

CLST HOLDINGS, INC.  
Form 10-Q  
April 14, 2010  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended February 28, 2010

OR

o

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

For the transition period from            to

Commission File Number 0-22972

**CLST HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

17304 Preston Road, Dominion Plaza, Suite 420

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**Dallas, Texas**  
(Address of principal executive offices)

**75252**  
(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

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.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a 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 April 12, 2010, there were 23,949,282 outstanding shares of common stock, \$0.01 par value per share.

Table of Contents

CLST HOLDINGS, INC.

INDEX TO FORM 10-Q

	<b>Page</b>
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>FINANCIAL STATEMENTS</u> 3
	<u>CONSOLIDATED BALANCE SHEETS as of February 28, 2010 (unaudited) and November 30, 2009</u> 3
	<u>CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited) for the three months ended February 28, 2010 and 2009</u> 4
	<u>CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE LOSS (unaudited) for the three months ended February 28, 2010 and 2009</u> 5
	<u>CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited) for the three months ended February 28, 2010 and 2009</u> 6
	<u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)</u> 7
<u>Item 2.</u>	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u> 17
<u>Item 3.</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u> 29
<u>Item 4T.</u>	<u>CONTROLS AND PROCEDURES</u> 29
<u>PART II OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>LEGAL PROCEEDINGS</u> 30
<u>Item 1A.</u>	<u>RISK FACTORS</u> 35
<u>Item 2.</u>	<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u> 35
<u>Item 3.</u>	<u>DEFAULTS UPON SENIOR SECURITIES</u> 35
<u>Item 4.</u>	<u>[REMOVED AND RESERVED]</u> 36
<u>Item 5.</u>	<u>OTHER INFORMATION</u> 36
<u>Item 6.</u>	<u>EXHIBITS</u> 37
	<u>SIGNATURES</u> 38

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)

	February 28, 2010	November 30, 2009
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3,159	\$ 4,761
Notes receivable, net - current	4,961	6,473
Accounts receivable - other	1,073	2,741
Prepaid expenses and other current assets	684	414
Total current assets	9,877	14,389
Notes receivable, net - long-term	31,241	32,459
Property and equipment, net	7	7
Deferred income taxes	4,786	4,786
Other assets	662	721
	\$ 46,573	\$ 52,362
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 15,138	\$ 14,705
Accrued expenses	634	377
Income taxes payable	122	99
Loans payable - current	29,917	33,663
Notes payable - related parties - current	107	107
Total current liabilities	45,918	48,951
Notes payable - related parties	380	391
Total liabilities	46,298	49,342
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 shares issued and 23,949,282 shares outstanding	246	246
Additional paid-in capital	127,029	127,014
Accumulated other comprehensive income-foreign currency translation adjustments	217	217

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Accumulated deficit	(125,570)	(122,810)
	1,922	4,667
Less: Treasury stock (634,024 shares at cost)	(1,647)	(1,647)
	275	3,020
	\$ 46,573	\$ 52,362

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

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

Three months ended February 28, 2010 and 2009

(unaudited)

(In thousands, except per share data)

	Three months ended February 28,	
	2010	2009
<b>Revenues:</b>		
Interest income	\$ 1,340	\$ 1,530
Other	57	91
Total revenues	1,397	1,621
Loan servicing fees	243	307
Provision for doubtful accounts	1,096	703
Interest expense	572	536
General and administrative expenses	2,241	661
Operating loss	(2,755)	(586)
<b>Other income:</b>		
Other, net	2	3
Total other income	2	3
Loss before income taxes	(2,753)	(583)
Income tax expense (benefit)	7	(130)
Net loss	\$ (2,760)	\$ (453)
<b>Net loss per share:</b>		
<b>Basic and diluted:</b>		
Net loss per share	\$ (0.12)	\$ (0.02)
<b>Weighted average number of shares:</b>		
Basic and diluted	23,547	21,261

See accompanying notes to unaudited consolidated financial statements.



Table of Contents**CLST HOLDINGS, INC. AND SUBSIDIARIES**

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME

Three months ended February 28, 2010 and 2009

(Unaudited)

(In thousands)

	Common Stock		Treasury Stock		Additional	Accumulated	Accumulated	Total
	Shares	Amount	Shares	Amount	paid-in capital	other comprehensive income	deficit	
Balance at November 30, 2009	24,583	\$ 246	(634)	\$ (1,647)	\$ 127,014	\$ 217	\$ (122,810)	\$ 3,020
Comprehensive loss:								
Net loss							(2,760)	(2,760)
Total comprehensive loss								(2,760)
Amortization of restricted stock					15			15
Balance at February 28, 2010	24,583	\$ 246	(634)	\$ (1,647)	\$ 127,029	\$ 217	\$ (125,570)	\$ 275
Balance at November 30, 2008	21,187	\$ 212	(634)	\$ (1,647)	\$ 126,034	\$ 217	\$ (117,616)	\$ 7,200
Comprehensive loss:								
Net loss							(453)	(453)
Total comprehensive loss								(453)
Grant of restricted stock	900	9			(9)			
Cancellation of restricted stock	(300)	(3)			3			
Amortization of restricted stock					55			55
Stock issuance for notes receivable	2,496	25			874			899
Balance at February 28, 2009	24,283	\$ 243	(634)	\$ (1,647)	\$ 126,957	\$ 217	\$ (118,069)	\$ 7,701

See accompanying notes to unaudited consolidated financial statements.



Table of Contents

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

Three months ended February 28, 2010 and 2009

(Unaudited)

(In thousands)

	2010	2009
<b>Cash flows from operating activities:</b>		
Net loss	\$ (2,760)	\$ (453)
<b>Adjustments to reconcile net loss to net cash provided by (used in) operating activities:</b>		
Stock based compensation	15	55
Provision for doubtful accounts	1,096	703
Depreciation	1	1
Non-cash interest expense	27	10
Amortization of notes receivable acquisition costs	17	22
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable - other	1,668	(458)
Prepaid expenses and other current assets	(270)	
Other assets	32	43
Accounts payable	433	(262)
Income taxes payable	23	(130)
Accrued expenses	257	(19)
<b>Net cash provided by (used in) operating activities</b>	<b>539</b>	<b>(488)</b>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(1)	
Notes receivable principal collections	1,601	2,298
Acquisition of notes receivable		(2,865)
Additions to notes receivable acquisition costs		(173)
<b>Net cash provided by (used in) investing activities</b>	<b>1,600</b>	<b>(740)</b>
<b>Cash flows from financing activities:</b>		
Payments on notes payable	(3,741)	(2,092)
<b>Net cash used in financing activities</b>	<b>(3,741)</b>	<b>(2,092)</b>
Net decrease in cash and cash equivalents	(1,602)	(3,320)
Cash and cash equivalents at beginning of period	4,761	9,754

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Cash and cash equivalents at end of period	\$	3,159	\$	6,434
Non-Cash Investing and Financing Activities:				
Acquisition of notes receivable for common stock	\$		\$	899
Acquisition of notes receivable for debt	\$		\$	4,909
Acquisition of notes receivable for accounts receivable, other	\$		\$	336
Returned notes receivable in exchange for reduction of debt	\$	16	\$	23

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

**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 its 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.

In accordance with the Company's plan of dissolution that was previously approved by our stockholders, on March 26, 2010 the Company filed a certificate of dissolution with the Delaware Secretary of State to be effective on June 24, 2010. Immediately after the close of business on June 24, 2010, the Company will close its stock transfer books; accordingly it is expected that the trading of its stock on the Pink Sheets will cease at the same time. 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. The Company's financial statements have been prepared on a going-concern basis and the asset and liability carrying amounts do not purport to present the net realizable or settlement values in the event of the dissolution and liquidation of the Company.

From November 2008 through February 2009, the Company consummated three acquisitions of consumer notes receivable portfolios. On November 10, 2008, the Company, 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 (*Trust I*) from a third party (the *Trust I Purchase Agreement*). The purchase price payable in the Trust I Purchase Agreement was financed pursuant to the terms and conditions set forth in the credit agreement, dated November 10, 2008, among Trust I, Fortress Credit Co LLC, as lender (*Fortress*), FCC Finance, LLC (*FCC*), as the initial servicer, the backup servicer, and the collateral custodian (the *Trust I Credit Agreement*). On December 12, 2008 we, through CLST Asset Trust II (*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 to acquire certain receivables, installment sales contracts and related assets owned by SSPE Investment Trust I (*SSPE Trust*) and SSPE, LLC (*SSPE*). Funding for Trust II included a non-recourse, revolving loan, which Trust II entered into with Summit Consumer Receivables Fund, L.P. (*Summit*), as originator, and SSPE and SSPE Trust, 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*). On February 13, 2009, we, through CLST Asset III, LLC (*CLST Asset III*), a newly formed, wholly owned subsidiary of Financo, entered into a purchase agreement to acquire certain 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. For more information regarding each of these acquisitions please refer to Business 2009 Business in the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2009.

