CELLSTAR CORP
Form 10-K/A
July 09, 2003
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

Amendment No. 3

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

OR

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

For the Fiscal Year Ended November 30, 2002	**Commission File Number 0-22972**

CELLSTAR CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**75-2479727**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**

1730 Briercroft Court

Carrollton, Texas 75006

Telephone (972) 466-5000

(Address, including zip code, and telephone number,

including area code, of registrant s principal executive offices)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value $0.01 per share

(Title of Class)

Rights to Purchase Series A Preferred Stock

(Title of Class)

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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of the registrant s common stock held by non-affiliates of the registrant as of May 31, 2002, the last business day of the Company s most recently completed second fiscal quarter, based on the closing sale price of $4.07 as reported by the Nasdaq National Market, was approximately $32,590,562. The aggregate market value of the registrant s common stock held by non-affiliates of the registrant as of February 20, 2003, based on the closing sale price of $5.54 as reported by the Nasdaq National Market, was approximately $59,476,742. (For purposes of determination of the above stated amounts, only directors, executive officers and 10% or greater stockholders have been deemed affiliates).

On February 20, 2003, there were 20,354,365 outstanding shares of common stock, $0.01 par value per share.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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CELLSTAR CORPORATION

Introductory Note

CellStar Corporation (the Company or CellStar) hereby amends in its entirety the Company s Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 28, 2003, as amended by Amendment No. 2 on Form 10-K/A filed with the Securities and Exchange Commission on April 28, 2003.

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PART I.

Item 1. Business

General

CellStar Corporation (the Company or CellStar) is a leading global provider of distribution and value-added logistics services to the wireless communications industry, with operations in the Asia-Pacific, North America, Latin America and European regions. The Company facilitates the effective and efficient distribution of handsets, related accessories, and other wireless products from leading manufacturers to network operators, agents, resellers, dealers and retailers. The Company also provides activation services in some of its markets that generate new subscribers for wireless carriers.

The Company s Asia-Pacific Region consists of the People s Republic of China (the PRC), Hong Kong, Taiwan, Singapore, The Philippines, and Korea. Malaysia was included in the Asia-Pacific Region until the Company fully divested its ownership interests in the third quarter of 2002. The Company s North American Region consists of the United States. The Company s Latin American Region consists of Mexico, Chile, Colombia, and the Company s Miami, Florida operations. The Company s European Region consists of Sweden and The Netherlands.

In the second quarter of 2002, the Company decided as part of its plan to reposition its operations that it would exit the United Kingdom (the U.K.), Peru and Argentina as soon as practicable, as well as address the balance of its European and Latin American markets, excluding Mexico and Miami. (See Business Latin American Region and Business European Region). During the third quarter of 2002, the Company completed the divestiture of its operations in Peru and Argentina. As of August 31, 2002, the Company s operations in the U.K were closed, except for certain administrative matters. In January, 2003, the Company signed a letter of intent with local management for the sale of its Netherlands operations. There can be no assurance that the sale will be completed due to a number of contingencies contained in the letter of intent. In addition, the Company has completed the evaluations of the balance of its Latin American markets, excluding Mexico and Miami, as well as its Sweden operations. The Company has decided to keep its operations in Chile, to negotiate with its major carrier customer in Colombia to shift its business from CellStar s operation in Colombia to Miami, and to explore sale opportunities for its operations in Sweden.

The Company believes that the intrinsic value of its Asia-Pacific Region is not currently reflected in the market price of the Company s common stock. As a result, the Company engaged UBS Warburg to assist it in evaluating transactions that could result in recognizing the value that it believes is locked up in the Asia-Pacific Region. Those evaluations have focused on a number of possible transactions including a possible initial public offering of all or a portion of the Asia-Pacific Region operations, a sale to outside investors or a management buyout. Based on these evaluations, the Company has decided to pursue an initial public offering of its operations in the PRC, Hong Kong and Taiwan (the Greater China Operations) on an exchange in Asia. Although the Company intends to pursue the transaction that it believes will be most favorable to the Company, there are a number of steps to be completed before there is such a transaction. Accordingly, there can be no assurance of the timing of the transaction or that any transaction will occur.

As a result of such evaluation process, however, the Company is now required by generally accepted accounting principles (GAAP) to effect a change in its historical accounting treatment for the undistributed earnings of its Asia-Pacific Region subsidiaries. Prior to the fourth quarter of 2002, the Company did not accrue for U.S. Federal income taxes or tax benefits on the undistributed earnings and/or losses of its international subsidiaries because earnings have been reinvested and, in the opinion of management, would continue to be reinvested indefinitely. (See Note (7) of the Notes to Consolidated Financial Statements for CellStar Corporation contained in the Form 10-K for fiscal year ended November 30, 2001, filed with the Securities and Exchange Commission on February 28, 2002.) Accordingly, there was no liability recorded for such potential

U.S. Federal income taxes. As a result of the progress in the fourth quarter of 2002 in evaluating the strategic options with regard to its Asia-Pacific Region, it was determined that the Company is now required by GAAP to account for

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the earnings in its Asia-Pacific Region as not being permanently reinvested since the Company has manifested its intent to pursue possible transactions designed to allow the Company to withdraw and return to the U.S. some or all of the value of those operations. Accordingly, in the quarter ended November 30, 2002, the Company was required to accrue U.S. Federal income taxes on the undistributed earnings of the Asia-Pacific Region of approximately $42.2 million.

No U.S. Federal income taxes on the undistributed earnings will be payable until such earnings are actually remitted back to the U.S. in the form of dividends or, in the case of a completed transaction such as those discussed above, sale proceeds. As of November 30, 2002, the Company has net operating loss carryforwards in the U.S. of approximately $70.4 million, a significant portion of which the Company believes it will be able to utilize to offset the taxes payable in the event that a transaction is completed. The Company therefore does not expect that the impact of the payment of any taxes associated with any such transaction will significantly impact the cash position of the Company at the time of such payment. Furthermore, the Company will have cash proceeds from any such transaction to fund the actual payment of such taxes. As a result of the accrual in the quarter ended November 30, 2002 of U.S. Federal income taxes on the undistributed earnings of the Asia-Pacific Region, the Company will not recognize tax expense in future periods for financial statement purposes on any such future transaction up to the amount of the tax recognized on the undistributed earnings.

Consistent with the change in historical accounting treatment for undistributed earnings discussed above, the Company recorded U.S. Federal income taxes of approximately $2.0 million in the fourth quarter of 2002 for previously undistributed earnings from Sweden, The Netherlands and Colombia. These previously undistributed earnings are no longer considered permanently reinvested following the completion of the Company s evaluations of these markets.

The Company s distribution services include purchasing, selling, warehousing, picking, packing, shipping and just-in-time delivery of wireless handsets and accessories. In addition, the Company offers its customers value-added services, including Internet-based supply chain services via its OrderStar® system (patent pending), Internet-based tracking and reporting, inventory management, marketing, prepaid wireless products, product fulfillment, kitting and customized packaging, private labeling, light assembly, accounts receivable management and end-user support services. The Company also provides wireless activation services and operates retail locations in certain markets from which wireless communications products and accessories are marketed to the public.

The Company markets its products to wholesale purchasers using, among other methods, direct sales strategies, the Internet, strategic account management, trade shows and trade journal advertising. The Company offers advertising allowances, ready-to-use advertising materials and displays, access to hard-to-find products, credit terms, a variety of name brand products and highly-responsive customer service.

The Company, a Delaware corporation, was formed in 1993 to hold the stock of National Auto Center, Inc. (National Auto Center), a company that is now an operating subsidiary. National Auto Center was originally formed in 1981 to distribute and install automotive aftermarket products. In 1984, National Auto Center began offering wireless communications products and services. In 1989, National Auto Center became an authorized distributor of Motorola, Inc. (Motorola) wireless handsets in certain portions of the United States. National Auto Center entered into similar arrangements with Motorola in the Latin American Region in 1991, and the Company entered into similar arrangements with Motorola in the Asia-Pacific Region in 1994 and the European Region in 1996. The Company has also entered into similar distributor agreements with other manufacturers, including Nokia Inc. (Nokia), Sony Ericsson (USA) Inc. (Sony Ericsson), Samsung Electronics LatinoAmerica Miami, Inc. (Samsung), Kyocera Wireless Corp. (Kyocera) and Wuhan NEC Mobile Communication Co., Ltd. (NEC).

Wireless communications technology encompasses wireless communications devices such as handsets, personal digital assistants, satellite dishes, instant messaging devices, pagers and two-way radios. The Company believes that handsets with color screens, picture messaging, polyphonic speakers and digital camera capabilities should increase consumer demand for new and replacement handsets. In addition, the emergence of new

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technologies, including data products and services, should create opportunities in the wireless market as users continually strive to stay connected while remaining mobile.

