of the balances by either the Company or our customers would be recognized in the period of prepayment.

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During fiscal year 2007 we sold all of our U.S. operations, including our Miami-based Latin American operations, Mexico operations and Chile operations. For more information on these transactions, please see the Company's Annual Report on Form 10-K filed on March 2, 2009.

The results of discontinued operations for U.S., Miami, Mexico and Chile for the three and six months ended May 31, 2009 and 2008, are as follows (in thousands):

|  | Three months ended<br>May 31, |      | Six months ended<br>May 31, |      |    |
|--|-------------------------------|------|-----------------------------|------|----|
|  | 2009                          | 2008 | 2009                        | 2008 |    |
| Revenues                                     | \$                            | \$   | \$                          | \$   |    |
| Cost of sales                                |                               |      |                             |      |    |
| Gross profit                                 |                               |      |                             |      |    |
| Selling, general and administrative expenses |                               |      |                             |      |    |
| Operating income (loss)                      |                               |      |                             |      |    |
| Other income (expense):                      |                               |      |                             |      |    |
| Interest expense                             |                               |      |                             |      |    |
| Loss on sale of accounts receivable          |                               |      |                             |      |    |
| Minority interest                            |                               |      |                             |      |    |
| Gain on transactions                         |                               |      |                             |      |    |
| Other, net                                   |                               |      |                             |      | 15 |
| Total other income                           |                               |      |                             |      | 15 |
| Income before income taxes                   |                               |      |                             |      | 15 |
| Provision for income taxes                   |                               |      |                             |      | 5  |
| Total discontinued operations                | \$                            | \$   | \$                          | \$   | 10 |

**(3) Stock-Based Compensation**

On December 1, 2008, our Board approved the Company's 2008 Long Term Incentive Plan. The following is a brief description of the material terms of the 2008 Long Term Incentive Plan:

- The plan is administered by the Board of the Company.
- The plan permits the grant of restricted stock, stock options and other stock-based awards to employees, officers, directors, consultants and advisors of the Company and its subsidiaries.

- The aggregate number of shares of Common Stock of the Company that may be issued under the plan is 20,000,000 shares.
- The plan provides that the administrator of the plan may determine the terms and conditions applicable to each award and each award will be evidenced by a stock option agreement or restricted stock agreement.
- The plan will terminate on December 1, 2018.

In addition, on December 1, 2008 the Board approved the grant of 300,000 shares of restricted stock to each of Timothy S. Durham, Robert A. Kaiser and Manoj Rajegowda. On February 24, 2009, Mr. Rajegowda forfeited all stock issuances provided to him during the course of his Board membership in connection with his resignation from the Board. On March 5, 2009, our Board approved the grant of 300,000 shares of restricted stock to David Tornek, our director who was appointed to fill the vacancy on the Board. Of each restricted stock grant, 100,000 shares vested on the date of grant and the remaining 200,000 of the shares vest in two equal annual installments on each anniversary of the date of grant. The restricted stock grants will be evidenced by restricted stock agreements to be approved by the Board. The total value of the awards using a grant date price of \$0.22 per share for 600,000 shares and \$0.16 per share for 300,000 shares is \$180,000 and will be expensed over the vesting period.

For the three and six months ended May 31, 2009, the Company recognized \$31,000 and \$86,000, respectively, of expense related to the restricted stock grants.

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**(4) Acquisition of new business**

**(a) CLST Asset I**

On November 10, 2008, we, through CLST Asset I, LLC ( **CLST Asset I** ), a wholly owned subsidiary of CLST Financo, Inc. ( **Financo** ), which is one of our direct, wholly owned subsidiaries, entered into a purchase agreement to acquire all of the outstanding equity interests of FCC Investment Trust I (the **Trust** ) from a third party for approximately \$41.0 million (the **Trust Purchase Agreement** ). Our Board unanimously approved the transaction. Our acquisition of the Trust was financed by approximately \$6.1 million of cash on hand and by a non-recourse, term loan of approximately \$34.9 million by an affiliate of the seller of the Trust, pursuant to the terms and conditions set forth in the credit agreement, dated November 10, 2008, among the Trust, the lender, FCC Finance, LLC, as the initial servicer, the backup servicer, and the collateral custodian (the **Trust Credit Agreement** ). The Company is now responsible for the collection of the receivables included in the trust through its wholly owned subsidiary Financo.

Financo has historically conducted our financing business, including ownership of receivables generated by our businesses and providing internal financing to our other operating subsidiaries. Substantially all of the assets to be acquired by the Trust will consist of a portfolio of home improvement consumer receivables, some of which are collateralized or otherwise secured by interests in real estate. We are engaging in the business of holding and collecting the receivables with the intention of generating a higher rate of return on our assets than we currently receive on our cash and cash equivalent balances. At the same time, we will continue to review the relative benefits to our stockholders of continuing to wind down our business pursuant to our plan of dissolution or continuing to do business in one or more of our historic lines of business or related businesses or in a new line of business. Although we are now engaged in the business of holding and collecting consumer notes receivable, we have not abandoned our plan of dissolution. We believe that should we decide that continuing with the plan of dissolution is in the best interest of our stockholders, we will be able to dispose of the Trust on favorable terms prior to the time that we would be in a position to make a final distribution to stockholders and terminate our corporate existence.

The cut-off date for the receivables acquired was October 31, 2008, with all collections subsequent to that date inuring to our benefit. As of October 31, 2008, the portfolio consisted of approximately 6,000 accounts with an aggregate outstanding balance of approximately \$41.5 million and an average outstanding balance per account of approximately \$6,900. As of October 31, 2008, the weighted average interest rate of the portfolio was 14.4%. We have the right to require the seller to repurchase any accounts, for the original purchase price applicable to such account, that do not satisfy certain specified eligibility requirements set out in the Trust Purchase Agreement.

The Trust Credit Agreement provides for a non-recourse, term loan of approximately \$34.9 million, maturing on November 10, 2013. The term loan bears interest at an annual rate of 5.0% over the LIBOR Rate (as defined in the Trust Credit Agreement). The obligations under the Trust Credit Agreement are secured by a first priority security interest in substantially all of the assets of the Trust, including portfolio collections.

The Trust Credit Agreement provides the material terms and conditions for the services to be performed by the servicer. In return, the Trust pays the servicer a monthly servicing fee equal to 1.5%, per annum of the then aggregate outstanding principal balance of the receivables.

Portfolio collections are distributed on a monthly basis. Absent an event of default, after payment of the servicing fee and other fees and expenses due under the Trust Credit Agreement and the required principal and interest payments to the lender under the Trust Credit Agreement,

all remaining amounts from portfolio collections are paid to the Trust and are available for distribution to CLST Asset I and subsequently to Financo.

Principal payments on the term loan are due monthly to the extent that the aggregate principal amount of the term loan outstanding exceeds the sum of (a) the sum for each outstanding receivable of the product of (1) 85%, (2) the then-current aggregate unpaid principal balance of such receivable and (3) a percentage specified in the Trust Credit Agreement based upon the aging of such receivable, and (b) amounts on deposit in the collection account for the receivables net of any accrued and unpaid interest on the loan and fees due to the servicer, the backup servicer, the collateral custodian and the owner trustee (the **Maximum Advance Amount**). Principal payments are also due within five business days of any time that the aggregate principal amount of the term loan outstanding exceeds the Maximum Advance Amount. The remaining outstanding principal amount of the loan plus all accrued interest, fees and expenses are due on the maturity date. Interest payments on the term loan are due monthly.

The Trust Credit Agreement contains customary covenants for facilities of its type, including among other things covenants that restrict the Trust's ability to incur indebtedness, grant liens, dispose of property, pay dividends, make certain acquisitions or to take actions that would negatively affect the Trust's special purpose vehicle status. Generally, these covenants do not impact the activities that may be undertaken by the Company. The Trust Credit Agreement contains various events of default, including failure to pay principal and interest when due, breach of covenants, materially incorrect representations, default under certain other agreements of the Trust, bankruptcy or insolvency of the Trust, the occurrence of an event which causes a material adverse effect on the Trust, the occurrence of certain defaults by the servicer, entry of certain material judgments against the Trust, and the occurrence of a change of control or certain material events and the issuance of a qualified audit opinion with respect to the Trust's financials.



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In addition, an event of default occurs if the three-month rolling average delinquent accounts rate exceeds 10.0% or the three-month rolling average annualized default rate exceeds 7.0%. If an event of default occurs, all of the Trust's obligations under the Trust Credit Agreement could be accelerated by the lender, causing the entire remaining outstanding principal balance plus accrued and unpaid interest and fees to be declared immediately due and payable.

The purchase price of \$41 million consisted of the following:

- cash paid to the sellers in the amount of \$6.1 million; and
- debt financing of \$34.9 million.

The following unaudited pro forma information presents the results of operations of the Trust and the Company for the three and six months ended May 31, 2008, as if the acquisition had occurred on December 1, 2007. The unaudited pro forma results are not comparable to our historical financial information and are not necessarily indicative of results that would have occurred had the acquisition been in effect for the periods presented, nor are they necessarily indicative of future results.

(unaudited, in thousands)

|   | Pro forma                                |  |
|---|--|--|
|   | Three months<br>ended<br>May 31,<br>2008 | Six months<br>ended<br>May 31,<br>2008 |
| Revenues  |  |  |
| Interest income                                     | \$ 2,111                                 | \$ 4,222                               |
| Other   | 7  | 14                                     |
| Total revenues                                      | 2,118                                    | 4,236                                  |
| Loan servicing fees                                 | 21                                       | 42                                     |
| Management fees                                     | 249                                      | 498                                    |
| Interest expense                                    | 1,237                                    | 2,474                                  |
| General and administrative expenses                 | 642                                      | 1,231                                  |
| Operating income                                    | (31)                                     | (9)                                    |
| Other expense:                                      |  |  |
| Realized loss on sale of assets                     | (1,071)                                  | (2,142)                                |
| Other, net  | 87                                       | 220                                    |
| Total other expenses                                | (984)                                    | (1,922)                                |
| Loss from continuing operations before income taxes | (1,015)                                  | (1,931)                                |
| Income tax expense (benefit)                        |  | (5)                                    |

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|   |            |            |
|---|------------|------------|
| Loss from continuing operations, net of taxes | (1,015)    | (1,926)    |
| Discontinued operations, net of taxes of \$5  |            | 10         |
| Net income (loss)                             | \$ (1,015) | \$ (1,916) |
| Net income (loss) per share:                  |            |            |
| Basic and diluted:                            |            |            |
| Net income (loss) per share                   | \$ (0.05)  | \$ (0.09)  |
| Weighted average number of shares:            |            |            |
| Basic and diluted                             | 20,553     | 20,553     |

The pro forma information is unaudited and includes the use of estimates, and therefore should not be relied upon. Readers of these financial statements should understand that the historical financials of the Trust are not representative of the Trust as of November 10, 2008. Historical notes receivable were materially greater in the past than as of our purchase date. Certain realized losses have been recorded prior to our purchase, which have a material impact to the pro forma results. In addition, the historical revenues and expenses may be materially different than those in future periods due to differences in the number of notes receivable.

