

CLST HOLDINGS, INC.
Form 10-Q
July 14, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended May 31, 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 ☐
(Do not check if a smaller reporting company)

Smaller reporting company ☒

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

On July 12, 2010, there were 23,949,282 outstanding shares of common stock, \$0.01 par value per share.

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(unaudited)

(In thousands, except share and per share data)

	May 31, 2010	November 30, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,749	\$ 4,761
Notes receivable, net - current	3,618	6,473
Accounts receivable - other	463	2,741
Prepaid expenses and other current assets	631	414
Total current assets	7,461	14,389
Notes receivable, net - long-term	29,691	32,459
Property and equipment, net	6	7
Deferred income taxes	4,786	4,786
Other assets	604	721
	\$ 42,548	\$ 52,362
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 14,639	\$ 14,705
Accrued expenses	399	377
Income taxes payable	70	99
Loans payable - current	27,770	33,663
Notes payable - related parties - current	107	107
Total current liabilities	42,985	48,951
Notes payable - related parties	139	391
Total liabilities	43,124	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	127,045	127,014
Accumulated other comprehensive income-foreign currency translation adjustments	177	217

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Accumulated deficit	(126,397)	(122,810)
	1,071	4,667
Less: Treasury stock (634,024 shares at cost)	(1,647)	(1,647)
	(576)	3,020
	\$ 42,548	\$ 52,362

See accompanying notes to unaudited consolidated financial statements.

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CLST HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

Three and six months ended May 31, 2010 and 2009

(unaudited)

(In thousands, except per share data)

	Three months ended May 31,		Six months ended May 31,	
	2010	2009	2010	2009
Revenues:				
Interest income	\$ 1,272	\$ 1,645	\$ 2,612	\$ 3,175
Other	69	142	126	233
Total revenues	1,341	1,787	2,738	3,408
Loan servicing fees	337	79	580	386
Provision for doubtful accounts	655	600	1,751	1,303
Interest expense	539	546	1,111	1,082
General and administrative expenses	671	1,746	2,912	2,263
Operating loss	(861)	(1,184)	(3,616)	(1,626)
Other income:				
Other, net	41	6	43	9
Total other income	41	6	43	9
Loss before income taxes	(820)	(1,178)	(3,573)	(1,617)
Income tax expense (benefit)	7	(6)	14	8
Net loss	\$ (827)	\$ (1,172)	\$ (3,587)	\$ (1,625)
Net loss per share:				
Basic and diluted:				
Net loss per share	\$ (0.04)	\$ (0.05)	\$ (0.15)	\$ (0.07)
Weighted average number of shares:				
Basic and diluted	23,549	23,344	23,548	22,314

See accompanying notes to unaudited consolidated financial statements.

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

Six months ended May 31, 2010 and 2009

(Unaudited)

(In thousands)

	Common Stock		Treasury Stock		Additional	Accumulated	Accumulated	
	Shares	Amount	Shares	Amount	paid-in capital	other comprehensive income (loss)	deficit	Total
Balance at November 30, 2009	24,583	\$ 246	(634)	\$ (1,647)	\$ 127,014	\$ 217	\$ (122,810)	\$ 3,020
Comprehensive loss:								
Net loss							(3,587)	(3,587)
Realized foreign currency translation adjustment						(40)		(40)
Total comprehensive loss								(3,627)
Amortization of restricted stock					31			31
Balance at May 31, 2010	24,583	\$ 246	(634)	\$ (1,647)	\$ 127,045	\$ 177	\$ (126,397)	\$ (576)
Balance at November 30, 2008	21,187	\$ 212	(634)	\$ (1,647)	\$ 126,034	\$ 217	\$ (117,616)	\$ 7,200
Comprehensive loss:								
Net loss							(1,625)	(1,625)
Total comprehensive loss								(1,625)
Grant of restricted stock	1,200	12			(12)			
Cancellation of restricted stock	(300)	(3)			3			
Amortization of restricted stock					86			86
Stock issuance for notes receivable	2,496	25			874			899
Balance at May 31, 2009	24,583	\$ 246	(634)	\$ (1,647)	\$ 126,985	\$ 217	\$ (119,241)	\$ 6,560

See accompanying notes to unaudited consolidated financial statements.

