

CLST Holdings, Inc.
Form 10-Q
April 09, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended February 28, 2007

OR

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.)

**601 S. Royal Lane
Coppell, Texas**

(Address of principal executive offices)

75019

(Zip Code)

(972) 462-3500

(Registrant's telephone number, including area code)

CELLSTAR CORPORATION

(Former name, former address and former fiscal year, if changed since last report)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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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 2, 2007, there were 21,027,205 outstanding shares of common stock, \$0.01 par value per share.

CLST HOLDINGS, INC.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

CLST HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(unaudited)

(In thousands, except share and per share data)

	February 28, 2007	November 30, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 14,199	28,632
Accounts receivable (less allowance for doubtful accounts of \$1,403 and \$1,159, respectively)	79,086	114,335
Inventories, net	58,296	68,830
Deferred income taxes	917	917
Prepaid expenses	5,070	5,847
Total current assets	157,568	218,561
Property and equipment, net	2,226	2,510
Deferred income taxes	6,655	6,655
Other assets	9,171	8,254
	\$ 175,620	235,980
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Notes payable	\$ 6,175	33,469
Current portion - Term loan	1,000	1,000
Accounts payable	129,488	158,365
Deferred revenue	1,667	824
Accrued expenses	10,448	11,747
Income taxes payable	1,140	716
Minority interest	1,012	2,014
Total current liabilities	150,930	208,135
12% Senior subordinated notes		1,915
Term loan	10,800	9,160
Total liabilities	161,730	219,210
Stockholders' equity:		
Preferred stock, \$.01 par value, 5,000,000 shares authorized; none issued		212
Common stock, \$.01 par value, 200,000,000 shares authorized; 21,158,740 shares issued and outstanding	212	212
Additional paid-in capital	124,548	124,346
Accumulated other comprehensive loss - foreign currency translation adjustments	(8,719)	(8,603)
Retained deficit	(102,057)	(99,091)
	13,984	16,864
Less: Treasury stock (29,389 shares at cost)	(94)	(94)
	13,890	16,770
	\$ 175,620	235,980

See accompanying notes to unaudited consolidated financial statements.

CLST HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(In thousands, except per share data)

	Three months ended	
	February 28,	
	2007	2006
Revenues	\$ 196,071	205,645
Cost of sales	181,636	188,198
Gross profit	14,435	17,447
Selling, general and administrative expenses	12,470	12,340
Operating income	1,965	5,107
Other income (expense):		
Interest expense	(961)	(1,304)
Loss on sale of accounts receivable	(527)	(403)
Loss on settlement of note receivable related to sale of Asia-Pacific	(494)	
Minority interest	(1,719)	(623)
Gain on sale of building		240
Other, net	128	58
Total other income (expense)	(3,573)	(2,032)
Income (loss) before income taxes	(1,608)	3,075
Provision for income taxes	1,358	901
Net income (loss)	\$ (2,966)	2,174
Net income (loss) per share:		
Basic	\$ (0.14)	0.11
Diluted	(0.14)	0.10
Weighted average number of shares:		
Basic	20,482	20,368
Diluted	20,482	20,822

See accompanying notes to unaudited consolidated financial statements.

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

Three months ended February 28, 2007 and 2006

(Unaudited)

(In thousands)

	Common Stock		Additional paid-in capital	Accumulated other comprehensive loss	Retained deficit	Treasury stock	Total
	Shares	Amount					
Balances at November 30, 2006	21,159	\$ 212	124,346	(8,603)	(99,091)	(94)	16,770
Comprehensive loss:							
Net loss					(2,966)		(2,966)
Foreign currency translation adjustment				(116)			(116)
Total comprehensive loss							(3,082)
Amortization of restricted stock			199				199
Stock option expense			3				3
Balances at February 28, 2007	21,159	\$ 212	124,548	(8,719)	(102,057)	(94)	13,890
Balances at November 30, 2005	20,827	\$ 208	123,554	(7,673)	(105,998)		10,091
Comprehensive income:							
Net income					2,174		2,174
Foreign currency translation adjustment				78			78
Total comprehensive income							2,252
Grant of restricted stock	3						
Cancellation of restricted stock	(12)						
Amortization of restricted stock			59				59
Stock option expense			53				53
Balances at February 28, 2006	20,818	\$ 208	123,666	(7,595)	(103,824)		12,455

See accompanying notes to unaudited consolidated financial statements.