*(b) CLST Asset II*

On December 12, 2008, we, through CLST Asset Trust II (the **Trust II**), a newly formed trust wholly owned by CLST Asset II, LLC (**CLST Asset II**), a wholly owned subsidiary of Financo, which is one of our direct, wholly owned subsidiaries, entered into a purchase agreement, effective as of December 10, 2008, to acquire from time to time certain receivables, installment

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sales contracts and related assets owned by third parties (the **Trust II Purchase Agreement** ). Our Board unanimously approved the transaction. We have fulfilled our original commitment to purchase from the sellers receivables of at least \$2 million pursuant to the Trust II Purchase Agreement. We or the sellers under the Trust II Purchase Agreement can terminate the Trust II Purchase Agreement at any time (with notice) after March 29, 2009. We have the right to require the sellers to repurchase any accounts, for the original purchase price applicable to such account plus interest accrued thereon, that do not satisfy certain specified eligibility requirements set out in the Trust II Purchase Agreement.

The purchases of receivables by the Trust II from the sellers under the Trust II Purchase Agreement and other approved sellers or dealers will be financed by cash on hand and by advances under a non-recourse, revolving facility provided by a third party lender. The revolving facility was initially established by an affiliate of the sellers under the Trust II Purchase Agreement. The Trust II has become a co-borrower under that facility and has pledged its assets to secure performance by the borrowers thereunder. The revolving facility permits an aggregate borrowing of all co-borrowers thereunder of up to \$50,000,000. Financo has the ability to direct that not less than \$15 million to be borrowed under the revolving facility be utilized by the Trust II to purchase receivables, installment sales contracts and related assets for the Trust II. With the consent of its co-borrowers, the Trust II may utilize more than \$15,000,000 of the aggregate availability under the revolving facility. Receivables purchased by the Trust II will be owned by the Trust II, and the Trust II will receive the benefits of collecting them, subject to the third party lender's rights in those assets as collateral under the revolving facility. The terms and conditions of the revolver are set forth in the second amended and restated revolving credit agreement, effective as of December 10, 2008, among the Trust II, the originator, the co-borrowers (who are the sellers under the Trust II Purchase Agreement), the lender, the initial servicer, the backup servicer, the guarantor, and the collateral custodian (the **Trust II Credit Agreement** ) and the letter agreement, effective as of December 10, 2008, among the Trust II, Financo, the originator, the co-borrowers, the initial servicer, and the guarantor (the **Letter Agreement** ). Advances under the revolver are limited to an amount equal to, net of certain concentration limitations set forth in the Trust II Credit Agreement, (a) the lesser of (1) the product of 85% and the purchase price being paid for eligible receivables with a credit score greater than or equal to 650 ( **Class A Receivables** ) or (2) the product of 80% and the then-current aggregate balance of principal and accrued and unpaid interest outstanding for Class A Receivables plus (b) the lesser of (1) the product of 75% and the purchase price being paid for eligible receivables with a credit score less than 650 ( **Class B Receivables** ) or (2) the product of 50% and the then-current aggregate balance of principal and accrued and unpaid interest outstanding for Class B Receivables ( **Maximum Advance** ).

The revolver matures on September 28, 2010. The revolver bears interest at an annual rate of 4.5% over the LIBOR Rate (as defined in the Trust II Credit Agreement). The Trust II pays an additional fee to the co-borrowers equal to an annual rate of 0.5% for loans attributable to the Trust II equal to or below \$10 million and an annual rate of 1.5% for loans attributable to the Trust II in excess of \$10 million. In addition, a commitment fee is due to the lender equal to an annual rate of 0.25% of the unused portion of the maximum committed amount. The obligations under the Trust II Credit Agreement are secured by a first priority security interest in substantially all of the assets of the Trust II and the co-borrowers, including portfolio collections.

The Trust II Credit Agreement provides the material terms and conditions for the services to be performed by the servicer. In return, the Trust II pays the servicer a monthly servicing fee equal to an annual rate of 1.5% of the then aggregate outstanding principal balance of the receivables.

Portfolio collections are distributed on a monthly basis. Absent an event of default, after payment of the servicing fee and other amounts, fees and expenses due under the Trust II Credit Agreement and the required principal, interest, unused commitment fee payments to the lenders under the Trust II Credit Agreement and fees due to the co-borrowers under the Letter Agreement, all remaining amounts from portfolio collections are paid to the Trust II and are available for distribution to CLST Asset II and subsequently to Financo.

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Principal payments on the revolver are due monthly to the extent that the aggregate principal amount of the loan outstanding exceeds the lesser of (1) \$50 million or (2) the Maximum Advance plus the amount on deposit in the collection account net of any accrued and unpaid interest on the loan and fees due to the lenders, the servicer, the backup servicer, the collateral custodian and the owner trustee (the **Maximum Outstanding Loan Amount** ). The borrowers are also required to either make principal payments or add additional eligible receivables as collateral within 5 business days of any time that the aggregate principal amount of the revolver exceeds the Maximum Outstanding Loan Amount. The remaining outstanding principal amount of the loan plus all accrued interest, fees and expenses is due on the maturity date. The Trust II may, at its option, repay in whole or in part borrowings under the revolver but prepayments made before September 28, 2010 are subject to a prepayment premium equal to 2.0%. Interest payments on the term loan are due monthly.

The Trust II Credit Agreement contains customary covenants for facilities of its type, including among other things maintenance of the Trust II s special purpose vehicle status and covenants that restrict the Trust II s ability to incur indebtedness, grant liens, dispose of property, pay dividends, and make certain acquisitions. Generally, these covenants do not impact the activities that may be undertaken by the Company. The Trust II Credit Agreement contains various events of default, including failure to pay

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principal and interest when due, breach of covenants, materially incorrect representations, default under certain other agreements of the Trust II, bankruptcy or insolvency of the Trust II, the occurrence of an event which causes a material adverse effect on the Trust II, the occurrence of certain defaults by the servicer, entry of certain material judgments against the Trust II, and the occurrence of a change of control or certain material events and the issuance of a qualified audit opinion with respect to the Trust II's financials. In addition, an event of default occurs if the three-month rolling average delinquent accounts rate exceeds 15.0% for Class A Receivables or 30.0% for Class B Receivables, or the three-month rolling average annualized default rate exceeds 5.0% for Class A Receivables or 12.0% for Class B Receivables. If an event of default occurs, all of the Trust II's obligations under the Trust II Credit Agreement could be accelerated by the lender, causing the entire remaining outstanding principal balance plus accrued and unpaid interest and fees to be declared immediately due and payable.

During the six months ended May 31, 2009, Trust II purchased \$9.6 million of receivables with an aggregate purchase discount of \$0.8 million. These receivables represent primarily home improvement loans originated through First Consumer Credit, LLC ( *FCC* ), the service provider of CLST Asset I. Trust II borrowed \$6.4 million utilizing the revolving facility.

(c) *CLST Asset III*

Effective February 13, 2009, we, through CLST Asset III, LLC ( *CLST Asset III* ), a newly formed, wholly owned subsidiary of Financo, which is one of our direct, wholly owned subsidiaries, purchased certain receivables, installment sales contracts and related assets owned by Fair, James F. Cochran, Chairman and Director of Fair, and by Timothy S. Durham, Chief Executive Officer and Director of Fair and an officer, director and stockholder of our Company (the **Fair Purchase Agreement** ). Messrs. Durham and Cochran own all of the outstanding equity of Fair. In return for assets acquired under the Fair Purchase Agreement, CLST Asset III paid the sellers total consideration of \$3,594,354 as follows:

- (1) cash in the amount of \$1,797,178 of which \$1,417,737 was paid to Fair, \$325,440 was paid to Mr. Durham and \$54,000 was paid to Mr. Cochran,
- (2) 2,496,077 newly issued shares of our common stock, par value \$.01 per share ( **Common Stock** ) at a price of \$0.36 per share, of which 1,969,077 shares of Common Stock were issued to Fair, 452,000 shares of Common Stock were issued to Mr. Durham and 75,000 shares of Common Stock were issued to Mr. Cochran and
- (3) six promissory notes (the **Notes** ) issued by CLST Asset III in an aggregate original stated principal amount of \$898,588, of which two promissory notes in an aggregate original principal amount of \$708,868 were issued to Fair, two promissory notes in an aggregate original principal amount of \$162,720 were issued to Mr. Durham and two promissory notes in an aggregate original principal amount of \$27,000 were issued to Mr. Cochran.

We received a fairness opinion of Business Valuation Advisors ( **BVA** ) stating that BVA is of the opinion that the consideration paid by us pursuant to the Fair Purchase Agreement is fair, from a financial point of view, to our nonaffiliated stockholders. A copy of the fairness opinion was filed as an exhibit to our Current Report on Form 8-K filed with the SEC on February 20, 2009. The shares of Common Stock were issued by us in a transaction exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended. As additional inducement for

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CLST Asset III to enter into the Fair Purchase Agreement, Fair agreed to use its best efforts to facilitate negotiations to add CLST Asset III or one of its affiliates as a co-borrower under one of Fair's existing lines of credit with access to at least \$15,000,000 of credit for our own purposes. To date we have not been added as a co-borrower.

Substantially all of the assets acquired by CLST Asset III are in one of two portfolios. Portfolio A is a mixed pool of receivables from several asset classes, including health and fitness club memberships, membership resort memberships, receivables associated with campgrounds and timeshares, in-home food sales and services, buyers clubs, delivered products and home improvement and tuitions. Portfolio B is made up entirely of receivables related to the sale of tanning bed products. At least initially, Fair will continue to act as servicer for these receivables. Fair will receive no additional consideration for acting as servicer.