The Company's consolidated financial statements include the Company's accounts and those of the majority-owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation. Unconsolidated subsidiaries and investments are accounted for under the equity method. Certain prior year financial amounts have been reclassified to conform to the current year presentation.

The report of our independent registered public accounting firm with respect to our financial statements as of November 30, 2009 and for the year then ended contains an explanatory paragraph with respect to our ability to continue as a going concern. This concern has been raised due to the higher than anticipated defaults on the notes receivable included in CLST Asset I which has resulted in a default under the Trust I Credit Agreement and an approximately \$3.5 million increase in the allowance for doubtful accounts during the twelve months ended November 30, 2009, with an additional \$1.1 million increase in the allowance for doubtful accounts through February 28, 2010. As a result of the Company's default under the Trust I Credit Agreement, the amount due to Fortress under this agreement has been classified as current as of November 30, 2009 and February 28, 2010. The Company has also been engaged in several lawsuits which have resulted in the Company incurring significant legal fees. The combination of the increase in the allowance for doubtful accounts and high legal fees resulted in the Company incurring a net loss of approximately \$5.2 million and \$2.8 million during the twelve months ended November 30, 2009 and the three months ended February 28, 2010, respectively. The Company is continuing discussions to resolve the default under the Trust I Credit Agreement and a potential default under the Trust II Credit Agreement. The Company has made a claim under its directors and officers liability insurance policy for reimbursement of legal fees incurred in excess of our \$1.0 million self retention amount. It is uncertain whether the Company can

Table of Contents

continue as a going concern if it continues to incur net losses and if the Company loses the CLST Asset I and CLST Asset II consumer receivables as a result of the default under the Trust I Credit Agreement and the potential default under the Trust II Credit Agreement.

**(b) Notes Receivable**

The following table shows certain information as of February 28, 2010 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 in Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations. Amounts presented are in thousands, except for the approximate number of customer accounts and the average outstanding principal balance per account.

	CLST Asset I		CLST Asset II		CLST Asset III	
	Principal Balance	% of Total	Principal Balance	% of Total	Principal Balance	% of Total
<b>Receivables Aging (Principal)</b>						
Current 0-30 Days	\$ 26,920	81.0%	\$ 6,714	95.6%	\$ 1,270	77.1%
31 - 60 Days	1,140	3.4%	105	1.5%	176	10.7%
61 - 90 Days	821	2.5%	66	0.9%	64	3.9%
91 + 120	547	1.6%	50	0.7%	47	2.9%
120+	3,819	11.5%	87	1.3%	89	5.4%
Total Receivables	33,247	100.0%	7,022	100.0%	1,646	100.0%
Allowance for doubtful Accts	(4,639)	-14.0%	(150)	-2.1%		0.0%
Net Receivables	28,608	86.0%	6,872	97.9%	1,646	100.0%
Discount	(493)	-1.5%	(596)	-8.5%	(51)	-3.1%
Acquisition fees	155	0.5%	23	0.3%	38	2.3%
Total	\$ 28,270	85.0%	\$ 6,299	89.7%	\$ 1,633	99.2%
Accounts Receivable Other	\$		\$ 302		\$ 150	
Notes Payable and Loans Outstanding	\$ 25,072		\$ 4,845		\$ 487	
Approximate Number of Customer Accounts	4,980		953		1,676	
Average Outstanding Principal Balance per Account	\$ 6,676		\$ 7,368		\$ 982	

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. Notes receivable are recorded at the historical cost paid at the date of acquisition net of any purchase discounts. Subsequent to the date of acquisition, notes receivable are reduced by any principal payments made by the customer. Purchase discounts are recorded based on the negotiated difference between the face value and the amount paid for the notes receivable. Purchase discounts are recognized as revenue, using the effective interest method, as principal payments are collected.

The Company establishes an allowance for doubtful accounts for receivables where the customer has not made a payment for the most recent 120 day and 90 period for CLST Asset I and CLST Asset II, respectively. The Company specifically analyzes notes receivable using historical activity, current economic trends, changes in its customer payment terms, recoveries of previously reserved notes and collection trends when evaluating the adequacy of its allowance for doubtful accounts. Any change in the assumptions used in analyzing a specific note receivable may result in an additional allowance for doubtful accounts being recognized in the period in which the change occurs. During the fourth quarter of 2009, the Company modified its reserve policy due to recent market trends. Additional reserves are accrued based on account balances that are over 60 days past due with the reserve amount dependent on the overall performance of the portfolio. The Company may also establish an additional reserve for any portfolio that, in management's judgment, may need to be discounted at a future date in order to sell the portfolio in its entirety. Any reserve amount may be reduced based upon any offset rights or claims the Company may have against parties who initially sold the portfolio to the Company. The

Table of Contents

Company may from time to time make additional increases to the allowance based on the foregoing factors. Once a note receivable has been reserved due to nonpayment, the Company will no longer accrue, for financial reporting purposes, interest earned on the note receivable. Should the note receivable return to a performing status, then the Company will resume accruing interest on the note receivable. Recoveries are recorded against the allowance when payments are received. Notes receivable are charged off against the allowance after all means of collection have been exhausted and a legal determination has been rendered that less than the full amount of the note receivable will be collected. Recoveries of notes receivable, which were previously charged off, are recorded to income when payments are received.

The following table details the activity in the allowance for doubtful accounts for the three months ended February 28, 2010 and 2009:

	For the three months ended			
	February 28,			
	2010		2009	
Beginning balance	\$	3,668	\$	144
Additions to allow for doubtful accounts		1,096		703
Recoveries		25		
Charge offs				
Ending balance	\$	4,789	\$	847

Beginning in the third quarter of 2009 and continuing through the first quarter of 2010, the annualized default rate for CLST Asset I increased to as high as 13.5% in December 2009; accordingly, we have been increasing our allowances to reflect this change. Historically, the annualized default rate has increased during the months of November, December and January and then subsequently decreased. The annualized default rate was approximately 13.5% for December 2009 and decreased to approximately 12.8%, 11.4% and 7.5% for January 2010, February 2010 and March 2010, respectively. The Company is in default of the Trust I Credit Agreement and is potentially in default of the Trust II Credit Agreement as a result of higher than anticipated note receivable defaults. As a result of the default, the entire balance of \$25.1 million due to Fortress under the Trust I Credit Agreement has been classified as current on the February 28, 2010 balance sheet. Had the Company not been in default under the Trust I Credit Agreement, \$19.4 million of the outstanding balance as of February 28, 2010 would have been classified as non-current. The Company is currently in discussions with its lenders to resolve any actual and potential defaults under the Trust I Credit Agreement and the Trust II Credit Agreement. Those discussions are ongoing and the Company does not expect that its lenders will enforce any available foreclosure rights they may have on the assets of Trust I and Trust II while negotiations are proceeding.

**(c) Revenue Recognition**

Revenues, which consist of interest earned, late fees and other miscellaneous charges, will be recorded as earned from notes receivable. Revenues will not be accrued on accounts without payment activity for over 120 days and 90 days for CLST Asset I and CLST Asset II, respectively, unless payment activity resumes.

**(d) Deferred Costs**

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We have recorded acquisition costs related to the purchase of certain notes receivables and deferred loan costs associated with certain Company obligations. The acquisition costs 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 impact of prepayment of the balances by either the Company or our customers would be recognized in the period of prepayment.

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

For the three months ended February 28, 2010 and 2009, the Company recognized \$15,000 and \$55,000 of expense, respectively, related to restricted stock grants.



Table of Contents

**(3) Net Loss Per Share**

Options to purchase 0.1 million shares of Common Stock were not included in the computation of diluted earnings per share for the three months February 28, 2010 and 2009 because the exercise price was higher than the average market price. 0.4 million shares of the Company's restricted stock were not included in the computation of diluted earnings per share for the three months ended February 28, 2010 and 2009, because their inclusion would have been anti-dilutive as the Company had a net loss.

**(4) Fair Value Measurements**

In April 2009, the Financial Accounting Standards Board issued ASC 825 (formerly FSP FAS 107-1), *Interim Disclosures about Fair Value of Financial Instruments*. ASC 825 requires disclosures about the fair value of financial instruments whenever a public company issues financial information for interim reporting periods. ASC 825 is effective for interim reporting periods ending after June 15, 2009. The Company adopted this staff position upon its issuance, and it had no material impact on its consolidated financial statements.