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

Three months ended February 28, 2007 and 2006

(Unaudited)

(In thousands)

	2007	2006
Cash flows from operating activities:		
Net income (loss)	\$ (2,966)	2,174
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Provision for doubtful accounts	201	155
Provision for inventory obsolescence	1,950	3,066
Stock based compensation	202	112
Depreciation and amortization	679	1,162
Minority interest	1,719	623
Gain on sale of building		(240)
Changes in operating assets and liabilities:		
Accounts receivable	(4,706)	(8,867)
Inventories	8,584	11,604
Prepaid expenses	777	(1,404)
Other assets	1,541	(57)
Accounts payable	(28,013)	(38,886)
Accrued expenses	(2,142)	34
Deferred revenue	843	
Income taxes payable	424	
Net proceeds from sale of accounts receivable	39,638	39,037
Net cash provided by operating activities	18,731	8,513
Cash flows from investing activities:		
Purchases of property and equipment	(102)	(300)
Proceeds from sale of assets		1,742
Investment in joint venture	(2,770)	(369)
Net cash provided by (used in) investing activities	(2,872)	1,073
Cash flows from financing activities:		
Borrowings on notes payable	137,619	166,863
Payments on notes payable	(164,913)	(160,310)
Borrowings on Term Loan	1,890	
Payments on Term Loan	(250)	
Distribution of minority interest	(2,721)	(347)
Redemption of 12% Senior Subordinated Notes	(1,915)	
Additions to deferred loan costs	(2)	(4)
Net cash provided by (used in) financing activities	(30,292)	6,202
Net increase (decrease) in cash and cash equivalents	(14,433)	15,788
Cash and cash equivalents at beginning of period	28,632	10,744
Cash and cash equivalents at end of period	\$ 14,199	26,532

See accompanying notes to unaudited consolidated financial statements.

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

(Unaudited)

(1) Summary of Significant Accounting Policies

(a) Basis for Presentation

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

These statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended November 30, 2006, (the Form 10-K).

(b) Accounts Receivable

In determining the adequacy of the allowance for doubtful accounts, management considers a number of factors including the aging of the receivable portfolio, customer payment trends, financial condition of the customer, economic conditions in the customer's country, and industry conditions. Actual results could differ from those estimates. The Company writes off its fully reserved accounts receivable when it has exhausted all collection efforts.

The Company has agreements with financing companies whereby it may sell, without recourse, trade receivables from certain of its carrier customers. The annual discount rates on the sale agreements range from 6.8% to 12.4%. These sale transactions are accounted for as a sale of receivables. The Company does not service or retain an interest in the receivables.

(c) Inventories

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

Included in inventories is \$2.0 million and \$3.4 million at February 28, 2007, and November 30, 2006, respectively, for which goods have been shipped and title has transferred but the criteria for revenue recognition has not been met due to rights of return or for goods that were considered bill and hold.

(2) U.S. Sale and Mexico Sale

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

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The Boards of Directors of the Company and Brightpoint unanimously approved the proposed transaction set forth in the U.S. Sale Agreement. The purchase price was \$88 million in cash, subject to adjustment based on changes in net assets from December 18, 2006 to the closing date.