From its inception in 1983, the wireless handset market grew rapidly until 2001, when overall growth in the industry slowed. In 2002, the Company was faced with a difficult economic environment in the wireless industry in general. Despite recent slowdowns, the Company believes that future growth in the worldwide subscriber base and the convergence of existing and emerging technologies into a single multifunction handset enabling the user to connect to a wireless web and take and send digital photographs should create significant new opportunities for growth. The Company believes that the wireless communications industry should continue to grow, although at a slower rate than in prior years, for a number of reasons, including increased service availability, the lower cost of wireless service compared to conventional landline telephone systems, and the availability of handsets with emerging technologies. The Company also believes that advanced digital technologies have led to increases in the number of network operators and resellers, which have promoted greater competition for subscribers and will continue to result in increased demand for wireless communications products.

CellStar s revenues grew at a 8.2% compound annual rate for the five fiscal years ended November 30, 2002, and decreased 9.7% for the year ended November 30, 2002, compared to the prior fiscal year. The Company generated 74.6% of its revenues in 2002 from operations conducted outside the United States.

Cautionary Statements

The Company s success will depend upon, among other things, economic conditions, wireless market conditions, the financial health of its largest customers, its ability to improve its operating margins, continue to secure an adequate supply of competitive products on a timely basis and on commercially reasonable terms, service its indebtedness and meet covenant requirements, secure adequate financial resources, continually turn its inventories and accounts receivable, successfully manage changes in the size of its operations (including monitoring operations, controlling costs, maintaining adequate information systems and effective inventory and credit controls), manage operations that are geographically dispersed, achieve significant penetration in existing and new geographic markets, hire, train and retain qualified employees who can effectively manage and operate its business, and successfully manage the repositioning of its operations.

The Company s foreign operations are subject to various political and economic risks including, but not limited to, the following: political instability, economic instability, currency controls, currency devaluations, exchange rate fluctuations, potentially unstable channels of distribution, increased credit risks, export control laws that might limit the markets the Company can enter, inflation, changes in laws and enforcement policies related to foreign ownership of businesses abroad, foreign tax laws, trade disputes among nations, changes in cost of and access to capital, changes in import/export regulations, including enforcement policies, gray market resales, and tariff and freight rates.

In addition to the factors listed above, threats of terrorist attacks in the United States, the U.S. retaliation for these attacks, possible U.S. military action in Iraq, the related decline in consumer confidence and continued economic weakness in the U.S. and throughout the countries in which the Company does business could have a material adverse impact on our business.

The Company s consolidated financial statements and accompanying notes, which include certain business segment and geographic information for the last three fiscal years, can be found in Part IV of this Form 10-K.

Asia-Pacific Region

The Company believes that in the Asia-Pacific Region, primarily in China, demand for wireless communications services has been and should continue to be driven by an unsatisfied demand for basic phone service due to the lack of adequate landline service and limited wireless penetration. The Company believes that wireless systems in this region offer a more attractive alternative to landline systems because wireless systems do not require the substantial amount of time and investment in infrastructure (in the form of buried or overhead

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cables) associated with landline systems. In addition, declining tariffs and low-end handsets are expected to increase penetration in the future, as a larger proportion of the population will be able to afford to use wireless communication services. According to UBS Warburg, LLC, for the Pacific Rim, total subscribers are estimated to grow from approximately 328 million in 2001 to 676 million by 2005.

In China, according to data provided by the Ministry of Information and Industry of the PRC (the MII), the number of subscribers in recent years has increased at a compound annual growth rate of 111%, from approximately 177,000 at the end of 1992 to approximately 145 million at the end of 2001. According to the MII, the number of mobile telephone subscribers in China as of December 31, 2002 was 206.6 million. This growth is expected to continue, with the number of subscribers in China predicted to expand to 285 million by the year 2006, according to Datamonitor. As of December 2002, China had a penetration rate of approximately 16%. Based on these and other factors, as well as the large population base and economic growth in this region, the Company believes that phone users should increasingly use wireless systems, which should continue to create growth opportunities in the region.

In the Asia-Pacific Region, the Company offers wireless handsets and accessories manufactured by Original Equipment Manufacturers (OEMs), such as Nokia, Motorola, Sony Ericsson and NEC and aftermarket accessories manufactured by a variety of suppliers. Throughout the region, the Company acts as a wholesale distributor of wireless handsets to large and small volume purchasers.

CellStar (Asia) Corporation Limited (CellStar Asia), the oldest of the Company s wholly-owned business units in the region, derives its revenue principally from wholesale sales of wireless handsets to Hong Kong-based companies that export these products.

Shanghai CellStar International Trading Co., Ltd. (CellStar Shanghai), a wholly-owned, limited liability foreign trade company established in Shanghai, China, commenced operations in China in 1997 in the Shanghai Waigaiqiao Bonded Zone. CellStar Shanghai purchases wireless handsets locally manufactured by Nokia, Motorola, Sony Ericsson and NEC and wholesales those products to distributors and retailers located throughout China. CellStar Shanghai has also entered into cooperative arrangements with certain local distributors that allow them to establish wholesale and retail operations using CellStar s trademarks. Under the terms of these arrangements, CellStar Shanghai provides services, sales support, training and access to promotional materials for use in these distributors operations. As a result of these cooperative arrangements, approximately 1,700 retail points of sale in China display the CellStar name and trademarks. In exchange, those distributors agree to purchase only from CellStar Shanghai those products sold by CellStar Shanghai.

CellStar Shanghai currently deals with numerous local distributors, including distributors located in the ten largest metropolitan areas in China. The Company has an extensive distribution network through its sales of products to 26 wholesale distributors located throughout China. The Company has a total of 67 wholesale customers in China. CellStar Shanghai s largest customer, Beijing Fengxing Shi Da, constituted approximately 10% of consolidated revenues for fiscal 2002. CellStar Shanghai is the major supplier for this customer, a wholesale distributor located in northern China. CellStar Shanghai also provides marketing support to this customer in the form of marketing managers and other assistance.

CellStar Shanghai leases warehouse, showroom and office space in the Pudong district of Shanghai, as well as office and warehouse space in both Beijing and Guangzhou.

A substantial amount of revenues in the Asia-Pacific Region are generated in the China market. China is the largest cellular phone market in the world, and the Company anticipates that the China market will continue to expand. However, there can be no assurance that growth in demand in China for mobile communications products will continue at the current pace.

Additionally, carriers in China historically have not subsidized the sale of handsets in connection with activations as is frequently done in the U.S. market. As a result, the China market has begun to shift toward a preference for less expensive handsets as the market begins to mature. Accordingly, the Company s sales of

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higher-end handsets manufactured by Nokia and Motorola, the Company s largest suppliers for that market, have been negatively impacted by increased competition from manufacturers of low-end handsets. The Company does not currently have supply agreements with manufacturers of low-end handsets; however, the Company is working to increase its product offerings to include such low-end handsets. There can be no assurance that the Company will be able to procure such low-end handsets on favorable terms such that it can effectively compete in this area.

For the year ended November 30, 2002, the five largest customers of the Asia-Pacific Region accounted for approximately 46.6% of the total revenues of the region. The Company s customers in the Asia-Pacific Region are not obligated, pursuant to any contractual commitments or otherwise, to purchase any minimum amount of the products distributed by its subsidiaries in the region. The region s principal competitors are other agents who distribute the same brands of mobile telephones as the Company, and increased sales by these competitors may directly decrease the sales of products carried by the Company s subsidiaries in the Asia-Pacific Region. Further, the Company expects competition to remain strong in the future, especially given the easing of restrictions on foreign entities engaging in wholesale distribution, which is anticipated in connection with China s entry into the World Trade Organization.

In China, operation of the business is materially affected by regulations that limit its methods of operation. A wholly foreign owned trading company such as CellStar Shanghai is not permitted by current laws and regulations to operate as a wholesaler or a retailer in the domestic China market. As a result, the Company s trading activities are currently carried out via government authorized commodities exchanges in the Waigaoqiao Bonded Zone which possess the requisite government licenses to conduct trading activities between enterprises located in the Waigaoqiao Bonded Zone and enterprises located outside that zone. The Company s operations in the PRC are dependent upon the continuation of these trading practices in the Waigaoqiao Bonded Zone. If the central or local PRC governmental authorities decide to reverse this practice, the Company s operations in the PRC may be adversely affected. The telecommunications industry in China is a heavily regulated industry. Under current regulations, foreign investors are restricted from participating in the operation and management of a telecommunications services business in China. Further, the Renminbi, (the RMB) the currency used in the PRC, is not a freely convertible currency. PRC legal requirements, and the interpretation thereof, are subject to change from time to time. Any failure of the Company to comply with such requirements could harm its business and adversely affect its financial condition and results of operations.