The carrying amounts of accounts receivable, accounts payable and accrued liabilities as of February 28, 2010 and 2009 approximate fair value due to the short maturity of these instruments. The carrying value of notes receivable, loans payable and notes payable-related parties also approximate fair value since these instruments bear market rates of interest, and notes receivable are net of allowances and purchase discounts.

**(5) Commitments and Contingencies**

**Introduction**

The Company has expended a significant amount of management time and resources in connection with the Federal Court Action and the State Court Action (as defined below). The Company has had settlement discussions with Red Oak Fund, L.P. and certain of its affiliates ( **Red Oak** or the **Red Oak Group** ) from time to time in the past regarding the Federal Court Action and the State Court Action, but those discussions have not been successful. The Company may have further settlement discussions with Red Oak 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 settlement would not have a material adverse effect on the Company, its financial position, or its results of operations.

**Federal Court Action**

In December 2008, David Sandberg of the Red Oak Group placed a telephone call to Robert Kaiser expressing interest in the Red Oak Group making a minority investment in the Company and obtaining control of the Company. The Company's Board of Directors (the **Board** ) responded by suggesting that the Red Oak Group and the Company discuss the Red Oak Group's desire to make a minority investment and obtain control

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after the Company filed its Annual Report on Form 10-K for the fiscal year ended November 30, 2008 with the SEC and made its results of operations available to the Company's stockholders.

On January 15, 2009, the Red Oak Group acquired 5,000 shares of our common stock in secondary market and privately negotiated transactions. On or about January 30, 2009, the Red Oak Group requested that the Company provide a stockholder list and security position listings, which it said it would use to make a tender offer. On February 3, 2009, the Red Oak Group announced its plan to commence a tender offer to acquire up to 70% of our outstanding shares of common stock at \$0.25 per share. On February 5, 2009, we adopted the Rights Plan which became effective on February 16, 2009. Stating the Company's Rights Plan as its reason, the Red Oak Group announced on February 9, 2009 that it had abandoned its intention to make a tender offer. Nevertheless, the Red Oak Group continued through February 13, 2009 to acquire shares of our common stock in the secondary market and privately negotiated transactions resulting in its beneficial ownership of 4,561,554 shares of our common stock (according to the Red Oak Group's Schedule 13D filed with the SEC on February 18, 2009), representing approximately 19.05% of our outstanding common stock as of the record date. The Red Oak Group made its purchases of our common stock in open-market and privately negotiated transactions, not by means of tender offer materials filed with the SEC.

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, and David Sandberg (the *Federal Court Action*). Our Original Complaint and Application for Injunctive Relief alleges that Red Oak 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. We believe Red Oak violated federal securities laws as follows:

Table of Contents

- (i) violating Rule 14(e)-5 of the Exchange Act by not truly abandoning its tender offer and instead directly or indirectly purchasing or arranging to purchase shares not in connection with its tender offer and without complying with the procedural, disclosure and anti-fraud requirements applicable to tender offers regulated under Section 14 of the Exchange Act;
- (ii) violating Exchange Act Rule 14d-5(f) by failing to return the Company's stockholder list, which we provided to Red Oak upon its request, and by using such list for a purpose other than in connection with the dissemination of tender offer materials in connection with its tender offer;
- (iii) violating Exchange Act Rule 14(d)-10 by purchasing shares pursuant to its tender offer at varying prices rather than paying consideration for securities tendered in the tender offer at the highest consideration paid to any stockholder for securities tendered; and
- (iv) violating Section 13(d) of the Exchange Act by not timely filing a Schedule 13D and disclosing the information required therein.

On March 13, 2009, we announced that we would hold our Annual Meeting of Stockholders on May 22, 2009 in Dallas, Texas, and that the close of business on April 2, 2009 would be the record date for the determination of stockholders entitled to receive notice of, and to vote at, the Annual Meeting or any adjournments or postponements thereof.

On March 18, 2009, the Red Oak Group sent a letter to us demanding to inspect and copy certain of our books and records. We have taken the position that the Red Oak Group did not comply with state law requirements applicable to stockholders seeking such information.

On March 19, 2009, the Red Oak Group sent a letter to us stating its intention to put forth several precatory proposals including stockholder votes for: approval to proceed with the 2007 stockholder-approved plan of dissolution; approval of the November 10, 2008 transaction whereby CLST Asset I, a wholly owned subsidiary of Financo, entered into a purchase agreement to acquire all of the outstanding equity interests of Trust I from a third party for approximately \$41.0 million; approval of the 2008 Plan pursuant to which the Board approved the new issuance to themselves of up to 20 million shares of common stock, or just over 97% of the common stock outstanding at the time this plan was approved; approval of the December 12, 2008 transaction whereby Trust II, a newly formed trust wholly owned by CLST Asset II, a wholly owned subsidiary of Financo entered into a purchase agreement, effective as of December 10, 2008, to acquire (i) on or before February 28, 2009 receivables of at least \$2 million, subject to certain limitations and (ii) from time to time certain other receivables, installment sales contracts, and related assets; and approval of the February 13, 2009 transaction whereby CLST Asset III, a newly formed, wholly owned subsidiary of Financo, which is one of CLST's direct, wholly owned subsidiaries, purchased certain receivables, installment sales contracts, and related assets owned by Fair, which is partly owned by Timothy S. Durham, an officer and director of CLST. On the same day, the Red Oak Group sent a letter to us stating its intention to nominate a slate of directors to our Board.

On April 6, 2009, we notified the Red Oak Group that our Board rejected the Red Oak Group's nominations for Class I and Class II seats, as the nominations were not in accordance with our certificate of incorporation. In addition, we also rejected the Red Oak Group's proposals because they were not proper in form or substance under federal and state law to come before an Annual Meeting. We offered to discuss the Red Oak Group's concerns, director nominations, and stockholder proposals provided that (1) the Red Oak Group and the Company enter into a confidentiality and standstill agreement, (2) the Red Oak Group appropriately make publicly available disclosures regarding its rapid accumulation of the Company's shares and its intentions to acquire control of the Company that are required by the federal securities laws, including in a Report on Schedule 13D, and (3) the Red Oak Group not vote the shares that the Company believes it to have acquired in violation of applicable law, including the tender offer rules and other rules regulating such accumulation of shares under the federal securities laws, at the Annual Meeting.

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Also on April 6, 2009, we filed our First Amended Complaint and Application for Injunctive Relief in the Federal Court Action adding Red Oak's affiliates (Pinnacle Partners, LLC; Pinnacle Fund, LLLP; and Bear Market Opportunity Fund, L.P.) as defendants, alleging the same and other violations of federal securities laws, including:

- (i) filing a materially false and misleading Schedule 13D and failing to amend the same after delivering to the Company a Notice of Director Nominations and proposal for business at the Annual Meeting;
- (ii) violating Section 14(d) of the Exchange Act by engaging in fraudulent, deceptive and manipulative acts in connection with its tender offer by failing to abide by Section 14(d)'s timing requirements and by failing to make required filings with the SEC; and

Table of Contents

- (iii) that any attempt to solicit proxies from our stockholders with respect to director nominations or notice of business would be misleading in light of the defendants' illegal activities in accumulating Company stock.

Through this action, 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 did 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 15, 2009, the Red Oak Group submitted another letter to the Company, providing additional information regarding the stockholder proposals it intends to bring before the Annual Meeting and revising those proposals to: request the Board to complete the dissolution approved at the stockholder meeting held in 2007; advise the Board that the stockholders do not approve of the transaction purportedly entered into as of November 10, 2008 whereby CLST Asset I, a wholly owned indirect subsidiary of the Company, entered into a purchase agreement to acquire the outstanding equity interest in Trust I and request the directors to take any available and appropriate actions; disapprove the 2008 Plan adopted by the Board and request the Board not to issue any additional share grants or option grants under such plan and request that the directors rescind their approval of such plan; advise the Board that the stockholders disapprove of the transaction purportedly entered into as of December 12, 2008 pursuant to which CLST Asset II, an indirect wholly owned subsidiary of the Company, entered into a purchase agreement to acquire certain receivables on or before February 28, 2009 and request the directors to take any available and appropriate actions; and advise the Board that the stockholders disapprove of the transaction purportedly entered into as of February 13, 2009 whereby CLST Asset III, an indirect wholly owned subsidiary of the Company purchased certain receivables, installment contracts and related assets owned by Fair and request the directors to take any available and appropriate actions.

On July 24, 2009, we filed our Brief in Support of Application for Preliminary Injunction. The Red Oak Group filed its Opposition on August 7, 2009, and we filed our Reply Brief in Support on August 14, 2009. On October 14, 2009, the Court denied the Company's Application for Preliminary Injunction.