Also on December 18, 2006, the Company entered into a definitive agreement (the Mexico Sale Agreement) with Soluciones Inalámbricas, S.A. de C.V. (Wireless Solutions) and Prestadora de Servicios en Administración y Recursos Humanos, S.A. de C.V. (Prestadora), two affiliated Mexican companies, providing for the sale of all of the Company's Mexico operations (the Mexico Sale). The proposed purchase is a stock acquisition of all of the outstanding shares of the Company's Mexican subsidiaries, and includes the Company's interest in Comunicación Inalámbrica Inteligente, S.A. de C.V. (CII), the Company's joint venture with Wireless Solutions. Under the terms of the transaction, the Company will receive \$20 to \$22 million in cash, based on the 2007 operating performance of the operations up to the closing date. Pursuant to the Mexico Sale Agreement, the Mexico buyers may, upon three days' notice to the Company, elect an alternate transaction whereby the Company will receive \$13.0 million for its 51% interest in CII. In this event, the Company would be entitled to its pro rata share of CII profits from January 1, 2007, up to the consummation of the alternate transaction. The Company would retain ownership of the remaining subsidiaries including the primary operating subsidiary in Mexico, Celular Express S.A. de C.V. (CELEX). If the Company chooses to liquidate those remaining operations, CII has agreed to assist in disposing of the inventory and collecting the accounts receivable of the remaining operations.

The Board of Directors of the Company unanimously approved the proposed transaction set forth in the Mexico Sale Agreement. The closing of the Mexico Sale is expected to occur by the middle of April, but no later than May 31, 2007.

The Company filed a proxy statement with the SEC on February 20, 2007, which more fully describes the U.S. and Mexico Sale transactions. Both of the transactions are subject to customary closing conditions and the approval of the Company's stockholders, and the transactions are not dependent upon each other. The proxy statement also included a plan of dissolution, which provides for the complete liquidation and dissolution of the Company after the completion of the U.S. Sale, and a proposal to change the name of the Company from CellStar Corporation to CLST Holdings, Inc. On March 28, 2007, the stockholders approved the U.S. Sale, the Mexico Sale, the plan of dissolution, and the name change to CLST Holdings, Inc. The Company plans to wind up its business and file a certificate of dissolution no earlier than seven months following the close of the U.S. Sale, and distribute the remaining assets to stockholders after satisfying all liabilities. These financial statements do not reflect any of the liquidation values associated with the remaining operations.

On March 22, 2007, the Company signed a letter of intent to sell its operations in Chile to a group which includes local management for approximately book value.

The U.S. Sale closed on March 30, 2007. Proceeds of \$62.4 million were received. The proceeds were based upon estimated net working capital as of the closing and may be adjusted based upon the audited actual net working capital. A portion of the proceeds was used to pay off the Company's bank debt (see footnote 6). These financial statements do not reflect any effect of the U.S. Sale. The Company expects to record a gain of approximately \$50.0 million on the transaction during the three months ended May 31, 2007.

The Company has approximately \$9.3 million of accumulated foreign currency translation adjustments related to Mexico. As the proposed sale did not meet the criteria to classify the operations as held for sale under SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, as of February 28, 2007, the Company will recognize the \$9.3 million as a charge upon the closing of the Mexico Sale.

(3) Stock-Based Compensation

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

The Company is currently using the Black-Scholes option pricing model to determine the fair value of all option grants. The Company did not grant any options during the three months ended February 28, 2007 and 2006. The Company does not expect to issue any stock-based compensation in future periods.

For the three months ended February 28, 2007, and 2006, the Company recorded \$2 thousand and \$53 thousand, respectively, for stock-based compensation expense related to stock option grants made in prior years. This amount is included in selling, general and administrative expenses. At February 28, 2007, there was \$36 thousand of total unrecognized compensation cost related to unvested stock options remaining to be recognized. Of this total, \$29 thousand was to be recognized in fiscal 2007 and \$7 thousand was to be recognized in fiscal 2008. However, as a result of the U.S. and Mexico Sale transactions, substantially all employees have been or will be terminated and the holders of options will have 30 days from termination to exercise their stock options or the options will be cancelled. Accordingly, the remaining unrecognized compensation is expected to be recognized in the quarter ending May 31, 2007.