The other countries in the Asia-Pacific Region in which the Company operates include Singapore, Taiwan, The Philippines and Korea. Although the Company s business in the Asia-Pacific Region is predominantly wholesale, retail operations are also conducted in Taiwan. Revenues in Singapore and The Philippines are derived solely from wholesale customers. The Company s operations in Korea consist of a majority-owned (80%) subsidiary set up to locate and purchase product and to develop relationships with local handset manufacturers in the area. In the third quarter of 2002, due to the continuing deterioration in the Malaysia market, the Company completed the divesture of its ownership interest in CellStar Amtel Sdn Bhd (CellStar Amtel), a Malaysian joint venture in which the Company was a minority partner.

The following table outlines CellStar s entry into the Asia-Pacific Region for countries in which operations were conducted in fiscal 2002:

Country	Year Entered	Type of Operation (as of November 30, 2002)
Hong Kong	1993	Wholesale
Singapore	1995	Wholesale
The Philippines	1995	Wholesale
Malaysia	1995	Wholesale and Retail (ownership divested in third quarter of 2002)
Taiwan	1995	Wholesale and Retail
People s Republic of China	1997	Wholesale
Korea	2000	Purchasing

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At November 30, 2002, the Company sold its products to over 250 wholesale customers in the Asia-Pacific Region, the ten largest of which accounted for approximately 31% of consolidated revenues. The Company offers a broad product mix compatible with digital systems in the Asia-Pacific Region and anticipates that its product offerings will continue to expand with the evolution of new technologies as they become commercially viable.

The Company markets its products to a variety of wholesale purchasers, including retailers, exporters and wireless carriers, through its direct sales force, trade shows, direct advertising, and incentives to retail and wholesale customers. To penetrate local markets in certain countries, the Company has made use of subagent and license relationships.

The Company believes that the intrinsic value of its Asia-Pacific Region is not currently reflected in the market price of the Company s common stock. As a result, the Company engaged UBS Warburg to assist it in evaluating transactions that could result in recognizing the value that it believes is locked up in the Asia-Pacific Region. Those evaluations have focused on a number of possible transactions including a possible initial public offering of all or a portion of the Asia-Pacific Region operations, a sale to outside investors or a management buyout. Based on these evaluations, the Company has decided to pursue an initial public offering of its Greater China Operations on an exchange in Asia. Although the Company intends to pursue the transaction that it believes will be most favorable to the Company, there are a number of steps to be completed before there is such a transaction. Accordingly, there can be no assurance of the timing of the transaction or that any transaction will occur.

As a result of such evaluation process, however, the Company is now required by GAAP to effect a change in its historical accounting treatment for the undistributed earnings of its Asia-Pacific Region subsidiaries. Prior to the fourth quarter of 2002, the Company did not accrue for U.S. Federal income taxes or tax benefits on the undistributed earnings and/or losses of its international subsidiaries because earnings have been reinvested and, in the opinion of management, would continue to be reinvested indefinitely. (See Note (7) of the Notes to Consolidated Financial Statements for CellStar Corporation contained in the Form 10-K for fiscal year ended November 30, 2001, filed with the Securities and Exchange Commission on February 28, 2002.) Accordingly, there was no liability recorded for such potential U.S. Federal income taxes. As a result of the progress in the fourth quarter of 2002 in evaluating the strategic options with regard to its Asia-Pacific Region, it was determined that the Company is now required by GAAP to account for the earnings in its Asia-Pacific Region as not being permanently reinvested since the Company has manifested its intent to pursue possible transactions designed to allow the Company to withdraw and return to the U.S. some or all of the value of those operations. Accordingly, in the quarter ended November 30, 2002, the Company was required to accrue U.S. Federal income taxes on the undistributed earnings of the Asia-Pacific Region of approximately $42.2 million.

No U.S. Federal income taxes on the undistributed earnings will be payable until such earnings are actually remitted back to the U.S. in the form of dividends or, in the case of a completed transaction such as those discussed above, sale proceeds. As of November 30, 2002, the Company has net operating loss carryforwards in the U.S. of approximately $70.4 million, a significant portion of which the Company believes it will be able to utilize to offset the taxes payable in the event that a transaction is completed. The Company therefore does not expect that the impact of the payment of any taxes associated with any such transaction will significantly impact the cash position of the Company at the time of such payment. Furthermore, the Company will have cash proceeds from any such transaction to fund the actual payment of such taxes. As a result of the accrual in the quarter ended November 30, 2002, of U.S. Federal income taxes on the undistributed earnings of the Asia-Pacific Region, the Company will not recognize tax expense in future periods for financial statement purposes on any such future transaction up to the amount of the tax recognized on the undistributed earnings.

North American Region

Wireless communications services in the United States were developed as an alternative to conventional landline systems and were among the fastest growing market segments in the communications industry. Growth

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in subscribers in the United States decreased during 2002 due to the economic slow down and, more generally, due to declining rates of subscriber growth as overall rates of penetration in the wireless industry approach 50%.

The Company offers a broad product mix in the United States, and anticipates that the Company s product offerings will continue to expand with the evolution of new technologies as they become commercially viable. The Company distributes products through direct-to-retailer fulfillment, direct-to-distributor fulfillment and direct-to-consumer fulfillment of both handsets and accessories. The Company also offers value-added fulfillment services such as kitting, programming, one-off shipping, inventory purchasing and warehousing to its customers. In addition, the Company provides private labeling services for handsets and accessories to several major carriers.

The Company offers wireless handsets and accessories manufactured by OEMs, such as Motorola, Nokia, Kyocera and Sony Ericsson, and aftermarket accessories manufactured by a variety of suppliers. The Company s revenues in the North American Region are generated primarily from handset sales. The Company also offers satellite dish technology. The Company s distribution operations and value-added services complement the manufacturer distribution channels by allowing the manufacturers to distribute their products to smaller volume purchasers and retailers.

At November 30, 2002, the Company sold its products to approximately 2,400 customers in the North American Region, the ten largest of which accounted for approximately 14.6% of consolidated revenues.

In the fourth quarter of 2002, the parent of one of the Company s largest customers announced that some of the customer s lenders under its vendor credit facilities had ceased funding new loan requests, that it was in default on certain credit facilities and that it was seeking new sources of financing and a restructuring of its outstanding indebtedness. These events of default provided the customer s credit facility lenders with certain rights under their credit agreements, including the right to declare their existing loans due and payable. Revenues from this customer were less than 10% of the Company s consolidated revenues for fiscal 2002.

In October 2002, the Company entered into an agreement with the customer to convert its current business relationship to a primarily consignment relationship. Although the new business model did not have a significant impact on fiscal 2002 revenues, the Company anticipates that revenues in future periods will decrease as the Company receives fulfillment fees for the services provided pursuant to the agreement instead of product revenues. The future impact on net income is dependent upon the volume of fulfillment activity and the amount of fulfillment fees received compared to the historical gross margin on product sales. There can be no assurance that fulfillment fees under the new agreement will equal historical gross margin. By converting to a primarily consignment relationship, the Company has reduced its accounts receivable exposure. The Company has also reduced working capital requirements since the Company will not be required to purchase and hold inventory for that segment of the business relationship. The agreement expired on January 31, 2003 but has been extended through February 28, 2003. The Company expects to extend the current agreement, with certain modifications, until March 31, 2003. During this extension, the Company intends to negotiate a new agreement with this customer. There can be no assurance the agreement will be renewed or that the customer will maintain similar volumes of business in the future. The Company expects a decline in volume for fiscal 2003 which could have a material adverse impact on the Company s financial results.

The Company continues to develop and enhance the functionality of its OrderStar® and netXtreme(SM) programs. These programs are proprietary, Internet-based order entry and supply-chain services software and systems designed to assist customers in the submission and tracking of orders and to allow customers to analyze their business activities with CellStar through the creation of customized reports. The OrderStar® system was officially launched in March of 2002 and replaced the existing AOS On-Line system. New and existing customers began migrating to the OrderStar® system thereafter, and the migration was completed in the fourth quarter of 2002. The OrderStar® system enhances the CellStar customer experience by offering faster product navigation and streamlined checkout procedures, private labeling capabilities, and marketing and advertising opportunities. Together, the OrderStar® and netXtreme systems greatly enhance a customer s ability to actively manage inventories and reduce supply-chain delays while reducing the cost to CellStar of fulfilling their orders. Today, nearly 80% of all orders CellStar receives in the U.S. are in electronic form via the OrderStar® or

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netXtreme systems or electronic data interchange (EDI). In addition, the Company assists customers in developing e-commerce platforms and solutions designed to enhance sales and reduce product delivery and activation delays.

Although the Company s business in the North American Region is primarily generated from wholesale revenues, as of November 30, 2002, the Company operated two retail locations in the United States one in Austin, Texas, and one in Houston, Texas. The Company s activation agreements with wireless carriers for these locations expire in the third quarter of 2003. There can be no assurance that these agreements will be renewed. The Company uses several marketing strategies throughout the North American Region, including trade shows, trade magazine advertising, direct mail, e-marketing, and distributing product catalogs and service and program brochures.