On December 30, 2009, the Company voluntarily filed a Motion to Dismiss the Federal Court Action ( *Federal Motion to Dismiss* ). As an exercise of its business judgment, the Board decided not to pursue CLST's claims against the Red Oak Group beyond the preliminary injunction stage.

On January 20, 2010, the Red Oak Group filed its Combined Motion for Leave to Amend, to Join Third Parties, to Vacate Scheduling Order and to Continue the Trial Date ( *Motion for Leave* ) and its Motion for Attorneys' Fees under Rule 11 of the Federal Rules of Civil Procedure ( *Rule 11 Motion* ). By its Motion for Leave, Red Oak sought to join Messrs. Durham, Kaiser, and Tornek as defendants and to add claims against them and CLST respectively for alleged violations of Sections 13(d), 14(a), and 10(b) of the Exchange Act and certain rules promulgated thereunder. By its Rule 11 Motion, the Red Oak Group sought to recover all of its attorneys' fees and costs in defending this action from CLST based on the legal contention that injunctive relief is not available for a violation of Section 13(d) of the Exchange Act.

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On March 2, 2010, the Court denied the Federal Motion to Dismiss and granted the Red Oak Group's Motion for Leave. The Court also denied the Red Oak Group's Rule 11 Motion. On March 17, 2010, the Red Oak Group filed its Counterclaims and Third-Party Complaint against the Company, alleging violations of Sections 13(d), 14(a) and 10(b) of the Exchange Act. The Federal Court Action remains pending.

### **State Court Action**

On March 2, 2009, certain members of the Red Oak Group (namely, Red Oak Partners, LLC; Pinnacle Fund, LLP; and Bear Market Opportunity Fund, L.P.) and Jeffrey S. Jones ( *Jones* ) (the Red Oak Group and Jones may be collectively referred to below as *Plaintiffs* ) 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; an award of compensatory and punitive damages; the removal of Messrs. Kaiser, Durham, and Tornek from the Board; and that the Company hold an Annual Meeting of stockholders, or that the Company appoint a conservator to oversee and implement the dissolution plan approved by stockholders in 2007.

Table of Contents

On March 13, 2009, we announced that we would hold our Annual Meeting of Stockholders on May 22, 2009 in Dallas, Texas, and that the close of business on April 2, 2009 would be the record date for the determination of stockholders entitled to receive notice of, and to vote at, the Annual Meeting or any adjournments or postponements thereof.

On March 18, 2009, the Red Oak Group sent a letter to us demanding to inspect and copy certain of our books and records. We took the position that the Red Oak Group did not comply with state law requirements applicable to stockholders seeking such information.

On March 19, 2009, the Red Oak Group sent a letter to us stating its intention to put forth several precatory proposals including stockholder votes for: approval to proceed with the 2007 stockholder-approved plan of dissolution; approval of the November 10, 2008 transaction whereby CLST Asset I, a wholly owned subsidiary of Financo, entered into a purchase agreement to acquire all of the outstanding equity interests of Trust I from a third party for approximately \$41.0 million; approval of the 2008 Plan pursuant to which the Board approved the new issuance to themselves of up to 20 million shares of common stock, or just over 97% of the common stock outstanding at the time this plan was approved; approval of the December 12, 2008 transaction whereby Trust II, a newly formed trust wholly owned by CLST Asset II, a wholly owned subsidiary of Financo entered into a purchase agreement, effective as of December 10, 2008, to acquire (i) on or before February 28, 2009 receivables of at least \$2 million, subject to certain limitations and (ii) from time to time certain other receivables, installment sales contracts and related assets; and approval of the February 13, 2009 transaction whereby CLST Asset III, a newly formed, wholly owned subsidiary of Financo, which is one of CLST's direct, wholly owned subsidiaries, purchased certain receivables, installment sales contracts and related assets owned by Fair, which is partly owned by Timothy S. Durham, an officer and director of CLST. On the same day, the Red Oak Group sent a letter to us stating its intention to nominate a slate of directors to our Board.

On April 6, 2009, we notified the Red Oak Group that our Board rejected the Red Oak Group's nominations for Class I and Class II seats, as the nominations were not in accordance with our certificate of incorporation. In addition, we also rejected the Red Oak Group's proposals because they were not proper in form or substance under federal and state law to come before an Annual Meeting. We offered to discuss the Red Oak Group's concerns, director nominations, and stockholder proposals provided that (1) the Red Oak Group and the Company enter into a confidentiality and standstill agreement, (2) the Red Oak Group appropriately make publicly available disclosures regarding its rapid accumulation of the Company's shares and its intentions to acquire control of the Company that are required by the federal securities laws, including in a Report on Schedule 13D, and (3) the Red Oak Group not vote the shares that the Company believes it to have acquired in violation of applicable law, including the tender offer rules and other rules regulating such accumulation of shares under the federal securities laws, at the Annual Meeting.

Also on April 6, 2009, because, among other reasons, we did 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 15, 2009, the Red Oak Group submitted another letter to the Company, providing additional information regarding the stockholder proposals it intends to bring before the Annual Meeting and revising those proposals to: request the Board to complete the dissolution approved at the stockholder meeting held in 2007; advise the Board that the stockholders do not approve of the transaction purportedly entered into as of November 10, 2008 whereby CLST Asset I, a wholly owned indirect subsidiary of the Company, entered into a purchase agreement to acquire the outstanding equity interest in Trust I and request the directors to take any available and appropriate actions; disapprove the 2008 Plan adopted by the Board and request the Board not to issue any additional share grants or option grants under such plan and request that the directors rescind their approval of such plan; advise the Board that the stockholders disapprove of the transaction purportedly entered into as of December 12, 2008 pursuant to which CLST Asset II, an indirect wholly owned subsidiary of the Company, entered into a purchase agreement to acquire certain receivables on or before February 28, 2009 and request the directors to take any available and appropriate actions; and advise the Board that the stockholders disapprove of the transaction purportedly entered into as of February 13, 2009 whereby CLST Asset III, an

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indirect wholly owned subsidiary of the Company purchased certain receivables, installment contracts and related assets owned by Fair and request the directors to take any available and appropriate actions.

On April 30, 2009, the Red Oak Group and Jones amended their petition in the State Court Action. In addition to the relief already requested, the petition sought 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, the Red Oak Group and Jones amended their petition to, among other things, remove Bear Market Opportunity Fund, L.P. as a plaintiff and add Red Oak Fund, L.P. as a plaintiff.



Table of Contents

On May 5, 2009, the Red Oak Group and Jones filed a motion seeking to compel the Company to hold its 2008 and 2009 stockholders' meetings on June 30, 2009 and to appoint a special master and requested an expedited hearing on both. Hearings were held on May 8, 2009 and May 29, 2009, but no ruling was reached.

On August 14, 2009, our Board postponed the Annual Meeting of stockholders from September 25, 2009 to October 27, 2009.

On August 24, 2009, the Red Oak Group resubmitted its director nomination letter and its letter stating its intention to put forth the stockholder proposals, as mentioned in the March 19, 2009 and April 15, 2009 letters.

On August 25, 2009, the Court set an evidentiary hearing on the Plaintiffs' Application for Temporary Injunction, which had yet to be filed, for October 7 and 8, 2009. Plaintiffs' request for injunctive relief concerned Messrs. Kaiser, Durham, and Tornek voting any shares of stock acquired in the alleged self-interested transactions.

On August 28, 2009, the parties executed a Stipulation Regarding the Company's Annual Meeting of Stockholders ( "*Stipulation* "). The Court approved the Stipulation the same day and entered an Order identical to the Stipulation's terms. Pursuant to the Stipulation, absent a determination by the Court of good cause shown, the Company must hold its annual stockholders' meeting for the election of one Class I director and one Class II director and consideration of any properly submitted proposals that are proper subjects for consideration at an annual meeting on October 27, 2009, with a record date for that meeting of September 25, 2009. Good cause for delaying the Annual Meeting beyond October 27, 2009, and correspondingly amending the September 25, 2009 record date, includes among other things, situations where reasonable delay is necessary: (1) for the Board to avoid breaching any of their fiduciary duties to the Company or the Company's stockholders; (2) to assure compliance with the Company's certificate of incorporation and bylaws; (3) for the Company or the Board to comply with state or federal law; or (4) to assure compliance with any order of any court or regulatory authority having jurisdiction over the Company or members of its Board.