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

Six months ended May 31, 2010 and 2009

(Unaudited)

(In thousands)

	2010	2009
Cash flows from operating activities:		
Net loss	\$ (3,587)	\$ (1,625)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Stock based compensation	31	86
Provision for doubtful accounts	1,751	1,303
Depreciation	2	2
Non-cash interest expense	35	58
Amortization of notes receivable acquisition costs	41	56
Cumulative translation adjustment	(40)	
Changes in operating assets and liabilities:		
Accounts receivable - other	2,278	(809)
Prepaid expenses and other current assets	(217)	
Other assets	82	(185)
Accounts payable	(66)	116
Income taxes payable	(29)	(122)
Accrued expenses	22	319
Net cash provided by (used in) operating activities	303	(801)
Cash flows from investing activities:		
Purchases of property and equipment	(1)	
Notes receivable principal collections	3,570	5,663
Acquisition of notes receivable		(4,028)
Additions to notes receivable acquisition costs		(151)
Net cash provided by investing activities	3,569	1,484
Cash flows from financing activities:		
Payments on notes payable	(5,884)	(4,497)
Net cash used in financing activities	(5,884)	(4,497)
Net decrease in cash and cash equivalents	(2,012)	(3,814)
Cash and cash equivalents at beginning of period	4,761	9,754

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Cash and cash equivalents at end of period	\$	2,749	\$	5,940
Non-Cash Investing and Financing Activities:				
Acquisition of notes receivable for common stock	\$		\$	899
Acquisition of notes receivable for debt	\$		\$	7,273
Acquisition of notes receivable for accounts receivable, other	\$		\$	336
Returned notes receivable in exchange for reduction of debt	\$	261	\$	170

See accompanying notes to unaudited consolidated financial statements.

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CLST HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Summary of Significant Accounting Policies

(a) Basis for Presentation

Although the interim consolidated financial statements of CLST Holdings, Inc., formerly CellStar Corporation, and 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 which became effective on June 24, 2010. Accordingly, immediately after the close of business on June 24, 2010, the Company closed its stock transfer books and the trading of its stock on the Pink Sheets ceased 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 \$1.8 million increase in the allowance for doubtful accounts through May 31, 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 May 31, 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 \$3.6 million during the twelve months ended November 30, 2009 and the six months ended May 31, 2010, respectively. The Company is continuing discussions to resolve the defaults under the Trust I Credit Agreement and 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. During the three months ended May 31, 2010, the Company's directors' and officers' liability insurance carrier began to reimburse the Company for a portion of the legal fees incurred and began to pay certain attorneys' fees.

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directly for services rendered. During the three months ended May, 31, 2010, the Company received \$0.7 million for the reimbursement of legal fees incurred and paid by the Company and in June 2010, the Company received reimbursements totaling \$0.4 million. These reimbursements, and any future reimbursements received, will offset the legal expenses incurred in general and administrative expenses. It is uncertain whether the Company can continue as a going concern or continue long enough to allow for an orderly sale of the Company's portfolios 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 Trust II Credit Agreement.

(b) Notes Receivable

The following table shows certain information as of May 31, 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
Receivables Aging (Principal)						
Current 0-30 Days	\$ 24,973	78.5%	\$ 6,308	95.0%	\$ 1,010	84.9%
31 - 60 Days	1,261	4.0%	91	1.4%	37	3.1%
61 - 90 Days	600	1.9%	13	0.2%	63	5.3%
91 + 120	453	1.4%	36	0.5%	79	6.6%
120+	4,516	14.2%	193	2.9%		0.0%
Total Receivables	31,803	100.0%	6,641	100.0%	1,189	100.0%
Allowance for doubtful Accts	(5,236)	-16.5%	(230)	-3.5%		0.0%
Net Receivables	26,567	83.5%	6,411	96.5%	1,189	100.0%
Discount	(458)	-1.4%	(556)	-8.4%	(37)	-3.1%
Acquisition fees	144	0.5%	22	0.3%	27	2.3%
Total	\$ 26,253	82.5%	\$ 5,877	88.5%	\$ 1,179	99.2%
Accounts Receivable Other	\$		\$ 117		\$ 147	
Notes Payable and Loans Outstanding	\$ 23,328		\$ 4,442		\$ 246	
Approximate Number of Customer Accounts	4,787		935		1,209	
Average Outstanding Principal Balance per Account	\$ 6,644		\$ 7,103			