Latin American Region

As in the Asia-Pacific Region, the Company believes that demand for wireless communications services in the Latin American Region has been and should continue to be driven by an unsatisfied demand for basic phone service due to the lack of adequate landline service and limited wireless penetration. The Company believes that wireless systems in this region offer a more attractive alternative to landline systems because wireless systems do not require the substantial amount of time and investment in infrastructure (in the form of buried or overhead cables) associated with landline systems. However, political and economic instability in the region in recent years in certain of the countries in which the Company operates has caused the Company to formulate a strategy to reposition its operations in those areas.

In the second quarter of 2002, as a result of economic instability and continued economic decline, the Company decided as part of its plan to reposition its operations that it would exit Peru and Argentina as soon as practicable. The economic climate in Peru and Argentina, coupled with the small scale of the Company s operations in those countries, provided little upside and significant risk. During the third quarter of 2002, the Company completed its divestitures of its Peru and Argentina operations to local management. In addition, the Company has completed the evaluation of the balance of its Latin American markets, excluding Mexico and Miami. The Company has decided to continue its operation in Chile as this operation is expected to continue to be profitable and to generate cash. To reduce its in-country exposure in Colombia, the Company is negotiating with its major carrier customer in Colombia to shift the carrier customer s business to the Company s Miami export operations.

In the Latin American Region, CellStar offers wireless communications handsets, related accessories and other wireless products manufactured by OEMs, such as Motorola, Samsung, Kyocera, Nokia and Sony Ericsson, and aftermarket accessories manufactured by a variety of suppliers to carriers, mass merchandisers and other retailers. The Company, through its Miami, Florida operations, acts as a wholesale distributor of wireless communications products in the Latin American Region to large volume purchasers, such as wireless carriers, as well as to smaller volume purchasers. As a result, the Company s Miami operations are included in the Latin American Region.

Consistent with the change in historical accounting treatment for undistributed earnings in the Asia-Pacific Region, the Company recorded U.S. Federal income taxes of approximately $2.0 million in the fourth quarter of 2002 for previously undistributed earnings from Sweden, The Netherlands and Colombia. These previously undistributed earnings are no longer considered permanently reinvested following the completion of the Company s evaluations of these markets.

Although the Company s business in the Latin American Region is predominantly wholesale and value-added fulfillment services, the Company conducts retail operations in all countries in which it operates in this region, with the exception of the Miami operations. At November 30, 2002, CellStar operated 94 retail locations (including kiosks) in the Latin American Region, 36 of which are located in Chile, 36 of which are located in Colombia, and 22 of which are located in Mexico. Historically, the Company has acted primarily through wholly-owned subsidiaries in each of the countries in this region.

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The following table outlines CellStar s entry into the Latin American Region for countries in which operations were conducted in fiscal 2002:

Country	Year Entered	Type of Operation (as of November 30, 2002)
Mexico	1991	Wholesale and Retail
Chile	1993	Wholesale and Retail
Colombia	1994	Wholesale and Retail
Argentina	1995	Wholesale and Retail
		(Divested in third quarter of 2002)
Peru	1998	Wholesale and Retail
		(Divested in third quarter of 2002)

The Company s Mexico operations derive their revenues primarily from wholesale purchasers and activation of handsets. The Company s operations in Mexico account for approximately 60%, 61%, and 54% of the Latin America Region s revenues in 2000, 2001, and 2002, respectively. Over the last three years, the operations in Mexico have recognized operating gains (losses) of $15.4 million, ($9.8) million, and ($11.5) million in 2000, 2001, and 2002, respectively. The Company believes growth and profit potential exist in the Mexico market due to the size of this market as well as the relationships being built between the carriers and the Company.

As of November 30, 2002, the Company sold its products to over 700 wholesale customers, including subagents, in the Latin American Region, excluding Argentina and Peru. The ten largest customers accounted for approximately 9.3% of the Company s consolidated revenues in fiscal 2002. The Company offers a broad product mix in the Latin American Region, including products that are compatible with both digital and analog systems, and anticipates that its product offerings will continue to expand in the countries in which the Company continues to operate with the evolution of new technologies as such products become commercially viable.

The Company markets its products through trade shows, trade magazines, direct sales and advertising. The Company uses direct mailings and newspapers to promote its retail operations. To penetrate local markets, the Company has made use of subagent relationships in certain countries.

European Region

The Company acts as a wholesale distributor of wireless communications products in the European Region to large volume purchasers, such as wireless carriers and retailers, as well as to smaller volume purchasers. The Company uses distribution facilities in Stockholm, Sweden and s Hertogenbosch, The Netherlands, to serve customers in the European Region. In the European Region, the Company offers wireless communications handsets, related accessories and other wireless products manufactured by its primary suppliers, Nokia and Sony Ericsson, and aftermarket accessories manufactured by a variety of suppliers to carriers, mass merchandisers and other retailers.

In April 2000, the Company curtailed a significant portion of its U.K. international trading operations following third party theft and fraud losses. Trading in wireless handsets involves the purchase of wireless handsets from sources other than the manufacturers or network operators (i.e., trading companies) and the sale of those handsets to other trading companies. The curtailment in the Company s trading activities had a significant impact on revenues and profit for its U.K. operations and on the European Region as a whole for fiscal 2001. The Company decided, in the second quarter of 2002, to exit the U.K. as soon as practicable. The Company determined that improving its position in the U.K. would require substantial investment in that market, which the Company was not willing to make. As of August 31, 2002, the Company s operations in the U.K. were closed except for certain administrative matters.

In January 2003, the Company signed a letter of intent with local management for the sale of its Netherlands operations. There can be no assurance that the sale will be completed due to a number of contingencies contained in the letter of intent. In addition, as part of the Company s overall plan to reposition its operations, the Company has completed the evaluation of its operations in Sweden and will explore opportunities to sell these operations.

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Consistent with the change in historical accounting treatment for undistributed earnings in the Asia-Pacific Region, the Company recorded U.S. Federal income taxes of approximately $2.0 million in the fourth quarter of 2002 for previously undistributed earnings from Sweden, The Netherlands and Colombia. These previously undistributed earnings are no longer considered permanently reinvested following the completion of the Company s evaluations of these markets.

Although the Company s business in the European Region is predominantly wholesale, the Company has one retail location in The Netherlands. The Company has historically acted through wholly-owned subsidiaries in each of the countries in this region. The following table outlines the Company s entry into the European Region for countries in which operations were conducted in fiscal 2002:

Country	Year Entered	Type of Operation (as of November 30, 2002)
United Kingdom	1996	Wholesale (Closed as of August 31, 2002)
Sweden	1998	Wholesale
The Netherlands	1999	Wholesale and Retail

As of November 30, 2002, the Company sold its products to over 1,700 wholesale customers in the European Region, excluding the U.K., the ten largest of which accounted for approximately 2.5% of consolidated revenues. The Company offers a broad product mix compatible with digital systems in the European Region. The Company markets its products through direct sales, trade shows, custom catalogues and advertising.

Industry Relationships

The Company has established strong relationships with leading wireless equipment manufacturers and wireless service carriers. Although the Company purchased its products from more than 20 suppliers in fiscal 2002, the majority of the Company s purchases were from Nokia, Motorola, Sony Ericsson, Samsung and Kyocera**.** For the year ended November 30, 2002, Nokia and Motorola accounted for approximately 74% of the Company s product purchases.

The Company has distribution agreements with many of its suppliers, including Motorola, Nokia, Sony Ericsson, Kyocera, NEC, and Samsung, or their foreign affiliates, that specify territories, pricing and payment terms. These contracts typically provide the Company with price protection, or the right to receive the benefit of price decreases on products currently in the Company s inventory if such products were purchased by the Company within a specified period of time prior to the effective date of the price decrease. The Company also has established supply relationships with other manufacturers on a purchase order basis, such as LG and Panasonic.

The Company s agreements with its suppliers generally have terms ranging from nine months to three years. The majority of our supplier agreements can be terminated without cause by the terminating party giving notice within periods ranging from 30 to 90 days prior to such termination. Our agreements with Kyocera and NEC, however, may be terminated only for cause. Certain of our supplier agreements, including agreements with Ericsson, Motorola, NEC and Samsung, automatically renew for periods ranging from one to three years. Other agreements, such as Kyocera and Nokia, expire at various times and must be extended in writing by the parties. Most of our agreements with suppliers are non-exclusive.

The Company is required, pursuant to certain supplier agreements, to submit forecasts on either a monthly or a three month rolling basis. Such estimates are on a best efforts basis.