We received a letter dated September 22, 2009 from the Red Oak Group seeking, pursuant to Section 220 of the Delaware General Corporation Law, to inspect the books and records of the Company, including among other things a stockholder list as of the record date. The letter states that the purpose of such request is to enable the Red Oak Group to solicit proxies to elect directors at the 2009 Annual Meeting and to communicate with stockholders. Our counsel responded by letter dated September 30, 2009 that the Company was aware of its obligations under Section 220 of the Delaware General Corporation Law but believed that the demand letter did not comply with the inspection requirements under Section 220. We received another letter dated September 29, 2009 from the Red Oak Group pursuant to Section 220 of the Delaware General Corporation Law in which the Red Oak Group requests to inspect the books and records of the Company pertaining to, among other things, all analyses performed with respect to our net operating losses and a list of all business ventures and dealings Messrs. Tornek and Durham have evaluated or commenced in the past ten years and a list of all investments they currently share. Our counsel responded by letter dated October 6, 2009 that (i) the commencement of the Red Oak Group's derivative action bars it from using a Section 220 demand as a substitute for discovery permissible in litigation; (ii) the stated purposes of the demand letter do not constitute proper purposes under Section 220; and (iii) the scope of information requested in the demand letter is overly broad and not limited to books and records that are essential and sufficient to accomplish the Red Oak Group's stated purposes.

On October 9, 2009, the Court denied Plaintiffs' application for injunctive relief, which sought to enjoin Messrs. Kaiser, Durham, and Tornek from voting certain shares at the CLST annual stockholders' meeting. Further, the Court granted Defendants' plea to the jurisdiction, granted Defendants' motion to disqualify Plaintiffs, and dismissed Plaintiffs' derivative claims. Beyond that, the Court granted Defendants' amended motion to stay, thereby staying all remaining direct claims asserted by Plaintiffs. Defendants' motion to disqualify Plaintiffs was based on Plaintiffs' lack of adequacy to pursue derivative claims on the following grounds: (1) that Red Oak improperly brought derivative claims to

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advance its own personal interests; (2) that Red Oak had engaged in illegal conduct by violating federal securities laws; and (3) that Jones was only a tag-along plaintiff and therefore suffered the same adequacy problems as Red Oak, the driving force behind the State Court Action. The Court reached each of these rulings after the two-day evidentiary hearing.

On October 15, 2009, we applied to the Court, on an emergency basis, for an order to: (1) reopen this case for the limited purpose of modifying the Court's Order Regarding Annual Meeting of Stockholders entered on August 28, 2009 (the **Annual Meeting Order**); (2) modify its Annual Meeting Order to prevent CLST from alternatively being in violation of (a) federal securities law, Delaware statutory law, and its Bylaws or (b) the Annual Meeting Order; (3) nullify the current September 25, 2009 record date; and (4) grant an emergency hearing as soon as possible. A hearing was held on CLST's emergency motion on October 16, 2009. The Court continued the hearing until a time agreeable to the parties and the Court on or before October 26, 2009.

On October 29, 2009, Plaintiffs filed their Motion and Memorandum to Reopen Case And To Reconsider ( **Motion to Reconsider** ) concerning the Court's Order of October 9, 2009, which granted Defendants' Plea to the Jurisdiction and Motion to

Table of Contents

Disqualify Plaintiffs and dismissed Plaintiffs' derivative claims. On December 10, 2009, Plaintiffs filed their Motion and Memorandum to Reopen Case and Compel Annual Stockholders' Meeting ( *Motion to Compel* ).

On November 12, 2009, the parties executed a Second Stipulation and Order Setting and Regarding an Annual Meeting of Stockholders of the Company (the *Second Stipulation* ). The Court approved the Second Stipulation on November 13, 2009 and entered an Order identical to the Second Stipulation's terms. The Second Stipulation provides that the Company must hold its annual stockholders' meeting on December 15, 2009 and that the record date for that meeting must be set as October 30, 2009.

At the December 15, 2009 hearing on Plaintiffs' Motion to Reconsider, Plaintiffs' counsel stated on the record that Plaintiffs' Motion to Compel had not been properly noticed and therefore was not before the Court. The Court denied Plaintiffs' Motion to Reconsider on December 21, 2009.

On January 15, 2010, Plaintiffs filed their Motion for Summary Relief, Summary Judgment, and Application for Injunctive Relief to Compel the Company's Annual Stockholders' Meeting ( *Motion for Summary Relief* ). By their Motion for Summary Relief, Plaintiffs sought for the Company to hold its annual stockholders' meetings for 2008, 2009, and 2010 on March 25, 2010. On February 15, 2010, the Court heard Plaintiffs' Motion for Summary Relief and, in part, granted the relief requested. Specifically, the Court ordered, pursuant to its Order and Interlocutory Partial Summary Judgment (the *Second Annual Meeting Order* ) as follows: (1) Absent a determination by the Court for good cause shown, the Company shall hold its annual stockholders' meeting on March 23, 2010 (the *Annual Meeting* ); the Annual Meeting satisfies the Company's requirement to hold its 2008 and 2009 annual stockholders' meetings; the record date for the Annual Meeting shall be March 8, 2010; and the Company shall provide notice in accordance with applicable Delaware law to all CLST stockholders on or before March 12, 2010 for the Annual Meeting. By the same order, the Court also appointed IVS Associates, Inc. to be the independent inspector of elections to oversee the voting process of the Annual Meeting, tabulate proxies, and certify the election results. By separate order dated February 15, 2010, and upon its own motion, the Court ordered that the State Court Action be reopened and reinstated on a two-week trial docket beginning June 1, 2010.

On February 18, 2010, the Red Oak Group filed its Application for TRO and sought to prevent the Company from filing a certificate of dissolution with the Delaware Secretary of State on February 26, 2010, as the Company had disclosed in its Form 8-K filed on February 9, 2010. The hearing on the Application for TRO was held on February 23, 2010. On February 24, 2010, the Court granted Red Oak's Application for TRO and, pursuant to the TRO, ordered, among other things, that the defendants (namely, CLST Holdings, Inc., Robert Kaiser, Timothy Durham, and David Tornek) and their agents be restrained from filing the certificate of dissolution for the Company on or before midnight on Wednesday, March 10, 2010, or until further order of the Court.

On March 2, 2010, the Court signed the order upon the Stipulation and Agreed Temporary Injunction with Red Oak (the *Dissolution Stipulation* ), which provides, among other things, that, on or before March 5, 2010, the Company will send notice of its intent to file a certificate of dissolution with the Delaware Secretary of State on March 26, 2010, and that the notice shall indicate that the certificate of dissolution will not be effective until June 24, 2010. Accordingly, in a press release issued on March 5, 2010, the Company announced that it intended to file a certificate of dissolution with the Delaware Secretary of State on March 26, 2010 and that such certificate of dissolution would not be effective until June 24, 2010.

After the Second Annual Meeting Order issued, the Company filed an emergency motion for temporary relief ( *Motion for Relief* ) requesting that the Fifth District Court of Appeals of Texas at Dallas (the *Court of Appeals* ) void the Second Annual Meeting Order. On March 3, 2010, the Court of Appeals issued a memorandum opinion in which the Court of Appeals granted the Company's Motion for Relief and voided the Second Annual Meeting Order. The Court of Appeals' judgment taxes all costs of the appeal against the Red Oak Group. On March 4, 2010, the

trial court entered its Order dissolving the Second Annual Meeting Order.

Pursuant to the Dissolution Stipulation and in accordance with its plan of dissolution, on March 26, 2010 the Company filed a certificate of dissolution with the Delaware Secretary of State to be effective on June 24, 2010. Immediately after the close of business on June 24, 2010, the Company will close its stock transfer books; accordingly it is expected that the trading of its stock on the Pink Sheets will cease at the same time.

On March 26, 2010, the Red Oak Group filed its Motion to Dismiss for Lack of Jurisdiction, for Leave to Amend Petition, Attorneys Fees, and for a Final Order Granting Permanent Injunctive Relief ( *State Motion to Dismiss* ). By its State Motion to Dismiss, the Red Oak Group seeks an order that, among other things, sets the Company s annual stockholders meetings for 2008 and 2009 fifty (50) days after the issuance of such an order and sets the record date thirty (30) days before such annual meeting. The remaining issues in the State Court Action are currently set for trial on May 24, 2010.

Table of Contents

**(6) Subsequent Events.**

On March 2, 2010, the Court signed the order upon the Dissolution Stipulation, which provides, among other things, that, on or before March 5, 2010, the Company will send notice of its intent to file a certificate of dissolution with the Delaware Secretary of State on March 26, 2010, and that the notice shall indicate that the certificate of dissolution will not be effective until June 24, 2010. Accordingly, in a press release issued on March 5, 2010, the Company announced that it intended to file a certificate of dissolution with the Delaware Secretary of State on March 26, 2010 and that such certificate of dissolution would not be effective until June 24, 2010.