As of February 13, 2009, the portfolios of receivables acquired pursuant to the Fair Purchase Agreement collectively consisted of approximately 3,000 accounts with an aggregate outstanding balance of approximately \$3,709,500 and an average outstanding balance per account of approximately \$1,015 for Portfolio A and approximately \$5,740 for Portfolio B. As of February 13, 2009, the weighted average interest rate of the portfolios exceeded 18%. The sellers are required to repurchase any accounts, for the outstanding balance (at the time of repurchase) of such account plus interest accrued thereon, that do not satisfy certain specified eligibility requirements set out in the Fair Purchase Agreement. Additionally, each of the sellers is required to jointly and severally pay CLST Asset III, up to the aggregate stated principal amount of the Notes issued to such seller, the outstanding balance of any receivable that becomes a defaulted receivable within the parameters of the Fair Purchase Agreement.

The Notes issued by CLST Asset III in favor of the sellers are full-recourse with respect to CLST Asset III and are unsecured. The three Notes relating to Portfolio A (the **Portfolio A Notes**) are payable in 11 quarterly installments, each consisting of equal principal payments, plus all interest accrued through such payment date at a rate of 4.0% plus the LIBOR Rate (as defined in the Portfolio A Notes). The three Notes relating to Portfolio B (the **Portfolio B Notes**) are payable in 21 quarterly installments,

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each consisting of equal principal payments, plus all interest accrued through such payment date at a rate of 4.0% plus the LIBOR Rate (as defined in the Portfolio B Notes).

**(5) Net Loss Per Share**

Options to purchase 0.1 million shares of Common Stock for the three and six months ended May 31, 2009 and 2008, were not included in the computation of diluted earnings per share because the exercise price was higher than the average market price. Restricted Stock of 0.6 million shares were not included in the computation of diluted earnings per share for the three and six months ended May 31, 2009, because their inclusion would have been anti-dilutive as the Company had a net loss.

**(6) Commitments and Contingencies**

We have an agreement with one employee to assist with the final wind down of our business. Under the agreement the employee is to receive her base salary as well as a bonus upon the completion of certain objectives during the liquidation process. The estimated commitment remaining under the agreement at May 31, 2009 is \$40,000.

We have been informed of the existence of an investigation that may relate to our Company or our South American operations. Specifically, we understand that authorities are reviewing allegations from unknown parties that remittances were made from South America to Company accounts in the United States in 1999. We do not know the nature or subject of the investigation, or the potential involvement, if any, of our Company or our former subsidiaries. We do not know if allegations of wrongdoing have been made against our Company, our former subsidiaries or any current or former Company personnel or if any of them are subjects of the investigation. However, the fact that the investigators are aware of an allegation of transfers of money from South America to the United States and that authorities may have questioned witnesses about such alleged transfers means that we can not predict whether or not the investigation will result in a material adverse effect on the consolidated financial condition or results of operations of our Company.

On February 13, 2009, we filed a lawsuit in the United States District Court for the Northern District of Texas against Red Oak Fund, L.P., Red Oak Partners, LLC ( **Red Oak Partners** ), and David Sandberg (the **Federal Court Action** ). Our Original Complaint and Application for Injunctive Relief alleges that Red Oak Fund, L.P., Red Oak Partners, LLC, and David Sandberg have engaged in numerous violations of federal securities laws in making purchases of our Common Stock and sought to enjoin any future unlawful purchases of our stock by them, their agents, and persons or entities acting in concert with them. According to a Schedule 13D filed by David Sandberg, Red Oak Partners, LLC and certain other reporting persons on February 18, 2009, Red Oak Partners beneficially owns 4,561,554 shares of the Company's Common Stock representing approximately 19.0% of the Company's outstanding Common Stock.

On March 2, 2009, Red Oak Partners, LLC, Pinnacle Fund, LLP, Bear Market Opportunity Fund, L.P., and Jeffrey S. Jones filed a derivative lawsuit against Robert A. Kaiser, Timothy S. Durham and David Tornek in the 134th District Court of Dallas County, Texas (the **State Court Action** ). The petition alleges that Messrs. Kaiser, Durham, and Tornek entered into self-dealing transactions at the expense of the Company and its stockholders and violated their fiduciary duties of loyalty, independence, due care, good faith, and fair dealing. The petition asks the Court to order, among other things, a rescission of the alleged self-interested transactions by Messrs. Kaiser, Durham, and Tornek; award compensatory and punitive damages; remove Messrs. Kaiser, Durham and Tornek from the Board; and hold an annual meeting of stockholders, or to appoint a

conservator to oversee and implement the dissolution plan approved by stockholders in 2007.

On April 6, 2009, we filed our First Amended Complaint and Application for Injunctive Relief in the Federal Court Action against defendants Red Oak Fund, L.P., Red Oak Partners, LLC, David Sandberg, Pinnacle Partners, LLC, Pinnacle Fund, LLP, and Bear Market Opportunity Fund, L.P. alleging the same and other violations of federal securities laws. Through this lawsuit, we seek to obtain various declaratory judgments that the defendants have failed to comply with federal securities laws and to enjoin the defendants from, among other things, further violating federal securities laws and from voting any and all shares or proxies acquired in violation of such laws. Also on April 6, 2009, because, among other reasons, we do not expect the litigation, which bears directly upon our annual meeting of stockholders, to be resolved for some months, our Board postponed the annual meeting of stockholders previously scheduled for May 22, 2009 until September 25, 2009.

On April 30, 2009, Red Oak Partners, LLC, Pinnacle Fund, LLP, Bear Market Opportunity Fund, L.P., and Jeffrey S. Jones amended their petition in the State Court Action. In addition to the relief already requested, the petition seeks to compel the Company to hold its 2008 and 2009 annual stockholders meetings within sixty days; to enjoin Messrs. Kaiser, Durham, and Tornek from any interference or hindrance of such meetings or the election of directors; to enjoin Messrs. Kaiser, Durham, and Tornek from voting any shares of stock acquired in the alleged self-interested transactions; and to appoint a special master. On June 3, 2009 and again on June 12, 2009, pursuant to court order, Red Oak Partners, LLC, Pinnacle Fund, LLP, Red Oak Fund, LP, and Jeffrey S. Jones amended their petition in the State Court Action to, among other things, remove Bear Market Opportunity Fund, L.P. as a plaintiff and add Red Oak Fund, L.P. as a plaintiff. Discovery is ongoing in both the Federal Court Action and State Court Action.



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The Company has had settlement discussions with certain of the plaintiffs regarding the Federal Court Action and the State Court Action. The Company may have further settlement discussions in the future. No assurance can be given that any settlement agreement could be reached if the Company undertakes further discussions or if a settlement agreement is entered into that the terms of any such settlement would not have a material adverse effect on the Company, its financial position or its results of operations.

**(7) New Accounting Pronouncements**

In September 2006, the FASB issued Statement of Financial Accounting Standard ( **SFAS** ) No. 157, Fair Value Measurements ( **SFAS 157** ). SFAS 157 defines fair value, establishes a market-based framework or hierarchy for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value. SFAS 157 does not expand or require any new fair value measures; however the application of this statement may change current practice. The requirements of SFAS 157 became effective for us December 1, 2008. However, in February 2008 the FASB decided that an entity need not apply this standard to nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis until the subsequent year. Accordingly, our adoption of this standard on December 1, 2008 was limited to financial assets and liabilities and did not have a material effect on our financial condition or results of operations. We are still in the process of evaluating this standard with respect to its effect on nonfinancial assets and liabilities and therefore have not yet determined the impact that it will have on our financial statements upon full adoption.

In December 2007, the FASB released Statement No. 141 R, Business Combinations ( **SFAS 141R** ), which establishes principles for how the acquirer shall recognize acquired assets, assumed liabilities and any non-controlling interest in the acquiree, recognize and measure the acquired goodwill in the business combination, or gain from a bargain purchase, and determines disclosures associated with financial statements. This statement replaces SFAS 141 but retains the fundamental requirements in SFAS 141 that the acquisition method of accounting (which SFAS 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. The requirements of SFAS 141R apply to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early application is not permitted.

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.

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

The following discussion and analysis should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations section and audited consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (the **SEC**) on March 2, 2009 and with the unaudited consolidated financial statements and related notes thereto presented in this Quarterly Report on Form 10-Q.

**Cautionary Statement 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 (the **Securities Act**), and the Securities Exchange Act of 1934, as 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, expressions are intended to be among the statements that identify forward-looking statements. When we make forward-looking statements, we are basing them on our management's beliefs and assumptions, using information currently available to us. Although we believe that the expectations reflected in the forward-looking statements are reasonable, these forward-looking statements are subject to risks, uncertainties and assumptions. 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 discussed in the Item 1A, Risk Factors of our Annual Report on Form 10-K filed with the SEC on March 2, 2009, 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. We have no intention, and disclaim any obligation, to update or revise any forward-looking statements, whether as a result of new information, future results or otherwise.

**Overview**

***Sales 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 (the **U.S. Sale**) and for the buyer to assume certain liabilities related to those operations. Our operations in Mexico and Chile and other businesses or obligations of the Company were excluded from the transaction.

Our Board of Directors (the **Board**) 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 Company's Mexico operations (the **Mexico Sale**). The Mexico Sale was structured as the sale of all of the outstanding shares of our Mexican subsidiaries, and included 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 were entitled to receive our pro rata share of CII profits for the first quarter 2007 and up to the consummation of the transaction, within 150 days from the closing date. Our Board unanimously approved the proposed transaction set forth in the Mexico Sale Agreement. We had 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 of up to \$1.7 million, the amount we believe is our pro rata share of CII profits for such period, was sent to the purchasers on September 11, 2007, as well as a demand that the sellers comply with other required terms of the agreement. While we believe that CII was profitable and therefore the purchasers owe the Company its pro rata share, the purchasers are disputing this claim. Therefore, we are pursuing claims against the buyers from the Mexico Sale in an ICC arbitration proceeding, which is currently scheduled for October 2009. We cannot make any estimates regarding future amounts that we may be able to collect or the timing of any collections on this matter.

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 28, 2007, our stockholders approved the U.S. Sale, the Mexico Sale, the plan of dissolution, and a name change from CellStar Corporation to CLST Holdings, Inc. We continue to follow the plan of dissolution. Consistent with the plan of

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dissolution and its fiduciary duties, our Board 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 we received cash of approximately \$53.6 million and \$4.5 million was included in Accounts Receivable Other in the accompanying balance sheet for November 30, 2007. We recorded a pre-tax gain of \$52.7 million on the transaction during the twelve months ended November 30, 2007. The buyer of our U.S. business previously 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. On December 21, 2007, the Company and Brightpoint entered into a Letter Agreement which settled the dispute concerning the additional escrow amount. All currently outstanding disputes between the parties regarding the determination of the purchase price under the U.S. Sale Agreement have been resolved, and payments of funds have been made in accordance with the terms described in the Letter Agreement. In January 2008 the Company received approximately \$3.2 million from Brightpoint plus accrued interest and less transition expenses, and approximately \$1.4 million from the escrow agent. These are the final amounts to be received under the U.S. Sale Agreement.