The Company s agreements with its customers generally have terms ranging from one to four years, and are extended for successive one year terms thereafter or month to month in one instance. Most agreements can be terminated by either party without cause by the terminating party giving notice within periods ranging from 60 to 180 days prior to such termination. The Company does not have agreements with the majority of its customers. While the Company believes its customer relations are good, there can be no assurance that the Company will retain its current customer base.

In the past, the Company s expansion has been due to several factors, one of which is its relationship with Motorola, historically one of the largest manufacturers of wireless products in the world and the Company s largest supplier in the North American Region. In July 1995, Motorola purchased a split-adjusted 417,862 shares of the outstanding common stock of the Company, currently approximately 2% of the Company s total shares outstanding. The Company believes that its relationship with Motorola and its other suppliers should enable it to continue to offer a wide variety of wireless communications products in all markets in which it operates. In addition, strong relationships with Nokia, the Company s largest supplier in fiscal 2002, have helped to solidify the Company s position in domestic and foreign markets. While the Company believes that its relationship with Motorola, Nokia and other significant vendors is satisfactory, there can be no assurance that these relationships will continue.

The loss of Motorola, Nokia or any other significant vendor, a substantial price increase imposed by any vendor or a shortage or oversupply of product available from its vendors could have a material adverse impact on the Company. No assurance can be given that product shortages or product surpluses will not occur in the future.

Asset Management

The Company continues to invest in and focus on technology to improve financial and information control systems. The Company expanded and extended its technology tools to improve financial and information control systems during 2002 in the following areas: (i) completion of the implementation of virtual private network capabilities in the PRC and Taiwan, greatly increasing wide area network performance; (ii) expansion of customer usage of the Company s netXtreme tools; (iii) further expansion of EDI processing for both customer and vendor relationships; (iv) streamlining processes in the PRC through infrastructure and applications for multiple level distribution operations; and (v) expansion of the Company s supply chain management system. One result of the Company s technology investment is that e-commerce tools process over 80% of all U.S. orders and virtually all orders in the PRC. The Company believes these initiatives will continue to position the Company to take advantage of the market trends with Internet-based commerce and further provide opportunities to integrate its systems with those of its customers.

The Company s suppliers ship directly to the Company s warehouse or distribution facilities or drop ship directly to the Company s customers. Inventory purchases are based on quality, price, service, market demand, product availability and brand recognition. Some of the Company s major vendors provide favorable purchasing terms to the Company, including price protection credits, stock balancing, increased product availability and cooperative advertising and marketing allowances.

Inventory control is important to the Company s ability to maintain its margins while offering its customers competitive prices and rapid delivery of a wide variety of products. The Company uses its integrated management information technology systems, specifically its inventory management, electronic purchase order and sales modules (consisting of its OrderStar® and netXtreme systems) to help manage inventory and sales margins.

Accounts receivable management is important to the Company s ability to control its bad debt expense and working capital. The Company uses a variety of credit management tools, including credit scoring services and, in certain of its markets, credit insurance to manage its accounts receivable exposure.

The Company has converted certain of its customer accounts to a consignment model. Under this model, the customer owns the inventory and the Company provides fulfillment services for those products. Fulfillment services include any combination of kitting, programming, inventory management and packaging of handsets, wireless accessories and other items, as well as the distribution of such products for our consignment customers. Consignment offers certain advantages, including lower working capital requirements, reduced accounts receivable exposure and reduced exposure to inventory obsolescence. Although overall revenues may be lowered as a result of operating on a consignment model, the Company believes that net income is not significantly impacted as fulfillment fees are being generated. Ultimately the impact on net income is dependent upon the volume of fulfillment activity and the amount of fulfillment fees received compared to the historical gross margin on product sales. There can be no assurance that fulfillment fees will equal historical gross margins.

Under the terms of the Company s agreements with its consignment customers, title to the products remains with the customer. The Company bears all risk of casualty loss with respect to consignment products while such products remain in the Company s care, custody and control. These agreements generally have terms from one to four years, and may be extended for successive one year terms thereafter or month to month in one instance. Most agreements can be terminated by either party without cause by the terminating party giving notice within periods ranging from 60 to 180 days prior to such termination. In some agreements, the Company s customers provide product forecasts on a rolling three month basis, however, those forecasts are on a best efforts basis. In some cases, the Company may charge the customer a storage fee for products held by the Company for an excessive period of time, generally 90 days or more.

The market for wireless products is characterized by rapidly changing technology and frequent new product introductions, often resulting in product obsolescence or short product life cycles. The Company s success depends in large part upon its ability to anticipate and adapt its business to such technological changes. There can be no assurance that the Company will be able to identify, obtain and offer products necessary to remain competitive or that competitors or manufacturers of wireless communications products will not market products that have perceived advantages over the Company s products or that render the products sold by the Company obsolete or less marketable. The Company maintains a significant investment in its product inventory and, therefore, is subject to the risks of inventory obsolescence and excessive inventory levels. The Company attempts to limit these risks by managing inventory turns and by entering into arrangements with its vendors, including price protection credits and return privileges for slow-moving products. The Company s significant inventory investment in its international operations exposes it to certain political and economic risks. See Business Cautionary Statements and Management s Discussion and Analysis of Financial Condition and Results of Operations International Operations. Typically, the Company ships its products within one business day of receipt of customer orders and, therefore, backlog is not considered material to the Company s business.

Significant Trademarks

The Company markets certain of its products under the trade name CellStar. The Company has registered the trade name CellStar on the Principal Register of the United States Patent and Trademark Office and has registered or applied for registration of its trade name in certain foreign jurisdictions. The Company has also filed for registrations of its other trade names in the United States and other jurisdictions in which it does business.

Competition

The Company operates in a highly competitive environment and believes that such competition will intensify in the future. The Company competes primarily on the basis of inventory availability and selection, delivery time, service and price. Many of the Company s competitors are larger and have greater capital and management resources than the Company. In addition, potential users of wireless systems may find their communications needs satisfied by other current and developing technologies. The Company s ability to remain competitive will therefore depend upon its ability to anticipate and adapt its business to such technological changes. There can be no assurance that the Company will be successful in anticipating and adapting to such technological changes.

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In the current U.S. wireless communications products market, the Company s primary competitors are manufacturers, wireless carriers and other independent distributors such as Brightpoint, Inc. The Company also competes with logistics companies who provide similar distribution and inventory management services. Competitors of the Company in the Asia-Pacific, Latin American and European Regions include manufacturers, national carriers that have retail outlets with direct end-user access, and U.S. and foreign-based exporters and distributors. The Company is also subject to competition from gray market activities by third parties that are legal, but are not authorized by manufacturers, or that are illegal (e.g., activities that avoid applicable duties or taxes). In addition, the Company competes for activation fees and residual fees with agents and subagents for wireless carriers.

Seasonality and Cyclicality

The Company s sales are influenced by a number of seasonal factors in the different countries and markets in which it operates, including the purchasing patterns of customers in different markets, product promotions of competitors and suppliers, availability of distribution channels, and product supply and pricing. The Company s sales are also influenced by cyclical economic conditions in the different countries and markets in which it operates. An economic downturn in one of the Company s principal markets could have a materially adverse effect on the Company s operating results.

Employees

As of November 30, 2002, the Company had approximately 1,100 employees worldwide. In Mexico, certain of the Company s employees are subject to labor agreements. The Company has never experienced any material labor disruption and is unaware of any efforts or plans to organize additional employees. Management believes that its labor relations are satisfactory.

Executive Officers of the Registrant

The following table sets forth certain information concerning the executive officers of the Company:

Terry S. Parker	57	Chief Executive Officer
A.S. Horng	45	Chairman, Chief Executive Officer and General Manager of CellStar (Asia) Corporation Limited
Robert A. Kaiser	49	Senior Vice President, Chief Financial Officer and Treasurer
Lawrence King	37	President and Chief Operating Officer of the Asia-Pacific Region
Elaine Flud Rodriguez	46	Senior Vice President, General Counsel and Secretary
Raymond L. Durham	41	Vice President and Corporate Controller

Terry S. Parker has served as Chief Executive Officer of the Company since July 2001, as a director of the Company since March 1995 and as President and Chief Operating Officer of the Company from March 1995 through July 1996. Mr. Parker served as Senior Vice President of GTE Corporation and President of GTE s Personal Communications Services, GTE s wireless division, from October 1993 until he joined the

Company. From 1991 to 1993, Mr. Parker served as President of GTE Telecommunications Products and Services. Before 1991, Mr. Parker served as President of GTE Mobile Communications. Mr. Parker serves as an officer of the Company pursuant to his employment agreement.

A.S. Horng has served as Chairman of CellStar Asia since January 1998 and has also served as Chief Executive Officer of CellStar Asia since April 1997 and General Manager since 1993. From April 1997 until January 1998, Mr. Horng served as Vice Chairman of CellStar Asia, and from April 1997 until October 1997,

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Mr. Horng served as President of CellStar Asia. From 1991 to 1993, Mr. Horng was President of C-Mart USA Corporation, a distributor and manufacturer of aftermarket wireless phone accessory products. Mr. Horng serves the Company pursuant to his employment agreement.