After the Second Annual Meeting Order issued, the Company filed its Motion for Relief requesting that the Court of Appeals void the Second Annual Meeting Order. On March 3, 2010, the Court of Appeals issued a memorandum opinion in which the Court of Appeals granted the Company's Motion for Relief and voided the Second Annual Meeting Order. The Court of Appeals' judgment taxes all costs of the appeal against the Red Oak Group. On March 4, 2010, the trial court entered its Order dissolving the Second Annual Meeting Order.

Pursuant to the Dissolution Stipulation and in accordance with its plan of dissolution, on March 26, 2010 the Company filed a certificate of dissolution with the Delaware Secretary of State to be effective on June 24, 2010. Immediately after the close of business on June 24, 2010, the Company will close its stock transfer books; accordingly it is expected that the trading of its stock on the Pink Sheets will cease at the same time.

In March 2010, a representative of Fortress Corp. indicated to a representative of the Company that a new default under the Trust II Credit Agreement may have occurred as a result of the three-month rolling average annualized default rate of the Class A receivables in the Trust II portfolio exceeding 5.0% as of February 28, 2010. The Company has not received formal notification from Fortress Corp. regarding this potential default and the Company is continuing to evaluate whether such a default has occurred. The Company is currently in discussions with Fortress Corp. to resolve this potential default in conjunction with all defaults under the Trust I Credit Agreement. Those discussions are ongoing and the Company does not expect that Fortress Corp. will enforce any available foreclosure rights it may have on the assets of Trust II while negotiations are proceeding.

Also in March 2010, we received an update from Fair's bankruptcy trustee that he expects to file a motion with the bankruptcy court seeking permission to release any checks in Fair's possession that rightfully belong to us. We have not received any of these checks or further updates on the status of this motion.

Table of Contents

**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 for the fiscal year ended November 30, 2009 filed with the Securities and Exchange Commission ( *SEC* ) and with the unaudited consolidated financial statements and related notes thereto presented in this Quarterly Report on Form 10-Q ( *Form 10-Q* ).

**Cautionary Statement Regarding Forward-Looking Statements**

Certain of the matters discussed in this 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, litigation results or achievements of CLST Holdings, Inc. (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, should, likely, and similar 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 or future events relating to the Company to differ materially from the Company's expectations ( *Cautionary Statements* ) are disclosed in this report, including, without limitation, those discussed in the Item 1A, Risk Factors of our Annual Report on Form 10-K for the fiscal year ended November 30, 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*

During 2006 and 2007, the Company consummated a series of transactions to sell substantially all of its United States and Miami-based Latin American operations and its assets in both Mexico and Chile. For more information regarding these sales transactions please refer to Business Sale of Operations in Fiscal 2007 in the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2009.

*Portfolio Transactions*

From November 2008 through February 2009, the Company consummated three acquisitions of consumer notes receivable portfolios. On November 10, 2008, the Company, 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 ( *Trust I* ) from a third party (the *Trust I Purchase Agreement* ). The purchase price payable in the Trust I Purchase Agreement was financed pursuant to the terms and conditions set forth in the credit agreement, dated November 10, 2008, among Trust I, Fortress Credit Co LLC, as lender ( *Fortress* ), FCC Finance, LLC ( *FCC* ), as the initial servicer, the backup servicer, and the collateral custodian (the *Trust I Credit Agreement* ). On December 12, 2008 we, through CLST Asset Trust II ( *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 (the *Trust II Purchase Agreement* ) to acquire certain receivables, installment sales contracts and related assets owned by SSPE Investment Trust I ( *SSPE Trust* ) and SSPE, LLC ( *SSPE* ). Funding for Trust II included a non-recourse, revolving loan, which Trust II entered into with Summit Consumer Receivables Fund, L.P. ( *Summit* ), as originator, and SSPE and SSPE Trust, 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* ). On February 13, 2009, we, through CLST Asset III, LLC ( *CLST Asset III* ), a newly formed, wholly owned subsidiary of Financo, entered into a purchase agreement to acquire certain 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 (the *Trust III Purchase Agreement* ). Messrs. Durham and Cochran own all of the outstanding equity of Fair. For more information regarding each of these acquisitions please refer to Business 2009 Business in the Company s Annual Report on Form 10-K for the fiscal year ended November 30, 2009.

Table of Contents

*Plan of Dissolution*

During 2008, we performed a detailed review and analysis of the Company's historical tax net operating loss carryforwards (the *NOLs*). We believe in many circumstances the NOLs, which amount to approximately \$128 million at February 28, 2010 and begin to expire after November 30, 2020, can be utilized to offset future income. However, in the event of a change in control, the NOLs would be impaired and result in only a fraction of their otherwise future potential tax savings. As of February 28, 2010, approximately 40% of the change in control had occurred historically. If an additional approximate 10% change in control occurs in the future, as determined by IRS regulations, the Company could lose substantially all of the potential value of the NOLs.

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 sale of the Company's operations in the United States (subject to abandonment by the Company's Board of Directors in the exercise of their fiduciary duties). On March 28, 2007, our stockholders approved the plan of dissolution in addition to the sale of substantially all of the Company's operations in the United States and Mexico. In the plan of dissolution approved by our stockholders, we stated that no distribution of proceeds from such sales 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 of Directors (the *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. The amount and timing of any additional 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 this Form 10-Q, in the proxy statement and elsewhere in our Annual Report on Form 10-K for the fiscal year ended November 30, 2009.

We have continued to wind down 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 2009 Business of our Annual Report on Form 10-K for the fiscal year ended November 30, 2009 for further discussion with respect to our activities in this regard. We expect that it could take several years to implement the plan of dissolution because of the lengthy process of obtaining sufficient information regarding all of our liabilities to pay and appropriately provide for them as required under the plan of dissolution. Given this and the time necessary to complete the governmental requirements for dissolution, our Board focused on ways to generate higher returns on the Company's cash and other assets in order to better offset the Company expenses and to take advantage of the favorable tax treatment provided by our NOLs. Section 3 of the plan of dissolution states that we may not engage in any business activities except to the extent necessary to preserve the value of the Company's assets, wind up the Company's affairs, and distribute the Company's assets. As further described below under Recent Developments, our Board determined to acquire several portfolios of receivables with the intention of generating a higher rate of return on our assets than we were receiving on our cash and cash equivalents balances which were held in money market accounts or short term certificates of deposit, earning approximately 1% (current interest rates are now close to 0%). Our Board believed that each of these acquisitions would provide a better investment return for our stockholders when compared to the low interest rates available on our cash investments and other investment alternatives although the acquisition would involve a higher risk profile than traditional cash deposits and other cash equivalents positions. At the time we began looking at purchasing these portfolios during the second and third quarters of 2008, the credit markets became significantly impaired, and the viability of many banks and other financial institutions was in question. The Company's cash was held in one bank subject to the limited protection of FDIC coverage. The Board considered, among other things, spreading the Company's cash among over a dozen financial institutions. However, the Board did not believe spreading the Company's cash among many different banks to be practical or cost efficient. In addition, the Board considered various cash strategies including investing in a ladder of U.S. Treasury securities (securities of varying maturities) which would have resulted in higher yields than cash deposits, but would have required the Company to hold those securities in a brokerage firm and pay that firm a fee to arrange the transactions. The Board did not believe that the increased yield provided by a ladder of U.S. Treasury securities, after associated fees and administrative costs, was likely to be significantly better than that of cash deposits, and did not believe that interest from U.S. Treasury securities would allow the Company to use its NOLs to shield income from taxes. Finally, the Board was unsure how to assess the brokerage and custody risks associated with holding a ladder of U.S. Treasury securities through third parties, and felt that the risk was similar to that associated with commercial banks at the time.



Our Board understood that to obtain higher returns on its investments, the Company would have to assume a higher risk of loss. The Board believed that the opportunity offered by these purchases to earn higher returns than offered by cash and demand deposits, would offset the increased risks, and offer the Board a way of maximizing the value of the Company for the stockholders. In addition, these investments offered the Company an opportunity to utilize its NOLs if the returns resulted in positive income for the Company. The purchases the Company made utilized borrowed money. Using borrowed money to purchase an income generating asset increases the return on investment, but increases the risk of loss on that investment. The Board carefully considered the amount of leverage in each of its purchases, believing each investment would be able to generate sufficient income to pay interest and

Table of Contents

principal on the debt, and still produce an attractive return for the Company and its stockholders. In considering the risk associated with leverage, the Board considered a number of different scenarios for performance of the investments, including the risk associated with increased default rates. The Board did not expect default rates to increase to current levels, but did consider that and other possibilities. In addition, the Board considered the costs associated with investments in our portfolios, including the ongoing costs of paying a servicer to service the portfolio, as part of its consideration of the overall potential return associated with those investments.