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. As disclosed above, we have not received any pro-rata share of profits and other terms required as of 150 days from the closing date under the Mexico Sale.

On March 22, 2007, we signed a letter of intent to sell our operations in Chile (the **Chile Sale**) to a group that included local management for approximately book value. On June 11, 2007, we completed the Chile Sale. 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 ended August 31, 2007. With the completion of the Chile Sale, we no longer have any operating locations outside of the U.S. Currently only a small administrative staff remains to wind up our business.

***Plan of Dissolution***

As we have previously disclosed, the proxy statement we filed with the SEC on February 20, 2007 describes a proposal for a plan of dissolution, which provides for the complete liquidation and dissolution of the Company after the completion of the U.S. Sale (subject to abandonment by the Board in the exercise of their fiduciary duties). On March 28, 2007, our stockholders approved the plan of dissolution in addition to the U.S. Sale and the Mexico Sale. 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 and elsewhere in our Annual Report on Form 10-K filed with the SEC on March 2, 2009.

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. Sale and Mexico Sale would be made until the investigation by the SEC was resolved. 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 SEC. Therefore, 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. Then, on November 1, 2007 we paid an additional \$0.60 per share dividend to stockholders which brings the cumulative dividends paid to stockholders to \$2.10 per share or approximately \$43.2 million.

Consistent with the plan of dissolution and its fiduciary duties, our Board and the Executive Committee of our Board will continue to review the relative benefits to our stockholders of (1) continuing to wind down our businesses pursuant to our plan of dissolution or (2) abandoning our plan of dissolution and continuing to do business in one or more of our historical lines of business or related businesses or in a new line of business. In addition, our Board has in the past year considered, and is currently considering, whether it is possible, and if it would be in the best interest of the Company and its stockholders, to de-register its common stock under Section 12(g) of the Exchange Act and thereby suspend the Company's responsibilities to file reports, including Forms 10-K, 10-Q and 8-K, with the SEC under Section 13(a) and 15(d) of the Exchange Act. We believe that given the limited time and resources available to our management, the high cost of compliance with the Sarbanes-Oxley Act of 2002 and other public company reporting requirements may no longer outweigh the benefits to the Company and its stockholders of being a reporting company. If the Company does decide to deregister, the Company's common stock would cease to be eligible to be traded on the OTC Bulletin Board. Our common stock would continue to be quoted on the Pink Sheets, but no assurance could be given that any broker would continue to make a market in our common stock. Neither our Board nor our Executive Committee has made a final decision to de-register with the SEC, but it will continue to consider whether de-registering would be in the best interests of the Company and its stockholders. Any determination by the Board in the future to take any of the foregoing actions, will require that the Board, in fulfilling its fiduciary obligations, perform such analysis and consider such information, as provided by management and external consultants, as its deems reasonable and necessary to come to a determination that is in the best interests of the Company and its stockholders. It is unlikely

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that our Board or the Executive Committee of our Board will make any further distributions to the Company's stockholders under the plan of dissolution while it considers the strategic alternatives available to the Company.

Although we have purchased the various assets described below under "Recent Developments" and are now engaged in the business of holding and collecting consumer notes receivable, we have not abandoned our plan of dissolution. The Board believes that each of these acquisitions will be a better investment return for our stockholders when compared to the recent changes to interest rates and other investment alternatives. Given the time necessary to complete the governmental requirements for dissolution, we are engaging in the business of holding and collecting the receivables with the intention of generating a higher rate of return on our assets than we currently receive on our cash and cash equivalent balances. By investing our cash resources in relatively high yielding assets, we are also able to take advantage of the favorable tax treatment provided by our net operating losses. Our net operating losses may offer significant value to us, if they can be utilized to reduce tax liabilities prior to the termination of our corporate status. Our ability to use our net operating losses depends upon a number of factors, including our ability to generate taxable income. No assurances can be given that we will be able to do so. We have continued to wind up aspects of our businesses, including dissolving some of our subsidiaries and continuing to try to collect our remaining non-cash assets. In addition, we have continued to review our liabilities and seek to satisfy or resolve those that we can in a favorable manner. See "Recent Developments" below and "Item 1 Business - 2008 Business" of our Annual Report on Form 10-K filed with the SEC on March 2, 2009 for further discussion with respect to our activities in this regard. We are doing this so that we can satisfy or provide for our liabilities as required by our plan of dissolution and applicable law. We do not now have, and do not believe that we will have in the immediate future, sufficient information regarding all of our liabilities to pay or appropriately provide for them as required by our plan of dissolution and applicable law. We expect that fully implementing our plan of dissolution may require several years. We believe that should we decide that continuing with the plan of dissolution is in the best interest of the Company and our stockholders, we will be able to dispose of these assets on favorable terms prior to the time that we would be in a position to make a final distribution to stockholders and terminate our corporate existence. For a discussion regarding Manoj Rajegowda's apparent allegations that the Board has abandoned the plan of dissolution, see "Item 9B Other Information - Resignation of Director" of our Annual Report on Form 10-K filed with the SEC on March 2, 2009.

**Discussion of Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting policies that are described in the notes to the consolidated financial statements. The preparation of the consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We continually evaluate our judgments and estimates in determination of our financial condition and operating results. Estimates are based on information available as of the date of the financial statements and, accordingly, actual results could differ from these estimates, sometimes materially. Critical accounting policies and estimates are defined as those that are both most important to the portrayal of our financial condition and operating results and require management's most subjective judgments. The most critical accounting policies and estimates are described below.

***Revenue Recognition***

Revenues are recorded as earned from notes receivable. Revenues consist of interest earned, late fees and other miscellaneous charges. Revenues are not accrued on accounts over 120 days without payment activity, unless payment activity resumes.

***Notes 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 will establish an allowance for doubtful accounts for all receivables. The allowance will be based on defaulted receivables as defined in our financing arrangements. Under those arrangements, a defaulted receivable is one where the customer has not made a payment for the most recent 120 day period. Under such circumstances, the remaining balance will not be allowed in the borrowing base which helps determine the amount of allowed borrowings. On a quarterly basis, we will adjust the allowance for doubtful accounts to a minimum amount equal to the defaulted receivables. We may from time to time make additional increases to the allowance based on business circumstances.

***Stock-Based Compensation***

Prior to fiscal 2006, the Company accounted for its stock options under the recognition and measurement provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Effective December 1, 2005, the Company

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adopted the provisions of SFAS No. 123 (Revised 2004), Share-Based Payments (SFAS 123(R)), and selected the modified prospective method to initially report stock-based compensation amounts in the consolidated financial statements. The Company used the Black-Scholes option pricing model to determine the fair value of all option grants. The Company did not grant any options during the six months ended May 31, 2009 and 2008.

On December 1, 2008, our Board approved the Company's 2008 Long Term Incentive Plan (the **2008 Plan**). The 2008 Plan, which is administered by the Board, permits the grant of restricted stock, stock options and other stock-based awards to employees, officers, directors, consultants and advisors of the Company and its subsidiaries. The 2008 Plan provides that the administrator of the plan may determine the terms and conditions applicable to each award, and each award will be evidenced by a stock option agreement or restricted stock agreement. The aggregate number of shares of Common Stock of the Company that may be issued under the 2008 Plan is 20,000,000 shares. The 2008 Plan will terminate on December 1, 2018.

In addition, on December 1, 2008 our Board approved the grant of 300,000 shares of restricted stock to each of Timothy S. Durham, Robert A. Kaiser and Manoj Rajegowda. On February 24, 2009, Mr. Rajegowda forfeited all stock issuances provided to him during the course of his Board membership in connection with his resignation from the Board. On March 5, 2009, our Board approved the grant of 300,000 shares of restricted stock to David Tornek, our director who was appointed to fill the vacancy on the Board. Of each restricted stock grant, 100,000 shares vested on the date of grant, and the remaining 200,000 of the shares vest in two equal annual installments on each anniversary of the date of grant. The restricted stock becomes 100% vested if any of the following occurs: (i) the participant's death or (ii) the disability of the participant while employed or engaged as a director or consultant by the Company. The total value of the awards using a grant date price of \$0.22 per share for 600,000 shares and \$0.16 for 300,000 shares is \$180,000, of which \$86,000 was expensed in the six months ended May 31, 2009 and the rest is being expensed over a two year vesting period. The 2008 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 2008 Plan.

**Recent Developments**

*CLST Asset I*

On November 10, 2008, the Board unanimously approved the acquisition of all of the outstanding equity interest of the FCC Investment Trust I (the **Trust**) from Drawbridge Special Opportunities Fund LP through CLST Asset I, LLC (**CLST Asset I**), a wholly owned subsidiary of CLST Financo, Inc. (**Financo**), which is one of our direct, wholly owned subsidiaries. The purchase price was approximately \$41.0 million, which was financed by \$6.1 million of cash on hand and by a \$34.9 million non-recourse term loan from Fortress Credit Co LLC (**Fortress**), an affiliate of the seller. The primary business of the Trust is to hold and collect certain receivables. We are now responsible for the collection of the consumer notes receivables of the Trust.

*CLST Asset II*



On December 12, 2008, we, through CLST Asset Trust II (the **Trust II**), a newly formed trust wholly owned by CLST Asset II, LLC (**CLST Asset II**), a wholly owned subsidiary of Financo, entered into a purchase agreement, effective as of December 10, 2008, to acquire from time to time certain receivables, installment sales contracts and related assets owned by SSPE Investment Trust I (the **SSPE Trust**) and SSPE, LLC (**SSPE**). The Board unanimously approved the establishment of the Trust II and the purchase agreement. Under the terms of a non-recourse, revolving loan, which Trust II entered into with Summit Consumer Receivables Fund, L.P. (**Summit**), as originator, and SSPE, LLC and SSPE Investment Trust I, as co-borrowers, Summit and Eric J. Gangloff, as Guarantors, Fortress Credit Corp. (**Fortress Corp.**), as the lender, Summit Alternative Investments, LLC, as the initial servicer, and various other parties (**Trust II Credit Agreement**), Trust II committed to purchase receivables of at least \$2.0 million. In conjunction with this agreement, Trust II became a co-borrower under a \$50 million credit agreement that permits Trust II to use more than \$15 million of the aggregate availability under the revolving facility. Trust II's commitment to purchase \$2.0 million of receivables was fulfilled in the first quarter of 2009, when Trust II purchased \$5.8 million of receivables with an aggregate purchase discount of \$0.5 million. These receivables represent primarily home improvement loans originated through First Consumer Credit, LLC (**FCC**), the service provider of CLST Asset I.