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

For the three months ended February 28, 2007, and 2006, the Company recognized \$0.2 million and \$59 thousand, respectively, of expense related to the restricted stock grants which is included in selling, general and administrative expenses. As of February 28, 2007, the total remaining unearned compensation related to restricted stock awards was \$1.5 million which was to be amortized over the service periods through March 2009. However, as a result of the closing of the U.S. Sale transaction, all restricted stock vested and the expense will be recognized in the quarter ending May 31, 2007.

(4) Net Income (Loss) Per Share

Options to purchase 0.5 million shares of common stock and 0.7 million shares of restricted stock were not included in the computation of diluted earnings per share for the three months ended February 28, 2007, because of the net loss. Options to purchase 0.6 million shares of common stock for the three months ended February 28, 2006, were not included in the computation of diluted earnings per share because their inclusion would have been anti-dilutive as the exercise price was higher than the average market price.

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A reconciliation of the denominators of the basic and diluted net income (loss) per share computations for the three months ended February 28, 2007 and 2006 follows:

	Three Months Ended February 28,	
	2007	2006
Basic:		
Net income (loss)	\$ (2,966)	2,174
Weighted average number of shares outstanding	20,482	20,368
Net income (loss) per share	\$ (0.14)	0.11
Diluted:		
Net income (loss)	\$ (2,966)	2,174
Weighted average number of shares outstanding	20,482	20,368
Effect of dilutive securities:		
Restricted stock		454
Weighted average number of shares outstanding including effect of dilutive securities	20,482	20,822
Net income (loss) per share	\$ (0.14)	0.10

(5) Segment and Related Information

The Company operates predominately within one industry, wholesale and retail sales of wireless telecommunications products. The Company's management evaluates operations primarily on income before interest and income taxes in the following reportable geographical regions: North America, which consists of the United States, excluding the Company's Miami, Florida, operations (Miami), and Latin America, which includes Mexico, Miami and Chile. Revenues and operations of Miami are included in Latin America since Miami's product sales are primarily for export to Latin American countries, either by the Company or through its exporter customers. The Corporate segment includes headquarters operations and income and expenses not attributable to reportable segments. Corporate segment assets primarily consist of cash, cash equivalents and deferred income tax assets. Intersegment sales and transfers are not significant.

Segment asset information as of February 28, 2007, and November 30, 2006, is as follows (in thousands):

	Latin America	North America	Corporate	Total
Total assets				
February 28, 2007	\$ 100,787	53,607	21,226	175,620
November 30, 2006	146,195	64,618	25,167	235,980

The decline of \$45.4 million in total assets in the Latin America Region was primarily due to lower revenues, and therefore lower working capital, in the Company's Mexico and Chile operations for the three months ended February 28, 2007 compared to the three months ended November 30, 2006.

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Segment operations information for the three months ended February 28, 2007 and 2006, follows (in thousands):

	Latin America	North America	Corporate	Total
Three months ended February 28, 2007				
Revenues from external customers	\$ 114,661	81,410		196,071
Operating income (loss)	3,402	1,132	(2,569)	1,965
Income (loss) before interest and taxes	1,717	1,131	(3,042)	(194)
Three months ended February 28, 2006				
Revenues from external customers	82,896	122,749		205,645
Operating income (loss)	2,711	5,302	(2,906)	5,107
Income (loss) before interest and taxes	2,057	5,303	(2,668)	4,692

A reconciliation of income (loss) per the segment table to income (loss) from operations before income taxes per the consolidated statements of operations is as follows:

	2007	2006
Income (loss) before interest and income taxes	\$ (194)	4,692
Interest expense per the consolidated statements of operations	(961)	(1,304)
Loss on sale of accounts receivable	(527)	(403)
Interest income included in other, net in the consolidated statements of operations	74	90
Income (loss) before income taxes	\$ (1,608)	3,075

The following table summarizes customer concentration percentages (consolidated and regional) and revenues for the North American and Latin American Regions for the three months ended February 28, 2007 and 2006 (in millions).