When we purchased Trust I, the historical annualized default rate for the previous three years for the portfolio was approximately 4%, which was the basis for assessing the creditworthiness of the assets included in CLST Asset I. Beginning in the third quarter of 2009 and continuing through the first quarter of 2010, we saw the annualized default rate increase to as high as 13.5% in December 2009; accordingly, we have been increasing our allowances to reflect this change. Historically, the annualized default rate has increased during the months of November, December and January and then subsequently decreased. The annualized default rate was approximately 13.5% for December 2009 and decreased to approximately 12.8%, 11.4% and 7.5% for January 2010, February 2010 and March 2010, respectively.

Upon examination of Trust II and CLST Asset III, we believe that the circumstances of these portfolios are different from those of Trust I. As of the date we acquired Trust I, approximately 39% of the receivables in the Trust I portfolio had credit scores higher than 676. Trust II contains new originations with higher credit requirements than the requirements for the Trust I portfolio. Since Trust II is comprised of new loans, the Company has managed the originations such that almost 65% of the new loans have credit scores higher than 680. Further, we acquired the Trust I portfolio at a discount of approximately 1.7% and acquired the Trust II portfolio at a discount of approximately 8.7%. The difference in the purchase discounts between CLST Asset I and CLST Asset II was impacted by the tightening of the credit markets between the time of these two acquisitions. Therefore the Trust II portfolio has a very different risk profile when compared to Trust I because of the better customer credit profile of Trust II customers and the larger purchase discount received. The sellers of the CLST Asset III portfolio have retained the risk of collectability of the receivables in that portfolio for up to an amount equal to the currently outstanding principal amount of the notes issued by the Company to the sellers. At the time of the closing of the acquisition of the CLST Asset III portfolio, the notes issued to the sellers represented approximately 25% of the total purchase price of the portfolio of approximately \$3.6 million. Since the principal balance of the notes declines over time as payments are made by the Company to the sellers, future defaulted receivables can be offset only against the then remaining balance of the notes issued to the sellers.

The Company has not performed a market check and, as a result, cannot give any assurance that the portfolios can be sold on favorable terms or within any particular time frame given the risk and uncertainties associated with current economic conditions. Our Board believes that a quick sale of our portfolio assets at the current time is unlikely to yield the same value to the Company as a sale in an orderly course in the future. Among other things, our Board believes economic conditions will improve in the future, along with credit market conditions and conditions affecting consumer default rates. Because the Company's winding up could take several years, the Company has the ability to wait until economic conditions improve before it sells its portfolio assets. For the same reason, the Company has the ability to market those assets, in the future, in an orderly fashion designed to enhance any sales proceeds over what could be received in a quicker sale at the current time. While the Company continues its winding up activities, it will receive collections on the portfolios, and its overall book investment in the portfolios will decline. At the same time, the size of the portfolios and the debt associated with them will also decline as the assets and related indebtedness liquidate themselves. For those reasons, the Board believes that, based upon the assumptions above, a sale of the Company's portfolio assets in the future will likely result in greater value to the Company than a rapid sale at the current time.

In a Current Report on Form 8-K filed with the SEC on February 9, 2010, the Company announced that, pursuant to the plan of dissolution, the Company planned to file a certificate of dissolution with the Delaware Secretary of State on February 26, 2010. Immediately after the close of business on February 26, 2010, the Company intended to close its stock transfer books and expected that the trading of its stock on the Pink Sheets would cease at the same time. However, on February 18, 2010, Red Oak Fund, L.P. and certain of its affiliates ( *Red Oak* or the *Red Oak Group* ) filed an Application for Temporary Restraining Order and Motion for Expedited Discovery and a Briefing Schedule for a Temporary Injunction ( *Application for TRO* ), pursuant to which it sought to prevent the Company from filing a certificate of dissolution with the Delaware Secretary of State on February 26, 2010. The hearing on Plaintiffs' Application for TRO was held on February 23, 2010. On February 24, 2010,

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the Court granted Red Oak's Application for TRO and, pursuant to the Temporary Restraining Order and Order Granting Motion for Expedited Discovery (the **TRO**), the Court ordered, among other things, that the defendants (CLST Holdings, Inc., Robert Kaiser, Timothy Durham, and David Tornek) and their agents are restrained from filing the certificate of dissolution for the Company on or before midnight on Wednesday, March 10, 2010, or until further order of the Court.

Due to the Court's issuance of the TRO, the Company was not able to file a certificate of dissolution with the Delaware Secretary of State on February 26, 2010. Accordingly, the trading of the Company's stock on the Pink Sheets did not cease on the close of business on February 26, 2010, as the Company had previously announced. However, on March 2, 2010, the Company entered into the Stipulation and Agreed Temporary Injunction (the **Dissolution Stipulation**) with Red Oak which provides, among other things, that, on or before March 5, 2010, the Company would send notice of its intent to file a certificate of dissolution with the

Table of Contents

Delaware Secretary of State on March 26, 2010, and that the notice would indicate that the certificate of dissolution will not be effective until June 24, 2010.

Pursuant to the Dissolution Stipulation and in accordance with its plan of dissolution, on March 26, 2010 the Company filed a certificate of dissolution with the Delaware Secretary of State to be effective on June 24, 2010. Immediately after the close of business on June 24, 2010, the Company will close its stock transfer books; accordingly it is expected that the trading of its stock on the Pink Sheets will cease at the same time.

**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, which consist of interest earned, late fees and other miscellaneous charges, will be recorded as earned from notes receivable. Revenues will not be accrued on accounts without payment activity for over 120 days and 90 days for CLST Asset I and CLST Asset II, respectively, unless payment activity resumes.

***Notes Receivable***

Notes receivable are recorded at the historical cost paid at the date of acquisition net of any purchase discounts. Subsequent to the date of acquisition, notes receivable are reduced by any principal payments made by the customer. Purchase discounts are recorded based on the negotiated difference between the face value and the amount paid for the notes receivable. Purchase discounts are recognized as revenue, using the effective interest method, as principal payments are collected.

The Company establishes an allowance for doubtful accounts for receivables where the customer has not made a payment for the most recent 120 day and 90 day period for CLST Asset I and CLST Asset II, respectively. The Company specifically analyzes notes receivable using historical activity, current economic trends, changes in its customer payment terms, recoveries of previously reserved notes and collection trends when evaluating the adequacy of its allowance for doubtful accounts. Any change in the assumptions used in analyzing a specific note receivable may result in an additional allowance for doubtful accounts being recognized in the period in which the change occurs. During the fourth

quarter of 2009, the Company modified its reserve policy due to recent market trends. Additional reserves are accrued based on account balances that are over 60 days past due with the reserve amount dependent on the overall performance of the portfolio. The Company may also establish an additional reserve for any portfolio that, in management's judgment, may need to be discounted at a future date in order to sell the portfolio in its entirety. Any reserve amount may be reduced based upon any offset rights or claims the Company may have against parties who initially sold the portfolio to the Company. The Company may from time to time make additional increases to the allowance based on the foregoing factors. Once a note receivable has been reserved due to nonpayment, the Company will no longer accrue, for financial reporting purposes, interest earned on the note receivable. Should the note receivable return to a performing status, then the Company will resume accruing interest on the note receivable. Recoveries are recorded against the allowance when payments are received. Notes receivable are charged off against the allowance after all means of collection have been exhausted and a legal determination has been rendered that less than the full amount of the note receivable will be collected. Recoveries of notes receivable, which were previously charged off, are recorded to income when payments are received.

## **Recent Developments**

### *CLST Asset I*

On October 16, 2009, we received a notice of default from Fortress stating that an event of default had occurred and was continuing under the Trust I Credit Agreement. The Fortress notice states that the three-month rolling average annualized default rate of the Trust I portfolio has exceeded 7.0%. As a result of the default, pursuant to the Trust I Credit Agreement, the interest rate payable by Trust I has increased by an additional 2% per annum, and all collections by Trust I above amounts retained to pay interest, fees, principal amortizations, and other charges that are normally remitted to the Company, are instead being applied to outstanding

Table of Contents

principal under the Trust I Credit Agreement until the amount due has been reduced to zero. In addition, Fortress is entitled to foreclose on the assets of Trust I and sell them to satisfy amounts due it under the Trust I Credit Agreement. Only Trust I is liable for amounts due Fortress under the Trust I Credit Agreement. Thus, although the Company could lose some or all of its investment in Trust I, the Company will not be obligated to pay any amounts due Fortress under the Trust I Credit Agreement. All Trust I collections are being retained by Fortress and applied to pay interest and reduce indebtedness while the Company discusses amending the Trust I Credit Agreement, but Fortress has not sought to foreclose on the assets of Trust I. Those discussions are ongoing. The Company does not expect that Fortress will foreclose on the assets of Trust I while negotiations are proceeding. As a result of this default, the entire balance of \$25.1 million due to Fortress under the Trust I Credit Agreement has been classified as current on the February 28, 2010 balance sheet. Had the Company not been in default under the Trust I Credit Agreement, \$19.4 million of the outstanding balance as of February 28, 2010 would have been classified as non-current.