During the second quarter of 2009 we were notified by Summit that the credit facility we entered into with Trust II, Summit and various other parties had been reduced. Although, we believe our \$15 million aggregate availability under the revolving facility is not impacted, we have elected to stop purchasing newly originated loans at this time. Since the credit facility term ends in 2010, there can be no assurance that it will be renewed. Therefore, we are currently evaluating options, which include ceasing all purchases under this facility or seeking alternate credit facilities.

### ***CLST Asset III***

Effective February 13, 2009, we, through CLST Asset III, LLC (the **CLST Asset III**), a newly formed, wholly owned subsidiary of Financo, purchased certain receivables, installment sales contracts and related assets owned by Fair Finance Company,

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an Ohio corporation ( **Fair** ), James F. Cochran, Chairman and Director of Fair, and Timothy S. Durham, Chief Executive Officer and Director of Fair and an officer, director and stockholder of our Company (the **Fair Purchase Agreement** ). Messrs. Durham and Cochran own all of the outstanding equity of Fair. In return for assets acquired under the Fair Purchase Agreement, CLST Asset III paid the sellers total consideration of \$3,594,354, consisting of cash, common stock of the Company and six promissory notes. Additionally, Fair agreed to use its best efforts to facilitate negotiations to add CLST Asset III or one of its affiliates as a co-borrower under one of Fair's existing lines of credit with access to at least \$15,000,000 of credit for our own purposes. To date we have not been added as a co-borrower. Substantially all of the assets acquired by CLST Asset III are in one of two portfolios. Portfolio A is a mixed pool of receivables from several asset classes, including health and fitness club memberships, resort memberships, receivables associated with campgrounds and timeshares, in-home food sales and services, buyers clubs, delivered products and home improvement and tuitions. Portfolio B is made up entirely of receivables related to the sale of tanning bed products.

During the second quarter of 2009 we began implementing the servicing, collection and other procedures relating to management of CLST Asset III contemplated by the agreements between us and the servicer of the portfolio. The implementation of those procedures required several meetings with the servicer and was not fully complete in the second quarter of 2009. We expect the reporting, collection and other procedures contemplated in our agreements with the servicer to be fully implemented during the third quarter of 2009 and do not foresee any difficulties in doing so. Fair is the servicer of the CLST Asset III portfolio and is an affiliate of Mr. Durham.

***Foreign Subsidiaries***

During the second quarter of 2009 we made progress under our plan of dissolution by dissolving additional foreign entities. We completed the dissolution of our subsidiary in Guatemala. In the Philippines, we obtained a formal Entry of Judgment in one longstanding lawsuit and are nearing receipt of formal court approval for the resolution of another longstanding lawsuit. Once these lawsuits are resolved, we anticipate dissolving our Philippines subsidiary as soon as possible. We also obtained a final determination from the taxing authority that no taxes are owed on a 2004 transaction. In the Netherlands, we commenced the final audits that are required to complete the dissolution process.

***Colombia***

During the second quarter of 2009 we completed the collection of the previously written-off receivable from the 2004 sale of our Colombia operations. During this quarter we collected \$61,000, representing the final payment of the original note amount of \$720,869. The note had been fully reserved and the payment received was recorded in general and administrative expenses. We are now in the process of releasing the 19% interest that we retained in the Colombia operation, per the terms of the purchase agreement.

**Results of Operations**

The Company reported a net loss of \$1.2 million or \$0.05 per diluted share, for the second quarter of 2009, compared to a net loss of \$0.4 million, or \$0.02 per diluted share for the same quarter last year. The increase is primarily attributable to the costs of the portfolio acquisitions and related start up costs and the cost incurred in connection with the Federal Court Action and State Court Action.

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The following tables show certain information for the three and six months ended May 31, 2009 for each of CLST Asset I, CLST Asset II and CLST Asset III. A more detailed description of the results for each of these entities is provided below.

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|  | CLST Asset I   | CLST Asset II | CLST Asset III  |
|--|----------------|---------------|-----------------|
| <b>Collections:</b>                            |                |               |                 |
| Three months ended May 31, 2009                | \$ 3.1million  | \$ 1.1million | \$ 0.9million   |
| Six months ended May 31, 2009                  | \$ 6.2million  | \$ 1.6million | \$ 1.1million   |
| <b>Aggregate Outstanding Principal</b>         |                |               |                 |
| Balance of Receivables                         | \$ 37.5million | \$ 8.3million | \$ 2.7million   |
| <b>Reserves</b>                                |                |               |                 |
|  | \$ 1.4million  | \$            | \$ 0.2million   |
| <b>Unamortized Purchase Discounts</b>          |                |               |                 |
|  | \$ 0.6million  | \$ 0.7million | \$ 0.1million   |
| <b>Other Receivables</b>                       |                |               |                 |
|  | \$ 0.1million  | \$            | \$ 0.8million   |
| <b>Net Receivables</b>                         |                |               |                 |
|  | \$ 35.6million | \$ 7.6million | \$ 3.2million   |
| <b>Non-intercompany Loans</b>                  |                |               |                 |
| Outstanding                                    | \$ 30.5million | \$ 5.7million | \$ 0.7million   |
| <b>Approximate Number of Customer Accounts</b> |                |               |                 |
|  | 5,481          | 1,086         | 2,226           |
| <b>Average Outstanding Principal</b>           |                |               |                 |
| Balance per Account                            | \$ 6,847       | \$ 7,645      | \$ 1,120        |
| <b>Income from Operations</b>                  |                |               |                 |
| Three months ended May 31, 2009                | \$ 0.1million  | \$ 0.3million | \$ 0.1million   |
| Six months ended May 31, 2009                  | \$ 0.2million  | \$ 0.3million | \$ 0.1million   |
| <b>Remittance Received:</b>                    |                |               |                 |
| Three months ended May 31, 2009                | \$ 0.6million* | \$ 0.8million | \$ 1.0million** |
| Six months ended May 31, 2009                  | \$ 1.4million* | \$ 0.8million | \$ 1.0million** |

\* Includes \$0.2 million for May remittances received subsequent to quarter end.

\*\* Includes \$0.6 million received subsequent to quarter end.

**Three Months Ended May 31, 2009, Compared to Three Months Ended May 31, 2008**

**Consolidated**

**Revenues.** Revenues for the second quarter of 2009 were \$1.8 million compared to zero in 2008. The second quarter of 2009 results reflected interest and other charges from CLST Asset I of \$1.3 million, CLST Asset II of \$0.4 million and CLST Asset III of \$0.1 million. There were no revenues recorded in the second quarter of 2008.

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*Loan Servicing Fees.* Loan servicing fees for the second quarter of 2009 were \$76,000. There were no loan servicing fees recorded in the second quarter of 2008. We do not incur additional servicing fees with respect to CLST Asset III other than the initial cost of acquiring the portfolio.

*Provision for Doubtful Accounts.* Provision for doubtful accounts for the second quarter of 2009 were \$600,000, reflecting accounts greater than 120 days past due in CLST Asset I. CLST Asset II and CLST Asset III had no provision for doubtful accounts as CLST Asset II had no accounts greater than 120 days past due and any defaulted receivables under CLST Asset III were offset per the requirement that the sellers must jointly and severally pay CLST Asset III the outstanding balance of any defaulted receivable, within the parameters of the Fair Purchase Agreement. We did not make a provision for doubtful accounts in the second quarter of 2008.

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*Interest Expense.* Interest expense for the second quarter of 2009 was \$546,000 compared to zero in the second quarter of 2008.

*General and Administrative Expenses.* Our general and administrative expenses were \$1.7 million for the second quarter of 2009 compared to \$0.5 million for the second quarter of 2008. Our legal and professional expenses during the second quarter of 2009 were \$1.0 million, primarily due to legal and professional fees related to the Federal Court Action and the State Court Action, including amounts paid on behalf of our directors, and the pursuit of claims against Wireless Solutions in connection with the Mexico Sale. We believe that Wireless Solutions owes us amounts relating to the sale of our interest in CII in connection with the Mexico Sale. Therefore, we are pursuing claims against the buyers from the Mexico Sale in an ICC arbitration proceeding, which is currently scheduled for October 2009. We believe we are owed up to \$1.7 million from the Mexico Sale. In addition in 2008, general and administrative expenses were favorably impacted by a one time insurance refund of \$141,000 and a \$114,000 payroll settlement adjustment related to the settlement of a claim for breach of employment agreement made by Sherrian Gunn.

*Net Operating Loss.* The net operating loss for the second quarter of 2009 was a loss of \$1.0 million compared to \$511,000 for the second quarter of 2008. The second quarter of 2009 includes \$1.0 million of legal and professional fees, primarily due to legal and professional fees related to the Federal Court Action and the State Court Action, including amounts paid on behalf of our directors, and the pursuit of claims against Wireless Solutions in connection with the Mexico Sale. Our three portfolios had a significant effect on the quarter as CLST Assets I, II and III generated a total of \$530,000 of operating income.

*Total Other Income.* Our total other income for the second quarter of 2009 was \$6,000, compared to \$87,000 for the second quarter 2008. Virtually all of our other income is interest earned on our cash balance, and the decrease is a result of lower interest rates due to the current U.S. economic crisis and lower cash balances.

*Income taxes.* The Company recorded tax benefit of \$6,000 for the second quarter of 2009 compared to zero for 2008, which includes the impact of continuing and discontinued operations.

*Net Loss.* Net loss for the second quarter of 2009 was \$1.2 million compared to \$0.4 million for the same quarter in 2008, as interest earned on our cash last year generated \$87,000 of interest income. The increase is primarily attributable to the costs of the portfolio acquisitions and related start up costs and the cost incurred in connection with the Federal Court Action and State Court Action.

***CLST Asset I***

The Trust's collections for the second quarter of 2009 were approximately \$3.1 million, representing \$1.8 million of principal payments and \$1.3 million of interest and other charges. As of May 31, 2009, the aggregate outstanding principal balance of the notes receivables net of reserves was \$36.1 million, which represents 88% of the original purchase price of \$41.0 million. The ending balance consists of approximately 5,481 customer accounts, with an average outstanding principal balance per account of approximately \$6,847 and an average FICO score of 655. The average interest rate for these accounts was 14.4%. Total assets of the Trust at the end of the quarter net of reserves were \$36.2 million, excluding certain accrued interest and deferred cost.