	2007			2006		
	Revenues	Consolidated %	Regional %	Revenues	Consolidated %	Regional %
North American Region						
Lock/line	\$ 2.2	1.1	2.7	\$ 29.4	14.3	24.0
Dobson	21.1	10.8	25.9	18.6	9.1	15.2
Latin American Region						
Telcel and Telcel related entities	31.8	16.2	27.7	34.3	16.7	41.4
Telefonica	24.6	12.5	21.4	16.1	7.8	19.4
Claro Chile	18.4	9.4	16.0	1.7	1.0	2.0

(6) Debt

Debt consisted of the following at February 28, 2007, and November 30, 2006 (in thousands):

	February 28, 2007	November 30, 2006
Revolving credit facility	\$ 6,175	33,469
Term loan	11,800	10,160
12% Senior subordinated notes		1,915
Total debt	\$ 17,975	45,544

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

The Amended Facility was considered a current liability as the lender had dominion over cash receipts related to the Company's domestic operations and the Amended Facility contained an acceleration clause that the lenders could choose to invoke if the Company were to commit an event of default. Funding under the Amended Facility was limited by a borrowing base test, which was measured weekly on eligible domestic accounts receivable and inventory. The Amended Facility was secured by a pledge of 100% of the outstanding stock of all U.S. subsidiaries and 65% of the outstanding stock of all first tier foreign subsidiaries as defined by the Amended Facility. The Amended Facility was further secured by the Company's domestic accounts receivable, inventory, property, plant and equipment and all other domestic real property and intangible assets. As of February 28, 2007, the Company had borrowed \$6.2 million at an interest rate of 8.25%.

At November 30, 2006, the Company had outstanding \$1.9 million of 12% Senior Subordinated Notes (the Senior Notes) due January 2007 bearing interest at 12%. The Senior Notes, originally totaling \$12.4 million, were issued as part of a troubled debt restructuring in 2002, and accordingly the future interest payments were accrued at the restructuring date. At November 30, 2006, the Company had \$0.1 million of interest accrued for future interest payments. In December 2006, the Company redeemed the remaining \$1.9 million of Senior Notes at par. The Company recognized a gain on the transaction for the quarter ended February 28, 2007, of \$21 thousand, which is the reversal of interest previously accrued as part of the troubled debt restructuring.

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

The Term Loan was subordinated to the Amended Facility. The Term Loan was secured by a pledge of 100% of the outstanding stock of all U.S. subsidiaries and 65% of the outstanding stock of all first tier foreign subsidiaries as defined by the Term Loan. The Term Loan was further secured by the Company's domestic accounts receivable, inventory, property, plant and equipment and all other domestic real property and intangible assets. The Term Loan contained, among other provisions, covenants relating to the maintenance of certain financial ratios, and restrictions on dividend payments, entering into additional debt, mergers and acquisitions and disposition of assets. As of February 28, 2007, the Company had \$11.8 million of borrowings at an interest rate ranging 12.9% to 14.5% under the Term Loan and had no additional borrowing availability.

On March 30, 2007, the outstanding balances, including accrued interest, under the Amended Facility of \$13.2 million and Term Loan of \$11.9 million were paid off using the proceeds from the U.S. Sale. An early termination fee of \$0.4 million was paid in conjunction with the payoff of the Amended Facility and will be recognized as a charge to earnings in the quarter ending May 31, 2007.

(7) Joint Venture

In April 2005, in order to increase its activation business and further strengthen its relationship with Radio Movil Dipsa S.A. de C.V. (Telcel), the Company's subsidiary in Mexico, CELEX, agreed to invest up to \$8.1 million in a joint venture with Wireless Solutions and its individual partners consisting of \$4.1 million at closing and \$4.0 million of contingent consideration. The \$4.1 million consisted of \$1.1 million in cash paid at closing, the conversion of \$2.0 million of accounts receivable and a \$1.0 million note that was paid in full in August 2005 through the conversion of an additional \$1.0 million of accounts receivable. The joint venture CII provides handset distribution and activation services for Telcel, the largest cellular phone company in Mexico. CELEX owns 51% of CII and the remaining 49% is owned by the individual partners of Wireless Solutions. The financial condition and results of operations of CII are consolidated in the Company's accompanying consolidated financial statements.