***CLST Asset II***

During the second quarter of 2009 we were informed by Summit that the credit facility we entered into with Trust II, Summit and various other parties had been reduced by \$20 million to \$30 million. Summit did not indicate the specific reasons for the reduction in the credit facility other than it was part of a negotiation with Fortress Corp. regarding a default on another Summit portfolio. This reduction has no impact on the Company because during the third quarter of 2009, we ceased purchasing any new receivables under the facility and are no longer originating new loans under the credit agreement and, as a result, the Company is no longer drawing additional funds under the credit agreement. Because we are no longer originating new loans under this credit agreement, FCC is no longer providing origination services to the Company. The origination services performed by FCC included loan documentation, collateral documentation where applicable, credit verification, and other required activities to secure loan approval per the Company's standards. FCC was paid a one-time fee of 2% of the original principal amount of loans originated for performing these services. Once a loan was approved, FCC would perform the monthly servicing activities, which would include collections, reporting, lock box services, customer service, and other related services. FCC was paid 1.5%, per annum, of the outstanding principal balance for these services.

We received a notice of default dated December 2, 2009 from Fortress Corp. ( ***Default Notice*** ) stating that a servicer default had occurred and was continuing under the Trust II Credit Agreement, as a result of a material adverse effect with respect to the servicer. The Default Notice states that Fair, in its capacity as a sub-servicer for assets held by the SSPE Trust, has failed to perform its servicing duties with respect to that portion of the receivables portfolio owned by SSPE Trust for which Fair has been retained as a sub-servicer by the SSPE Trust. This failure, the Default Notice asserts, results from the ongoing federal investigation of Fair and Timothy Durham, and constitutes a material adverse effect with respect to the servicer and thus a breach of a covenant under the Trust II Credit Agreement. We also received a notice of default dated February 8, 2010 from Fortress Corp. ( ***Second Default Notice*** ) stating that an additional event of default has occurred and is continuing under the Trust II Credit Agreement because the three-month rolling average annualized default rate of the Class A receivables in the Trust II portfolio had exceeded 5.0% as of January 31, 2010. On February 26, 2010, the parties to the Trust II Credit Agreement entered into a waiver and release agreement (the ***Fortress Waiver*** ) whereby 1) each event of default declared in the Default Notice and the Second Default Notice was waived, 2) Trust II became the sole borrower under the Trust II Credit Agreement, 3) the outstanding borrowings attributable to SSPE Trust were paid in full, 4) SSPE Trust and their affiliates were released from all further obligations under the Trust II Credit Agreement, and 5) the SSPE Trust assets were removed as pledged collateral for the Trust II Credit Agreement. The Fortress Waiver also amended certain terms of the Trust II Credit Agreement including the elimination of Trust II's right to further borrowings and the requirement for Trust II to pay an unused commitment fee.

In March 2010, a representative of Fortress Corp. indicated to a representative of the Company that a new default under the Trust II Credit Agreement may have occurred as a result of the three-month rolling average annualized default rate of the Class A receivables in the Trust II portfolio exceeding 5.0% as of February 28, 2010. The Company has not received formal notification from Fortress Corp. regarding this potential default and the Company is continuing to evaluate whether such a default has occurred. The Company is currently in discussions with Fortress Corp. to resolve this potential default in conjunction with all defaults under the Trust I Credit Agreement. Those discussions are ongoing and the Company does not expect that Fortress Corp. will enforce any available foreclosure rights it may have on the assets of Trust II

while negotiations are proceeding. As of February 28, 2010, total borrowings under the Trust II Credit Agreement were \$4.8 million.

*CLST Asset III*

During the fourth quarter of 2009, unexpectedly to the Company, the Federal Bureau of Investigation and other government agencies seized certain assets of Fair, including their servers, computers and other items used by Fair in the servicing of our CLST Asset III portfolio. Due to these and other facts, we understand Fair was closed for a period of time and was unable to fully service our CLST Asset III portfolio for an extended period of time. As a result, we have moved the servicing of our CLST Asset III portfolio to an alternate servicer. Effective February 1, 2010, Highlands Premier Acceptance Corp. and Highlands Financial Services, LLC

Table of Contents

(collectively referred to herein as **Highlands** ) assumed all servicing functions previously performed by Fair. Highlands is fully independent of Fair and the Company, and there are no related party relationships of any nature among Fair, Highlands or the Company. Fair had been fully co-operating with the logistics of the transfer of the servicing of the CLST Asset III portfolio to Highlands, however, in February 2010 Fair commenced bankruptcy proceedings, which may negatively impact the timing and completeness of this transfer.

Our agreement with Highlands calls for an initial term of six months and will automatically renew in one year increments unless cancelled in writing by either party in accordance with the terms of the agreement. We are incurring servicing fees at market rates and per the terms of the agreement. Highlands is required to make daily remittances of our collected accounts.

As of February 28, 2010, we believe that we have a right of recoupment against Fair for payments of approximately \$136,000 it has received on our behalf and not remitted, and expect to exercise that right by withholding such amounts from any money due to Fair. However, there can be no assurance that Fair will not challenge our recoupment right, or what the ultimate outcome of that challenge might be. On April 12, 2010 approximately \$146,000 was due to Fair and the other sellers which has not been paid. In March 2010 we received an update from Fair's bankruptcy trustee that he expects to file a motion with the bankruptcy court seeking permission to release any checks in Fair's possession that rightfully belong to us. We have not received any of these checks or further updates on the status of this motion.

**Subsidiaries**

We are working steadily to complete a long list of actions necessary to complete the wind down of our historical business in an orderly fashion. Completing the wind down is a cumbersome task that requires many steps and may take a significant amount of time. These steps include dissolving numerous subsidiaries, resolving pending litigation and completing various regulatory filings and other requirements. We cannot predict how long, how time-consuming or how costly resolution of the litigation matters will be. To date, we have completed and filed final sales tax returns and franchise tax returns for most of our entities. We have also completed the requirements to withdraw most of our entities from doing business in multiple state jurisdictions in the U.S. Furthermore, we are continuing to dissolve our foreign and domestic subsidiaries pursuant to the plan of dissolution.

However, in order to protect the Company's cash and other assets from any actual or potential liabilities of the Company's direct and indirect subsidiaries, we will not dissolve our inactive direct or indirect domestic or foreign subsidiaries until the actual and contingent liabilities of each such subsidiary have been resolved or contingency reserves have been set aside sufficient to pay or make reasonable provision to pay all such subsidiary's claims and obligations in accordance with applicable law. Specifically, we will not dissolve Audiomex Export Corp., National Auto Center, Inc. and CLST-NAC, Ltd., which are direct parties to, and NAC Holdings, Inc., which is an indirect party to, the arbitration proceeding for our claim in Mexico against the purchasers of the sale of our assets in Mexico, until the final resolution of that claim. The arbitration proceeding was held in Mexico City, Mexico in October 2009 and the arbitration panel has up to six months from the date of the arbitration proceeding to issue their conclusion. As of the date of this Form 10-Q, the arbitration panel has not issued their conclusion.

In certain jurisdictions, the dissolution process is an extended one. We completed the dissolution of our subsidiaries in the United Kingdom and Guatemala in February 2008 and March 2009, respectively, and of CLST-NAC Fulfillment, Ltd., a Texas limited partnership and indirect subsidiary of the Company, in September 2009. Furthermore, we completed the merger of CLST Fulfillment, Inc., a Delaware corporation, into its parent, National Auto Center, Inc., a Delaware corporation and our wholly owned subsidiary, effective September 10, 2009. In addition we have made demands on the purchaser of our former Colombian subsidiary for the documents needed to divest our remaining minority interest in that subsidiary. Further, we have submitted documents to several governmental authorities in El Salvador as required to dissolve our dormant



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entity in El Salvador.

During the second quarter of 2009 we collected \$61,000, representing the final payment of the original note amount of \$720,869 from the 2004 sale of our Colombian operations. 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.

The Company made substantial progress in dissolving its subsidiaries during January 2010. In January 2010, the Company dissolved each of CLST International Corporation/Asia, a Delaware corporation, CellStar Philippines, Inc., a Philippines corporation, and CellStar Netherlands Holdings, B.V, a Netherlands company. As a result of the Company's progress, as of the date of the filing of this Form 10-Q, the Company had five non-operating U.S. entities and one non-operating foreign entity, remaining to be dissolved. The Company also had one dormant entity in El Salvador that never conducted operations.