Robert A. Kaiser has served as Senior Vice President, Chief Financial Officer and Treasurer since December 2001. Prior to joining CellStar, Mr. Kaiser served as President and Chief Executive Officer of MobileStar Network Corporation, a provider of broadband wireless Internet access, from May 2001 to December 2001. Prior to joining MobileStar, Mr. Kaiser served as Chief Executive Officer of WorldCom Broadband Solutions Group from August 2000 to May 2001. Mr. Kaiser served as Chief Executive Officer and Chief Financial Officer of SkyTel from January 2000 to August 2000 and as Chief Financial Officer from August 1996 to December 1999. Mr. Kaiser served as Chief Financial Officer of Southwestern Bell s Mobile Systems from March 1987 to August 1996. Mr. Kaiser serves as an officer of the Company pursuant to his employment agreement.

Lawrence King has served as President and Chief Operating Officer of the Asia-Pacific Region since April 2000. Previously, Mr. King served as Vice President of Operations for CellStar Asia, since February 1998. Mr. King joined the Company in 1994. Prior to joining the Company, Mr. King was the General Manager and co-founder of GloMax Inc.

Elaine Flud Rodriguez has been Senior Vice President, General Counsel and Secretary since January 2000. Previously, Ms. Rodriguez served as Vice President, General Counsel and Secretary since joining the Company in October 1993. From October 1991 to August 1993, she was General Counsel and Secretary of Zoecon Corporation, a pesticide manufacturer and distributor owned by Sandoz Ltd. Prior thereto, she was engaged in the private practice of law with Atlas & Hall and Akin, Gump, Strauss, Hauer & Feld. Ms. Rodriguez is licensed to practice law in the states of Texas and Louisiana. Ms. Rodriguez serves as an officer of the Company pursuant to her employment agreement.

Raymond L. Durham has served as Vice President and Corporate Controller since February 2001, Corporate Controller from November 1999 until January 2001, and acting Corporate Controller from July 1999 until November 1999. From March 1997 until July 1999, Mr. Durham served as Director of Audit Services for the Company. Prior to joining the Company, he was with KPMG LLP, an international independent accounting firm, from 1986 until 1997 where he held several positions including Audit Senior Manager from 1990 until 1997. Mr. Durham is a certified public accountant.

The Company s success is dependent on the efforts of its executive officers and key employees including Terry S. Parker, Chief Executive Officer, and A.S. Horng, the Chairman, Chief Executive Officer and General Manager of CellStar Asia. The Asia-Pacific Region was responsible for approximately 51% of the Company s revenues for fiscal 2002. If Mr. Horng were to depart as Chief Executive Officer of CellStar Asia, the Company s operations in the Asia-Pacific Region could be materially adversely affected. Although the Company has entered into employment agreements with these officers and several other officers and key employees, there can be no assurance that the Company will be able to retain their services.

The Company does not maintain key man insurance on the life of any officer of the Company. The loss or interruption of the continued full-time service of the Company s executive officers and key employees could have a material adverse impact on the Company s business. To support its continued growth, the Company must effectively recruit, develop and retain additional qualified management. The inability of the Company to attract and retain such necessary personnel could also have a material adverse effect on the Company.

Item 2. Properties

As of November 30, 2002, the Company had a total of 25 operating facilities in the Asia-Pacific Region, 23 of which were leased; a total of 109 operating facilities in the Latin American Region (including kiosks), all but one of which were leased; and a total of 6 operating facilities in the European Region, all of which were leased. These facilities serve as offices, warehouses, distribution centers or retail locations.

The Company s corporate headquarters is located at 1730 Briercroft Court, and its principal North American Region distribution facility is located at 1728 Briercroft Court, each in Carrollton, Texas. Both facilities are

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owned by the Company. As of November 30, 2002, the Company had three other operating facilities in the North American Region, all of which were leased.

The Company believes that suitable additional space will be available, if necessary, to accommodate future expansion of its operations.

Item 3. Legal Proceedings

On October 15, 2001, the Company announced that the results for the three and six months ended May 31, 2001 would be restated to reflect certain accounting adjustments. In October 2001, the Company received an inquiry from the SEC requesting information concerning the restatement of earnings for the quarter ended May 31, 2001. The Company believes that it has fully responded to such request.

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.

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

There were no matters submitted to a vote of the Company s security holders during the fiscal quarter ended November 30, 2002.

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PART II.

Item 5. Market for Registrant s Common Equity and Related Stockholder Matters

The Company s common stock is quoted on the Nasdaq National Market (Nasdaq) under the symbol CLST. The following table sets forth, on a per share basis for the periods indicated, the high and low closing sale prices for the common stock as reported by Nasdaq (adjusted for the effect of the one-for-five reverse stock split effective on February 22, 2002).

	High	Low
Fiscal Year ended November 30, 2002		
Quarter Ended:		
February 28, 2002	$ 4.80	3.00
May 31, 2002	4.90	3.23
August 31, 2002	4.22	3.05
November 30, 2002	4.80	2.62
Fiscal Year ended November 30, 2001		
Quarter Ended:		
February 28, 2001	$ 10.63	5.63
May 31, 2001	10.60	4.69
August 31, 2001	12.90	6.50
November 30, 2001	6.65	3.80

As of February 20, 2003, there were 148 stockholders of record, although the Company believes that the number of beneficial owners is significantly greater because a large number of shares are held of record by CEDE & Co.

The Company has never declared or paid cash dividends on its common stock. The Company currently intends to retain all earnings to finance its business and does not anticipate paying cash dividends on the common stock in the foreseeable future. Any future determination as to the payment of cash dividends will depend on a number of factors, including future earnings, capital requirements, the financial condition and prospects of the Company and any restrictions under the Company s credit agreements existing from time to time, as well as other factors the Board of Directors may deem relevant. The Company s current revolving credit facility and 12% senior subordinated notes restrict the payment of dividends by the Company to its stockholders. There can be no assurance that the Company will pay any dividends in the future.

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Item 6. Selected Consolidated Financial Data

The financial data presented below, as of and for each of the years in the five-year period ended November 30, 2002, were derived from the Company s audited financial statements. The selected consolidated financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, and the Company s consolidated financial statements and notes thereto, included elsewhere herein.

	Year Ended November 30,				
	2002(3)(9)	2001(4)(9)	2000(5)(9)	1999(6)(7)	1998(8)
	(In thousands, except per share data and operating data)				
Statements of Operations Data:					
Revenues	$ 2,196,614	2,433,803	2,475,682	2,333,805	1,995,850
Cost of sales	2,065,806	2,297,977	2,364,197	2,140,375	1,823,075
Gross profit	130,808	135,826	111,485	193,430	172,775
Operating expenses:					
Selling, general and administrative expenses	112,652	113,785	169,232	111,613	116,747
Impairment of assets	3,655		12,339	5,480	
Severance and exit charges	2,566				
Lawsuit settlement					7,577
Separation agreement		5,680			
Restructuring charge (credit)		750	(157)	3,639	
Operating income (loss):	11,935	15,611	(69,929)	72,698	48,451
Other income (expense):					
Interest expense	(7,564)	(15,383)	(19,113)	(19,027)	(14,446)
Equity in income (loss) of affiliated companies, net		(858)	(1,805)	31,933	(28,448)
Gain on sale of assets		933	6,200	8,774	
Impairment of investment	(125)	(2,215)			
Other, net	1,947	5,288	932	(1,876)	1,389
Total other income (expense)	(5,742)	(12,235)	(13,786)	19,804	(41,505)
Income (loss) before income taxes and extraordinary gain (loss)	6,193	3,376	(83,715)	92,502	6,946
Provision (benefit) for income taxes	47,131	2,200	(20,756)	23,415	(7,418)
Income (loss) before extraordinary gain (loss)	(40,938)	1,176	(62,959)	69,087	14,364
Extraordinary gain (loss) on early extinguishment of debt, net of tax	11,014	(626)			
Net income (loss)	$ (29,924)	550	(62,959)	69,087	14,364
Net income (loss) per share:					
Basic:					
Income (loss) before extraordinary gain (loss)	$ (3.34)	0.10	(5.24)	5.78	1.22
Extraordinary gain (loss) on early extinguishment of debt, net of tax	0.90	(0.05)			

Net income (loss)	$ (2.44)	0.05	(5.24)	5.78	1.22
Diluted:					
Income (loss) before extraordinary gain (loss)	$ (3.34)	0.10	(5.24)	5.61	1.18
Extraordinary gain (loss) on early extinguishment of debt, net of tax	0.90	(0.05)			
Net income (loss)	$ (2.44)	0.05	(5.24)	5.61	1.18
Weighted average number of shares:(1)(2)					
Basic	12,268	12,028	12,026	11,952	11,773
Diluted	12,268	12,029	12,026	13,118	12,131
Operating Data:					
International revenues, including export sales, as a percentage of revenue	74.6%	76.2	79.8	83.8	76.3

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	At November 30,				
	2002	2001	2000	1999	1998
	(In thousands)				
Balance Sheet Data:					
Working capital	$ 141,854	116,892	264,380	332,841	259,923
Total assets	515,591	646,070	858,824	706,438	775,525
Notes payable and current portion of long-term debt	53,347	202,644	127,128	50,609	85,023
Long-term debt, less current portion	12,374		150,000	150,000	150,000
Stockholders equity	194,331	184,210	185,583	250,524	177,791

(1) Common stock amounts have been retroactively adjusted to give effect to the one-for-five reverse stock split effective February 22, 2002, and a two-for-one stock split, which was made in the form of a stock dividend distributed on June 23, 1998.