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For the second quarter of 2009, the Trust reported \$93,000 of net operating profit. Total revenues for the second quarter of 2009 were approximately \$1.3 million and primarily consisted of interest income collected from the notes receivable. Operating expenses for the quarter were \$1.2 million, which included \$0.6 million provision for doubtful accounts, \$0.45 million of interest expense to Fortress, our lender, and \$0.13 million of servicing expense to FCC.

### *CLST Asset II*

Trust II had collections of approximately \$1.1 million during the second quarter of 2009, reflecting principal payments of \$892,000 and interest and other fees of \$245,000. For the quarter, revenues were \$328,000, resulting in a net operating profit of \$305,000. The results benefited from an adjustment to origination costs of \$95,000. There were no defaults recorded during the quarter as we did not have any accounts past due greater than 120 days. Interest expense under the credit facility was \$67,000 while our servicing costs were \$30,000.

For the second quarter of 2009, Trust II purchased \$3.8 million of receivables at a purchase discount averaging about 10%. The purchases were financed with borrowings under the credit facility of \$2.4 million, purchase discounts of \$354,000, and the remainder with Company cash. The average interest rate on the notes is 15.3% and when the unamortized purchase discounts are applied, we expect that the calculated leveraged yield would be greater than 30%. Nearly 68% of the purchases had customer FICO scores of 680 or higher with the average score being 679.

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During the quarter, Trust II received remittances of \$791,000 after paying down the credit facility by \$349,000. As of May 31, 2009, Trust II had \$8.3 million of receivables and an outstanding balance on the credit line of over \$5.7 million.

***CLST Asset III***

Collections for the second quarter of 2009 were \$903,000, representing \$787,000 of principal and \$116,000 of interest and fees. For the quarter, CLST Asset III also recorded revenues of \$121,000 reflecting interest and other fees collected from customers. Also for the quarter, CLST Asset III reported net operating income of \$111,000. Defaults of \$146,000 during the quarter were applied to the notes payable to the seller per our purchase agreement.

For the second quarter of 2009, we have received \$1.0 million of cash remittances from Fair. The April 2009 cash remittances totaling \$305,000 were remitted in early June 2009. As of May 31, 2009, our outstanding balance of receivables was \$2.5 million, representing in excess of 2,200 accounts. The average principal balance per account was approximately \$1,120.

***Six Months Ended May 31, 2009, Compared to Six Months Ended May 31, 2008***

**Consolidated**

*Revenues.* Our revenues for the six months ended May 31, 2009 were \$3.4 million compared to zero in 2008. The results for 2009 reflected interest and other charges from CLST Asset I of \$2.8 million, CLST Asset II of \$0.5 million and CLST Asset III of \$0.1 million. There were no revenues recorded in the first six months of 2008.

*Loan Servicing Fees.* Loan servicing fees for the six months ended May 31, 2009 were \$386,000. There were no loan servicing fees recorded in the first six months of 2008. We do not incur additional servicing fees with respect to CLST Asset III other than the initial cost of acquiring the portfolio.

*Provision for Doubtful Accounts.* Provision for doubtful accounts for the six months ended May 31, 2009 were \$1.3 million, all of which was attributable to CLST Asset I. We had no provision for doubtful accounts for the same period of 2008.

*Interest Expense.* Interest expense for the six months ended May 31, 2009 was \$1.1 million under the credit facilities of CLST Asset I and CLST Asset II and the notes issued in connection with the CLST Asset III acquisition. We had no interest expense for the same period of 2008.



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*General and Administrative Expenses.* Our general and administrative expenses were \$2.3 million for the six months ended May 31, 2009 compared to \$1.0 million for the six months ended May 31, 2008. The increase in expenses in 2009 is primarily due to legal and professional fees related to the Federal Court Action and the State Court Action, including amounts advanced to our directors, and the pursuit of claims against Wireless Solutions in connection with the Mexico Sale. See also the discussion above under Three Months Ended May 31, 2009, Compared to Three Months Ended May 31, 2008 General and Administrative Expenses.

*Total Other Income.* Our total other income for the six months ended May 31, 2009 was \$9,000, compared to \$220,000 for the same period in 2008. Virtually all of our other income is interest earned on our cash balance, and the decrease is a result of lower interest rates due to the current U.S. economic crisis and lower cash balances.

*Income taxes.* The Company recorded a tax expense of \$8,000 for the six months ended May 31, 2009 compared to a benefit of \$5,000 for 2008, which includes the impact of continuing and discontinued operations.

*Discontinued Operations.* We had no income from discontinued operations for the six months ended May 31, 2009 and \$10,000, net of taxes, in 2008. As discussed in Note 2 to the Consolidated Financial Statements and Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Overview, we sold our operations in the U.S., Miami, Mexico and Chile.

### ***CLST Asset I***

For the six months ended May 31, 2009, collections for Trust I were \$6.2 million, representing \$3.4 million of principal payments and \$2.8 million of interest and payments and other charges. As of May 31, 2009, the aggregate outstanding principal balance of the notes receivables net of reserves was \$36.1 million, which represents 88% of the original purchase price of \$41.0 million. The ending balance consists of approximately 5,481 customer accounts, with an average outstanding principal balance per account of approximately \$6,847 and an average FICO score of 655. The average interest rate for these accounts was 14.4%. Total assets of the Trust at May 31, 2009 net of reserves were \$36.2 million, excluding certain accrued interest and deferred cost.

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For the six months ended May 31, 2009, the Trust reported \$190,000 of net operating income. Total revenues for the period were approximately \$2.8 million and primarily consisted of interest income collected from the notes receivable. Operating expenses for the period were \$2.6 million, which included \$1.3 million provision for doubtful accounts, \$946,000 of interest expense to Fortress, our lender, and \$309,000 of servicing expense to FCC.

***CLST Asset II***

Year to date collections for Trust II were \$1.6 million representing \$1.3 million of principal payments and \$330,000 of interest and other charges. Revenues for Trust II were \$439,000 and net operating income was \$246,000 for the year to date. We have not provided any reserves for doubtful accounts as we do not have any past due accounts greater than 120 days. Interest expense under the credit facility was \$96,000 and loan servicing fees were \$78,000 year to date.

For the year, Trust II has purchased \$9.6 million of customer receivables at purchase discounts averaging 9%. The highest discount has been 14.5% and the lowest has been 6%. The purchases have been financed with borrowings under the credit facility of \$6,374,000, purchase discounts of \$831,000 and the balance from Company cash. The average interest rate to date is 15.3% and the calculated leveraged yield when the purchase discount is taken into effect is greater than 30%.

For the six months ended May 31, 2009, Trust II has received remittances of \$791,000 after paying down the credit facility of \$635,000.

***CLST Asset III***

For the six months ended May 31, 2009, collections for CLST Asset III were \$1.1 million, representing \$1.0 million of principal and \$140,000 of interest and other fees. The April 2009 cash remittances totaling \$305,000 were remitted in early June 2009. Total revenue for the year was \$149,000 with net operating income of \$137,000. We incurred \$12,000 of interest expense related to the sellers notes delivered as part of the purchase price. Year to date defaults of \$170,000 have been applied to the sellers notes per our agreement, reducing the principal owed under those notes.

**Liquidity and Capital Resources**

As of May 31, 2009, we had cash and cash equivalents of approximately \$5.9 million, down from \$9.8 million at November 30, 2008. Historically we have invested our cash and cash equivalents in either money market accounts or short term Certificate of Deposits. All of our cash deposits are in accounts that are federally insured. To date, we have financed our acquisitions of our receivables portfolios with cash, non-recourse debt, and the issuance of shares of our Common Stock, and we expect that any future portfolio acquisition would be financed with cash on hand and cash from operations, non-recourse debt and additional issuance of our Common Stock.

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Our three portfolios are now a source of additional funds as we are receiving remittances from collections of accounts less associated expenses. The following table reflects the cash remittances received for the three and six months ended May 31, 2009.

|                                 | (in millions) |               |                |
|---------------------------------|---------------|---------------|----------------|
|                                 | CLST Asset I  | CLST Asset II | CLST Asset III |
| Three months ended May 31, 2009 | \$ 0.6*       | \$ 0.8        | \$ 1.0**       |
| Six months ended May 31, 2009   | \$ 1.4*       | \$ 0.8        | \$ 1.0**       |

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\* Includes \$0.2 million for May remittances received subsequent to quarter end.

\*\* Includes \$0.6 million received subsequent to quarter end.

*Operating Activities.* The net cash used in operating activities for the six months ended May 31, 2009 was \$0.8 million compared to cash received of \$4.6 million for the same period in 2008. The primary reason for this decrease was the collection of \$4.7 million of accounts receivable from Brightpoint (the purchaser of our U.S. and Miami operations) in 2008 and increased operating expenses in 2009 related to the cost incurred in connection with the Federal Court Action and State Court Action offset in part by portfolio interest collections during 2009.

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*Investing Activities.* The net cash provided by investing activities for the six months ended May 31, 2009 was \$1.5 million compared to cash used in 2008 of \$3,000. The increase from 2008 to 2009 is primarily a result of the collection of portfolio principal of \$5.7 million during the six months ended May 31, 2009 offset in part by (i) cash of \$4.0 million used to fund the acquisitions of CLST Asset II and CLST Asset III portfolios and (ii) \$0.2 million in acquisition costs during the six months ended May 31, 2009.

*Financing Activities.* The net cash used in financing activities for the six months ended May 31, 2009 was \$4.5 million compared to zero for the same period in 2008. The cash used in financing activities in 2009 was used to reduce the outstanding debt principal balance under both the Trust Credit Agreement and Trust II Credit Agreement.

*Liquidity Sources.*

CLST Asset I. Our acquisition of the Trust was financed by approximately \$6.1 million of cash on hand and by a non-recourse, term loan of approximately \$34.9 million to the Trust by an affiliate of the seller of the Trust, pursuant to the terms and conditions set forth in the credit agreement, dated November 10, 2008, among the Trust, Fortress, as the lender, FCC Finance, LLC, as the initial servicer, and various other parties (the **Trust Credit Agreement**). The loan matures on November 10, 2013 and bears interest at an annual rate of 5.0% over the LIBOR Rate (as defined in the Trust Credit Agreement). The obligations under the Trust Credit Agreement are secured by a first priority security interest in substantially all of the assets of the Trust, including portfolio collections.