The contingent consideration is payable in the form of a cumulative preferred dividend from the earnings of CII which otherwise would be distributed to CELEX. No earnings were to be distributed to CELEX as long as any portion of the preferred dividend remained unpaid. As of November 30, 2006, \$0.4 million of the preferred dividend had been paid to the individual partners of Wireless Solutions, and in February 2007, the calendar 2006 preferred dividend of \$2.7 million was paid. As part of the Mexico Sale, it was agreed the remaining \$0.9 million of preferred dividends would not be paid, and the Company will receive its 51% interest in the earnings of CII from January 1, 2007 through the closing of the Mexico Sale transaction.

At acquisition, the Company attributed \$5.2 million to identified intangibles. The identified intangibles are being amortized over periods ranging from 5 to 7 years. Consideration paid to the partners in excess of the identified intangibles is considered goodwill. Of the calendar 2006 preferred dividend, \$1.8 million was considered goodwill.

Included in other assets in the accompanying balance sheet at February 28, 2007, and November 30, 2006, is identified intangibles, net of accumulated amortization, of \$3.6 million and \$3.8 million, respectively. Included in other assets at February 28, 2007 is goodwill of \$1.8 million. The Company recognized amortization expense related to the identified intangibles of \$0.2 million and \$20 thousand for the quarters ended February 28, 2007, and 2006, respectively.

(8) Contingencies

In February 2006, the Company received from the SEC a subpoena requiring production of certain documents relating to the Company's Asia-Pacific Region, which the Company exited in September 2005. The subpoena was issued in connection with a fact-finding inquiry under a formal order of investigation issued by the SEC. The Company is cooperating fully with the SEC in this matter. The Company was advised in the Commission's letter sent with the subpoena that the Commission's investigation and subpoena do not mean that the Commission or its staff has concluded that the Company or anyone else has broken the law, nor that the Commission or its staff has a negative opinion of any person, entity or security. The Company is unable to predict the outcome of the investigation, the scope of matters that the SEC may choose to investigate in connection with the subpoena, the SEC's views of the issues about which it is inquiring, or any action that the SEC might take.

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

(9) New Accounting Pronouncements

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

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements* (SFAS 157), to provide enhanced guidance when using fair value to measure assets and liabilities. SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. SFAS 157 applies whenever other pronouncements require or permit assets or liabilities to be measured at fair value and, while not requiring new fair value measurements, may change current practices. The Company is currently evaluating the impact SFAS 157 will have on its consolidated financial statements. SFAS 157 is effective for the Company beginning in fiscal year 2008.

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

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

Overview

The Company reported a net loss of \$3.0 million, or \$0.14 diluted share, for the first quarter of 2007, compared with net income of \$2.2 million, or \$0.10 per diluted share, for the same quarter last year.

Revenues for the quarter ended February 28, 2007, were \$196.1 million, a decrease of \$9.5 million, compared to \$205.6 million in 2006. Revenues decreased in the North American Region (\$41.3 million) principally due to a decrease in the insurance replacement business as well as a decline in the regional carrier group primarily due to the loss of several customers. Revenues increased by \$31.8 million in the Latin American Region principally due to increases in Chile and Miami, partially offset by a decline in Mexico. Gross profit decreased from \$17.4 million (8.5% of revenues) in the first quarter of 2006 to \$14.4 million (7.4% of revenues) in the first quarter of 2007. Gross profit decreased as a percentage of revenues in North America primarily due to the Company taking advantage of certain manufacturer pricing and volume incentives in 2006 and in Latin America primarily due to the shift in revenue mix in the Company's operations in Chile from value-added services to product sales which have lower margin percentages. Selling, general and administrative expenses were \$12.5 million for the first quarter of 2007 (6.4% of revenues) compared to \$12.3 million for the first quarter of 2006 (6.0% of revenues).

Sale Transactions

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

The Boards of Directors of the Company and Brightpoint unanimously approved the proposed transacti