(2) On February 20, 2002, the Company issued, in an exchange offer, $39.1 million in 5% senior subordinated convertible notes which were converted into 7.8 million shares of common stock as of November 30, 2002 (see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources).

(3) In the second quarter of 2002 the Company decided, as part of its plan to reposition its operations, to exit the U.K., Peru, and Argentina markets as soon as practicable. The Company recorded a net charge for the year ended November 30, 2002 of $6.7 million related to this decision. See Management s Discussion and Analysis of Financial Condition and Results of Operations International Operations Repositioning of Operations.

(4) On July 6, 2001 the Company announced that Alan H. Goldfield had retired effective immediately from the position of Chairman and Chief Executive Officer and recorded an expense of $5.7 million related to the separation agreement. See Management s Discussion and Analysis of Financial Condition and Results of Operations Fiscal 2002 Compared to Fiscal 2001 Separation Agreement.

(5) For the year ended November 30, 2000, the Company recorded a $12.3 million charge for impairment of assets primarily related to its operations in Venezuela and Peru. See Management s Discussion and Analysis of Financial Condition and Results of Operations Fiscal 2001 Compared to Fiscal 2000 Impairment of Assets.

(6) In the fourth quarter of 1999, based on the market conditions in Poland, the Company decided to sell its operations in Poland. The sale was completed in 2000 resulting in a gain of $0.2 million. The Company recorded an impairment charge of $5.5 million, including a $4.5 million writedown of goodwill to reduce the carrying value of the assets of the operations in Poland to their estimated fair value. Revenues for the operations in Poland were $2.2 million, $7.4 million and $9.9 million for the years ended November 30, 2000, 1999, and 1998, respectively.

(7) As part of the Company s strategy to streamline its organizational structure, beginning in the second quarter of 1999 the Company reorganized and consolidated the management of the Company s Latin American and North American Regions and centralized the management in the Company s Asia-Pacific Region. As a result, the consolidated statement of operations for the year ended November 30, 1999, includes a charge of $3.6 million related to the reorganization. Of the total costs, $0.8 million consisted of non-cash outlays and the remaining $2.8 million consisted of cash outlays, which were paid in full by November 30, 2000. The components of the restructuring charge were as follows (in thousands):

Employee termination costs	$ 2,373
Write-down of assets	760
Other	506

	$ 3,639

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(8) During the period from May 14, 1996 through July 22, 1996, four separate purported class action lawsuits were filed in the United States District Court, Northern District of Texas, Dallas Division, against the Company, certain of the Company s current and former officers, directors and employees. The four lawsuits were consolidated, and the State of Wisconsin Investment Board was appointed lead plaintiff in the consolidated action. On November 19, 1998, the Company entered into a Stipulation of Settlement that resolved all claims pending in the suit. The settlement was approved by the Court on January 25, 1999, and all remaining claims were dismissed.

(9) Effective December 1, 2002, the Company adopted Financial Accounting Standards Board Statement No. 142, Goodwill and Other Intangible Assets. Pursuant to the provisions of Statement No. 142, the Company stopped amortizing goodwill as of December 1, 2002.

The following table shows the Company s 2002, 2001, and 2000 results adjusted to exclude amortization expense related to goodwill (in thousands, except per share data):

	Year Ended November 30,		
	2002	**2001**	**2000**
Income (loss) before extraordinary gain (loss) as reported	$ (40,938)	1,176	(62,959)
Goodwill amortization	1,513	1,455	1,773
Income (loss) before before extraordinary gain (loss) as adjusted	$ (39,425)	2,631	(61,186)
Net income (loss) as reported	$ (29,924)	550	(62,959)
Goodwill amortization	1,513	1,455	1,773
Net income (loss) as adjusted	$ (28,411)	2,005	(61,186)
Basic per share:			
Income (loss) before before extraordinary gain (loss) as reported	$ (3.34)	0.10	(5.24)
Goodwill amortization	0.13	0.12	0.15
Income (loss) before before extraordinary gain (loss) as adjusted	$ (3.21)	0.22	(5.09)
Net income (loss) as reported	$ (2.44)	0.05	(5.24)
Goodwill amortization	0.12	0.12	0.15
Net income (loss) as adjusted	$ (2.32)	0.17	(5.09)
Diluted per share:			
Income (loss) before before extraordinary gain (loss) as reported	$ (3.34)	0.10	(5.24)
Goodwill amortization	0.13	0.12	0.15
Income (loss) before before extraordinary gain (loss) as adjusted	$ (3.21)	0.22	(5.09)
Net income (loss) as reported	$ (2.44)	0.05	(5.24)

Goodwill amortization	0.12	0.12	0.15
Net income (loss) as adjusted	$ (2.32)	0.17	(5.09)
Weighted average common shares outstanding:			
Basic	12,268	12,028	12,026
Diluted	12,268	12,029	12,026

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Overview

CellStar is a leading global provider of distribution and value-added logistics services to the wireless communications industry, with operations in the Asia-Pacific, North America, Latin America, and European Regions. The Company facilitates the effective and efficient distribution of handsets, related accessories and other wireless products from leading manufacturers to network operators, agents, resellers, dealers and retailers. The Company also provides activation services in some of its markets that generate new subscribers for wireless carriers. The Company s revenues have decreased from $2,433.8 million in 2001 to $2,196.6 million in 2002. The decrease in revenues is primarily due to several factors: a) a decrease in the Company s Hong Kong operations of $134.0 million primarily due to an increase in the availability in China of in-country manufactured products causing sales to the Company s Hong Kong based customers to decrease, b) a decrease in revenues of $49.9 million from decreased sales to the Company s largest carrier customer in the Company s Mexico operations, and c) a decrease of $77.0 million from operations which the Company has divested or closed. The Company experienced an improvement in gross profit to 5.9% of revenues in 2002 from 5.6% of revenues in 2001, primarily as a result of additional incentives received from manufacturers in 2002 and changes in the Company s geographic mix of revenues. Selling, general and administrative expenses were $112.7 million in 2002 compared to $113.8 million in 2001. Interest expense decreased to $7.6 million in 2002 from $15.4 million in 2001 primarily as a result of the completion of the Company s exchange offer on February 20, 2002. The Company had tax expense of $47.1 million in 2002 compared to $2.2 million in 2001. The increase in tax expense is primarily a result of the Company providing for taxes of $42.2 million on the undistributed earnings in the Asia-Pacific Region which were previously considered to be permanently reinvested. The Company had a loss before extraordinary items of $40.9 million, or $3.34 per diluted share, in 2002 compared to income of $1.2 million, or $0.10 per diluted share in 2001.

Asia-Pacific

The Company believes that the intrinsic value of its Asia-Pacific Region is not currently reflected in the market price of the Company s common stock. As a result, the Company engaged UBS Warburg to assist it in evaluating transactions that could result in recognizing the value that it believes is locked up in the Asia-Pacific Region. Those evaluations have focused on a number of possible transactions including a possible initial public offering of all or a portion of the Asia-Pacific Region operations, a sale to outside investors or a management buyout. Based on these evaluations, the Company has decided to pursue an initial public offering of its Greater China Operations on an exchange in Asia. Although the Company intends to pursue the transaction that it believes will be most favorable to the Company, there are a number of steps to be completed before there is such a transaction. Accordingly, there can be no assurance of the timing of the transaction or that any transaction will occur.