An event of default occurs under the Trust Credit Agreement if the three-month rolling average delinquent accounts rate exceeds 10.0% or the three-month rolling average annualized default rate exceeds 7.0%. For the second quarter of 2009, these default rates were 5.14% and 6.34%, respectively.

As of May 31, 2009, the outstanding balance of our term loan was \$30.5 million, representing 87.5% of our original balance. We have retired approximately \$4.4 million of our obligation to Fortress, and we have paid \$946,000 in interest expense, all from customer collections. Total liabilities of the Trust as of May 31, 2009 were \$63.7 million, which includes \$5.6 million of intercompany payables and deferred revenue of \$0.6 million, representing the remaining purchase discount from the original principal.

During the six months ended May 31, 2009 CLST Asset I generated \$919,000 of net cash with an additional \$121,000 received in June 2009. This amount brings our net cash generated for the six months ended May 31, 2009 to \$1,040,000, net of all expenses and required payments to Fortress. Under the terms of the Trust Credit Agreement, the net cash proceeds in any particular month are remitted to the Company on or about the 20th of the following month. The \$919,000 of net proceeds recorded for the six months ended May 31, 2009, relate to the activities of November 2008 through April 2009. May 2009 net cash proceeds of \$121,000 were remitted on June 22, 2009.

CLST Asset II. The Trust II has become a co-borrower under a \$50 million credit agreement that permits Trust II to use more than \$15 million of the aggregate availability under the revolving facility to purchase receivables. The non-recourse revolving facility was initially established by Summit, an affiliate of the sellers under the Trust II Purchase Agreement. The revolver matures on September 28, 2010. The revolver bears interest at an annual rate of 4.5% over the LIBOR Rate (as defined in the Trust II Credit Agreement). The Trust II pays an additional fee to the co-borrowers equal to an annual rate of 0.5% for loans attributable to the Trust II equal to or below \$10 million and an annual rate of 1.5% for

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loans attributable to the Trust II in excess of \$10 million. In addition, a commitment fee is due to the lender equal to an annual rate of 0.25% of the unused portion of the maximum committed amount. The obligations under the Trust II Credit Agreement are secured by a first priority security interest in substantially all of the assets of the Trust II and the co-borrowers, including portfolio collections.

An event of default occurs under the Trust II Credit Agreement if the three-month rolling average delinquent accounts rate exceeds 15.0% for Class A Receivables or 30.0% for Class B Receivables, or the three-month rolling average annualized default rate exceeds 5.0% for Class A Receivables or 12.0% for Class B Receivables. As of May 31, 2009, there were no defaulted receivables.

As of May 31, 2009, Trust II had an outstanding loan to Fortress Corp. in the amount of \$5.7 million and intercompany account payable of \$1.9 million, the proceeds of which were used to fund in part Trust II's purchase of \$9.6 million of the customer accounts receivable. Deferred revenue as of the end of the quarter was \$0.7 million, representing the purchase discounts related to the purchased receivables.

CLST Asset III. The consideration paid by CLST Asset III in return for assets acquired under the Fair Purchase Agreement, was financed in part by the issuance of common stock and promissory notes to the sellers. We issued 2,496,077 shares of our common stock at a price of \$0.36 per share. In addition, we issued the sellers six promissory notes with an aggregate original stated principal amount of \$898,588 (the **Notes**), of which two promissory notes in an aggregate original principal amount of \$708,868

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were issued to Fair, two promissory notes in an aggregate original principal amount of \$162,720 were issued to Mr. Durham and two promissory notes in an aggregate original principal amount of \$27,000 were issued to Mr. Cochran. The Notes are full-recourse with respect to CLST Asset III and are unsecured. The three Notes relating to Portfolio A (the **Portfolio A Notes**) are payable in 11 quarterly installments, each consisting of equal principal payments, plus all interest accrued through such payment date at a rate of 4.0% plus the LIBOR Rate (as defined in the Portfolio A Notes). The three Notes relating to Portfolio B (the **Portfolio B Notes**) are payable in 21 quarterly installments, each consisting of equal principal payments, plus all interest accrued through such payment date at a rate of 4.0% plus the LIBOR Rate (as defined in the Portfolio B Notes).

Fair has remitted \$707,000 to the Company, reflecting cash received from customers for the months of February, March and April 2009. The April 2009 cash remittances totaling \$305,000 were remitted in early June 2009. Per our agreement, we paid the sellers the scheduled note payments, which amounted to \$72,000. The remaining obligation to the sellers, as of May 31, 2009, was \$668,000 after the scheduled payment was made, interest was accrued and defaulted receivables were recorded.

The following table presents the aging of the receivables held by CLST Asset III at May 31, 2009:

| Receivables Aging (Principal) | Principal Balance (\$) | % of Total  |
|-------------------------------|------------------------|-------------|
| Current 0-30 Days             | 2,270,991.11           | 91.09%      |
| 31 - 60 Days                  | 95,269.89              | 3.82%       |
| 61 - 90 Days                  | 90,831.05              | 3.64%       |
| 91 - 120 Days                 | 20,634.95              | 0.83%       |
| 120+ Days                     | 15,551.46              | 0.62%       |
| <b>Total:</b>                 | <b>\$ 2,493,278.46</b> | <b>100%</b> |

*Contractual Obligations.* We have an agreement with one employee to assist with the final wind down of our historic business. Under the agreement, the employee is to receive base salary as well as a bonus upon the completion of certain objectives during the liquidation process. The maximum payment remaining under this agreement at May 31, 2009 is \$40,000, and we expect to pay this amount out of our available cash. If we abandon our plan of dissolution, our obligations to this employee will continue.

Included in accounts payable at May 31, 2009, is approximately \$14.2 million associated with liabilities which accrued in periods 2002 and earlier. The Company now believes it has a variety of defenses to some or all these liabilities, including defenses based upon the running of statutes of limitations. The Company is reviewing these liabilities, and considering appropriate steps to resolve them. In addition, the Company has contacted the vendor in question several times during the second quarter of 2009 regarding this matter with no results. The Company expects that the liabilities may be resolved at less than the book value thereof, but can not provide assurances as to the amount or timing of any adjustments.

**New Accounting Pronouncements**

In September 2006, the FASB issued Statement of Financial Accounting Standard ( **SFAS** ) No. 157, Fair Value Measurements ( **SFAS 157** ). SFAS 157 defines fair value, establishes a market-based framework or hierarchy for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value. SFAS 157 does not expand or require any new fair value measures; however the application of this statement may change current practice. The requirements of SFAS 157 became effective for us December 1, 2008. However, in February 2008 the FASB decided that an entity need not apply this standard to nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis until the subsequent year. Accordingly, our adoption of this standard on December 1, 2008 was limited to financial assets and liabilities and did not have a material effect on our financial condition or results of operations. We are still in the process of evaluating this standard with respect to its effect on nonfinancial assets and liabilities and therefore have not yet determined the impact that it will have on our financial statements upon full adoption.

In December 2007, the FASB released Statement No. 141 R, Business Combinations ( **SFAS 141R** ), which establishes principles for how the acquirer shall recognize acquired assets, assumed liabilities and any non-controlling interest in the acquiree, recognize and measure the acquired goodwill in the business combination, or gain from a bargain purchase, and determines

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disclosures associated with financial statements. This statement replaces SFAS 141 but retains the fundamental requirements in SFAS 141 that the acquisition method of accounting (which SFAS 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. The requirements of SFAS 141R apply to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early application is not permitted.

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**

This information has been omitted as our Company qualifies as a smaller reporting company.

**Item 4T. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

Our Chief Executive Officer and Chief Financial Officer has evaluated the effectiveness of the Company's 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 this evaluation, our Chief Executive Officer and Chief Financial Officer has concluded that the Company's disclosure controls and procedures were effective at May 31, 2009.

**Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting during the three months ended May 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. The significant deficiencies reported in our Annual Report on Form 10-K for the fiscal year ended November 30, 2008, filed with the SEC on March 2, 2009, continue to exist.



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**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

We have been informed of the existence of an investigation that may relate to our Company or our South American operations. Specifically, we understand that authorities are reviewing allegations from unknown parties that remittances were made from South America to Company accounts in the United States in 1999. We do not know the nature or subject of the investigation, or the potential involvement, if any, of our Company or our former subsidiaries. We do not know if allegations of wrongdoing have been made against our Company, our former subsidiaries or any current or former Company personnel or if any of them are subjects of the investigation. However, the fact that the investigators are aware of an allegation of transfers of money from South America to the United States and that authorities may have questioned witnesses about such alleged transfers means that we can not predict whether or not the investigation will result in a material adverse effect on the consolidated financial condition or results of operations of our Company.

On February 13, 2009, we filed a lawsuit in the United States District Court for the Northern District of Texas against Red Oak Fund, L.P., Red Oak Partners, LLC ( **Red Oak Partners** ), and David Sandberg (the **Federal Court Action** ). Our Original Complaint and Application for Injunctive Relief alleges that Red Oak Fund, L.P., Red Oak Partners, LLC, and David Sandberg have engaged in numerous violations of federal securities laws in making purchases of our Common Stock and sought to enjoin any future unlawful purchases of our stock by them, their agents, and persons or entities acting in concert with them. According to a Schedule 13D filed by David Sandberg, Red Oak Partners, LLC and certain other reporting persons on February 18, 2009, Red Oak Partners beneficially owns 4,561,554 shares of the Company's Common Stock representing approximately 19.0% of the Company's outstanding Common Stock.

On March 2, 2009, Red Oak Partners, LLC, Pinnacle Fund, LLP, Bear Market Opportunity Fund, L.P., and Jeffrey S. Jones filed a derivative lawsuit against Robert A. Kaiser, Timothy S. Durham and David Tornek in the 134th District Court of Dallas County, Texas (the **State Court Action** ). The petition alleges that Messrs. Kaiser, Durham, and Tornek entered into self-dealing transactions at the expense of the Company and its stockholders and violated their fiduciary duties of loyalty, independence, due care, good faith, and fair dealing. The petition asks the Court to order, among other things, a rescission of the alleged self-interested transactions by Messrs. Kaiser, Durham, and Tornek; award compensatory and punitive damages; remove Messrs. Kaiser, Durham and Tornek from the Board; and hold an annual meeting of stockholders, or to appoint a conservator to oversee and implement the dissolution plan approved by stockholders in 2007.

On April 6, 2009, we filed our First Amended Complaint and Application for Injunctive Relief in the Federal Court Action against defendants Red Oak Fund, L.P., Red Oak Partners, LLC, David Sandberg, Pinnacle Partners, LLC, Pinnacle Fund, LLP, and Bear Market Opportunity Fund, L.P. alleging the same and other violations of federal securities laws. Through this lawsuit, we seek to obtain various declaratory judgments that the defendants have failed to comply with federal securities laws and to enjoin the defendants from, among other things, further violating federal securities laws and from voting any and all shares or proxies acquired in violation of such laws. Also on April 6, 2009, because, among other reasons, we do not expect the litigation, which bears directly upon our annual meeting of stockholders, to be resolved for some months, our Board postponed the annual meeting of stockholders previously scheduled for May 22, 2009 until September 25, 2009.

On April 30, 2009, Red Oak Partners, LLC, Pinnacle Fund, LLP, Bear Market Opportunity Fund, L.P., and Jeffrey S. Jones amended their petition in the State Court Action. In addition to the relief already requested, the petition seeks to compel the Company to hold its 2008 and 2009 annual stockholders' meetings within sixty days; to enjoin Messrs. Kaiser, Durham, and Tornek from any interference or hindrance of such meetings or the election of directors; to enjoin Messrs. Kaiser, Durham, and Tornek from voting any shares of stock acquired in the alleged self-interested transactions; and to appoint a special master. On June 3, 2009 and again on June 12, 2009, pursuant to court order, Red Oak

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Partners, LLC, Pinnacle Fund, LLP, Red Oak Fund, LP, and Jeffrey S. Jones amended their petition in the State Court Action to, among other things, remove Bear Market Opportunity Fund, L.P. as a plaintiff and add Red Oak Fund, L.P. as a plaintiff. Discovery is ongoing in both the Federal Court Action and State Court Action.

The Company has had settlement discussions with certain of the plaintiffs regarding the Federal Court Action and the State Court Action. The Company may have further settlement discussions in the future. No assurance can be given that any settlement agreement could be reached if the Company undertakes further discussions or if a settlement agreement is entered into that the terms of any such settlement would not have a material adverse effect on the Company, its financial position or its results of operations.

### **Item 1A. Risk Factors**

For other risk factors, please refer to Item 1A, Risk Factors, of our Annual Report on Form 10-K for the fiscal year ended November 30, 2008, filed with the SEC on March 2, 2009.

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*We are subject to certain default provisions under our loan agreements related to the acquisitions by CLST Asset I and CLST Asset II that may be triggered by events over which we have no control; furthermore, the credit facility that CLST Asset II currently has access to has been reduced and will expire in September 2010.*

**CLST Asset I**

The loan obligations of the Trust under the Trust Credit Agreement are secured by a first priority security interest in substantially all of the assets of the Trust, including portfolio collections. The loan is a non-recourse term loan. The Trust Credit Agreement contains customary covenants and events of default for facilities of its type, including among other things, limitations on the delinquent accounts rate and default rates of the notes receivable accounts, as more fully described in Footnote 4 of the notes to the consolidated financial statements. A copy of the Trust Credit Agreement was filed as an Exhibit to the Company's Current Report on Form 8-K filed November 17, 2008, as amended to date.

If an event of default occurs under the Trust Credit Agreement, whether or not the default is material to the loan as a whole, the lender has various remedies, including among other things, raising the interest rate payable on the loan and accelerating all of the Trust's obligations under the Trust Credit Agreement, which would cause the entire remaining outstanding principal balance plus accrued and unpaid interest and fees to be declared immediately due and payable.

In addition, the Company has no control over the delinquency or default rates of the notes receivable accounts now held by the Trust. An event of default occurs if the three-month rolling average delinquent accounts rate exceeds 10.0% or the three-month rolling average annualized default rate exceeds 7.0%. For the second quarter of 2009, these default rates were 5.14% and 6.34%, respectively. There can be no assurance that the delinquency or default rates of such accounts will not result in an event of default for the Trust, which would allow the lender to, among other things, raise the interest rate payable on the loan, accelerate all of the Trust's obligations under the Trust Credit Agreement, and sell all the assets of the Trust to satisfy the amounts due.

**CLST Asset II**

Trust II is a party to a non-recourse, revolving loan agreement between Trust II, Summit, SSPE and SSPE Trust, as co-borrowers, Summit and Eric J. Gangloff, as Guarantors, Fortress Corp., as the lender, and Summit Alternative Investments, LLC, as the initial servicer, pursuant to which Trust II purchased \$9.6 million of receivables with an aggregate purchase discount of \$0.8 million during the six months ended May 31, 2009. In conjunction with this loan agreement, Trust II borrowed \$3.7 million to purchase the consumer receivables and became a co-borrower under a \$50 million revolving credit agreement (the **Trust II Credit Agreement**) that permits Trust II to use more than \$15 million of the aggregate availability under the revolving facility. A copy of the Trust II Credit Agreement was filed as an Exhibit to the Company's Current Report on Form 8-K filed December 19, 2008, as amended to date.

Advances under the revolver are limited to an amount equal to, net of certain concentration limitations set forth in the Trust II Credit Agreement, (a) the lesser of (1) the product of 85% and the purchase price being paid for eligible receivables with a credit score greater than or equal to 650 (**Class A Receivables**) or (2) the product of 80% and the then-current aggregate balance of principal and accrued and unpaid interest outstanding for Class A Receivables plus (b) the lesser of (1) the product of 75% and the purchase price being paid for eligible receivables with a credit score

less than 650 ( **Class B Receivables** ) or (2) the product of 50% and the then-current aggregate balance of principal and accrued and unpaid interest outstanding for Class B Receivables.

During the second quarter of 2009, we were notified by Summit that the revolving commitment under the Trust II Credit Agreement had been reduced. Although, we believe our \$15 million aggregate availability under the revolving facility is not impacted, we have elected to stop purchasing newly originated loans from Summit at this time. There can be no assurance that the amount of the loan will not be further reduced at any time, which could restrict our ability to purchase additional consumer loans in the future. In addition, the Trust II Credit Agreement expires in September 2010. As of May 31, 2009, Trust II had an outstanding balance of approximately \$5.7 million. If the revolving facility is not renewed or extended, we will need to find alternate credit facilities or use existing cash to pay off the outstanding balance under the Trust II Credit Agreement at that time.

The Trust II Credit Agreement contains customary covenants and events of default for facilities of its type, including among other things, limitations on the delinquent accounts rate and default rates of the consumer receivable accounts, as more fully described in Footnote 4 of the notes to the consolidated financial statements. If an event of default occurs, whether or not the default is material to the loan as a whole, the lender has various remedies, including among other things, raising the interest rate payable on the loan and accelerating all of Trust II's obligations under the Trust II Credit Agreement, which would cause the entire remaining outstanding principal balance plus accrued and unpaid interest and fees to be declared immediately due and payable.

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Furthermore, the Company has no control over the delinquency or default rates of the consumer receivable accounts that the Trust II acquires. An event of default occurs if the three-month rolling average delinquent accounts rate exceeds 15.0% for Class A Receivables or 30.0% for Class B Receivables, or the three-month rolling average annualized default rate exceeds 5.0% for Class A Receivables or 12.0% for Class B Receivables. As of May 31, 2009, there were no defaulted receivables. There can be no assurance that these delinquency or default rates will not result in an event of default for Trust II, which would allow the lender to, among other things, raise the interest rate payable on the loan, accelerate all of Trust II's obligations under the Trust II Credit Agreement, and sell all the assets of Trust II to satisfy the amounts due.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

On March 5, 2009, our Board approved the grant of 300,000 shares of restricted stock for no cash consideration to David Tornek, pursuant to the Company's 2008 Long Term Incentive Plan, in connection with his appointment as a director. The shares of Common Stock were issued by us in a transaction exempt from registration pursuant to Section 4(2) of the Securities Act.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

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

We did not submit any matters to a vote of security holders in the second quarter of 2009.

**Item 5. Other Information**

Not applicable.

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**Item 6. Exhibits**

| <b>Exhibit No.</b> | <b>Description</b>   | <b>Previously filed as an Exhibit and Incorporated by Reference From</b>  |
|--------------------|--|---|
| 3.1                | Amended and Restated Certificate of Incorporation of CellStar Corporation (the Certificate of Incorporation )  | Previously filed as an exhibit to our company s Quarterly Report on Form 10-Q for the quarter ended August 31, 1995, and incorporated herein by reference.                  |
| 3.2                | Certificate of Amendment to Certificate of Incorporation.  | Previously filed as an exhibit to our company s Quarterly Report on Form 10-Q for the quarter ended May 31, 1998, and incorporated herein by reference.                     |
| 3.3                | Certificate of Amendment to Certificate of Incorporation dated as of February 20, 2002.  | Previously filed as an exhibit to our company s Annual Report Form on Form 10-K for the fiscal year ended November 30, 2002 and incorporated herein by reference.           |
| 3.4                | Certificate of Amendment to the Amended and Restated Certificate of Incorporation dated as of March 30, 2007.  | Previously filed as an exhibit to our company s Quarterly Report on Form 10-Q for the quarter ended May 31, 2007, and incorporated herein by reference.                     |
| 3.5                | Amended and Restated Bylaws of CellStar Corporation, effective as of May 1, 2004.  | Previously filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended May 31, 2004, and incorporated herein by reference.                               |
| 4.1                | Rights Agreement, dated as of February 13, 2009, by and between CLST Holdings, Inc. and Mellon Investor Services LLC, as rights agent.                                 | Previously filed as an exhibit to a Form 8-A filed with the Securities and Exchange Commission on February 13, 2009, and incorporated herein by reference.                  |
| 4.2                | Certificate of Designation of Series B Junior Preferred Stock of CLST Holdings, Inc., dated as of February 5, 2009.  | Previously filed as an exhibit to a Current Report on Form 8-K filed with the Securities and Exchange Commission on February 6, 2009, and incorporated herein by reference. |
| 10.1               | Form of Restricted Stock Award Agreement under the CLST Holdings, Inc. 2008 Long Term Incentive Plan.  | Previously filed as an exhibit to our company s Annual Report Form on Form 10-K for the fiscal year ended November 30, 2008 and incorporated herein by reference.           |
| 31.1               | Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended. | Filed herewith.   |
| 32.1               | Certification of the Chief Executive Officer pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350. | Filed herewith.   |

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Management contract, compensatory plan or arrangement.

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**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)

July 14, 2009