As a result of such evaluation process, however, the Company is now required by GAAP to effect a change in its historical accounting treatment for the undistributed earnings of its Asia-Pacific Region subsidiaries. Prior to the fourth quarter of 2002, the Company did not accrue for U.S. Federal income taxes or tax benefits on the undistributed earnings and/or losses of its international subsidiaries because earnings have been reinvested and, in the opinion of management, would continue to be reinvested indefinitely. (See Note (7) of the Notes to Consolidated Financial Statements for CellStar Corporation contained in the Form 10-K for fiscal year ended November 30, 2001, filed with the Securities and Exchange Commission on February 28, 2002.) Accordingly, there was no liability recorded for such potential U.S. Federal income taxes. As a result of the progress in the fourth quarter of 2002 in evaluating the strategic options with regard to its Asia-Pacific Region, it was determined that the Company is now required by GAAP to account for the earnings in its Asia-Pacific Region as not being permanently reinvested since the Company has manifested its intent to pursue possible transactions designed to allow the Company to withdraw and return to the U.S. some or all of the value of those operations. Accordingly, in the quarter ended November 30, 2002, the Company was required to accrue U.S. Federal income taxes on the undistributed earnings of the Asia-Pacific Region of approximately $42.2 million.

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No U.S. Federal income taxes on the undistributed earnings will be payable until such earnings are actually remitted back to the U.S. in the form of dividends or, in the case of a completed transaction such as those discussed above, sale proceeds. As of November 30, 2002, the Company has net operating loss carryforwards in the U.S. of approximately $70.4 million, a significant portion of which the Company believes it will be able to utilize to offset the taxes payable in the event that a transaction is completed. The Company therefore does not expect that the impact of the payment of any taxes associated with any such transaction will significantly impact the cash position of the Company at the time of such payment. Furthermore, the Company will have cash proceeds from any such transaction to fund the actual payment of such taxes. As a result of the accrual in the quarter ended November 30, 2002, of U.S. Federal income taxes on the undistributed earnings of the Asia-Pacific Region, the Company will not recognize tax expense in future periods for financial statement purposes on any such future transaction up to the amount of the tax recognized on the undistributed earnings.

Repositioning of Operations

In the second quarter of 2002, the Company decided as part of its plan to reposition its operations that it would exit the U.K., Peru and Argentina as soon as practicable, as well as address the balance of its European and Latin American markets, excluding Mexico and Miami. As a result of the decision to exit the U.K., Peru and Argentina, the Company recorded a net charge of $10.0 million for the three months ended May 31, 2002. During the third quarter of 2002, the Company completed its divestitures of its Peru and Argentina operations to local management at approximately book value and closed the U.K. operations, except for certain administrative matters. In the third and fourth quarters of 2002, the Company reversed $3.3 million of the allowances related to the exit charge for the U.K. operations. The following table summarizes the income statement classification of the charge (in thousands):

	Three months ended May 31, 2002	Reversal of allowances	Net charge
Cost of sales	$ 2,256	(1,131)	1,125
Selling, general and administrative	1,691	(588)	1,103
Impairment of assets	3,655		3,655
Severance and exit charges	2,566		2,566
Total charge	10,168	(1,719)	8,449
Tax benefit	(184)	(1,541)	(1,725)
Net charge	$ 9,984	(3,260)	6,724

In January 2003, the Company signed a letter of intent with local management for the sale of its Netherlands operations. There can be no assurance that the sale will be completed due to a number of contingencies contained in the letter of intent. In addition, the Company has completed the evaluations of the balance of its Latin American markets, excluding Mexico and Miami, as well as its Sweden operations. The Company has decided to keep its operations in Chile, to negotiate with its major carrier customer in Colombia to shift its business from CellStar s operation in Colombia to Miami, and to explore sale opportunities for its operations in Sweden.

Consistent with the change in historical accounting treatment for undistributed earnings discussed above, the Company recorded U.S. Federal income taxes of approximately $2.0 million in the fourth quarter of 2002 for previously undistributed earnings from Sweden, The Netherlands and Colombia. These previously undistributed earnings are no longer considered permanently reinvested following the completion of the Company s evaluations of these markets.

Subordinated Notes

On February 20, 2002 the Company completed its exchange offer for its $150 million 5% convertible subordinated notes due October 2002. Holders owning $128.6 million of existing convertible subordinated notes exchanged them for $47.2 million in cash, $12.4 million of new 12% senior subordinated notes due January

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2007, and $39.1 million of new 5% senior subordinated convertible notes due November 2002. The Company recognized an extraordinary gain of $11.0 million after-tax in 2002 as a result of the exchange. Between February 20, 2002 and July 29, 2002, the Company purchased for a combination of cash and its common stock, $4.5 million of its 5% convertible subordinated notes. The Company retired the remaining $16.9 million of 5% convertible subordinated notes not tendered in the exchange at maturity. As of November 30, 2002, the $39.1 million of senior subordinated convertible notes have been converted into 7.8 million shares of common stock.

Other

The Company derives substantially all revenues from net product sales, which includes sales of handsets and other wireless communications products. The Company also derives revenues from value-added services, including activations, residual income, and prepaid wireless services. Value-added service revenues include fulfillment service fees, handling fees and assembly revenues. Activation income includes commissions paid by a wireless carrier to the Company when a customer initially subscribes for the carrier s wireless service through the Company. Residual income includes payments received from carriers based on the wireless handset usage by a customer activated by the Company.

Special Cautionary Notice Regarding Forward-Looking Statements

Certain of the matters discussed under the captions Business, Properties, Legal Proceedings, Management s Discussion and Analysis of Financial Condition and Results of Operations, and elsewhere in this report may constitute forward-looking statements for purposes of the Securities Act of 1933, as amended, and the Exchange Act and, as such, may involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. When used in this report, the words anticipates, estimates, believes, continues, expects, intends, may, might, could, should, and similar expressions are intended to be among the statements that identify forward-looking statements. Statements of various factors that could cause the actual results, performance or achievements of the Company to differ materially from the Company s expectations (Cautionary Statements), are disclosed in this report, including, without limitation, those statements made in conjunction with the forward-looking statements included under the captions identified above and otherwise herein. All forward-looking statements attributable to the Company are expressly qualified in their entirety by the Cautionary Statements.

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Results of Operations

The following table sets forth certain consolidated statements of operations data for the Company expressed as a percentage of revenues for the past three fiscal years:

	2002	2001	2000
Revenues	100.0 %	100.0	100.0
Cost of sales	94.1	94.4	95.5
Gross profit	5.9	5.6	4.5
Selling, general and administrative expenses	5.1	4.7	6.8
Impairment of assets	0.2		0.5
Severance and exit charges	0.1		
Separation agreement		0.3	
Restructuring charge (credit)			
Operating income (loss)	0.5	0.6	(2.8)
Other income (expense):			
Interest expense	(0.4)	(0.6)	(0.8)
Equity in loss of affiliated companies			(0.1)
Gain on sale of assets			0.3
Impairment of investment		(0.1)	
Other, net	0.1	0.2	
Total other income (expense)	(0.3)	(0.5)	(0.6)
Income (loss) before income taxes and extraordinary gain (loss)	0.2	0.1	(3.4)
Provision (benefit) for income taxes	2.1	0.1	(0.9)
Income (loss) before extraordinary gain (loss)	(1.9)		(2.5)
Extraordinary gain (loss) on early extinguishment of debt, net of tax	0.5		
Net income (loss)	(1.4)%		(2.5)

The amount of revenues and the approximate percentages of revenues attributable to the Company s operations by region for the past three fiscal years are shown below:

	2002		2001		2000	
	(in thousands, except percentages)					
Asia-Pacific Region	$ 1,115,499	50.8 %	1,213,454	49.9	1,024,762	41.4
North American Region	558,173	25.4	578,612	23.7	499,171	20.2
Latin America Region	341,632	15.6	411,079	16.9	636,354	25.7
European Region	181,310	8.2	230,658	9.5	315,395	12.7
Total	$ 2,196,614	100.0 %	2,433,803	100.0	2,475,682	100.0

Revenues from the Company s Miami operations have been classified as Latin American Region revenues as these revenues are primarily exports to Latin American countries, either by the Company or by exporter customers.

Fiscal 2002 Compared to Fiscal 2001

Revenues. The Company s revenues decreased $237.2 million from $2,433.8 million to $2,196.6 million. The Company sold 13.5 million handsets in the fiscal year ended November 30, 2002 compared to 13.7 million in 2001. The average selling price of handsets in 2002 was $148 compared to $160 in 2001.

Revenues in the Asia-Pacific Region decreased $98.0 million, or 8.1%, from $1,213.5 million to $1,115.5 million. The Company s operations in the PRC provided $882.0 million in revenues, an increase of

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$5.3 million, or 0.6%, from $876.7 million. In the first two quarters of 2002, growth in the PRC was driven by increased market penetration. Revenues for the Company s PRC operations for the first six months of 2002 were $531.9 million compared to $435.3 million in the first six months of 2001. In the second half of 2002, the Company s PRC operations saw a decline in revenues from $441.4 million in 2001 to $350.1 million in 2002 primarily due to increased market competition from local manufacturers and the increased demand for low-end handsets. The Company s revenues in the PRC have historically been from the sale of handsets supplied by Nokia and Motorola.

In the second half of 2002, Nokia and Motorola lost market share to the local Chinese manufacturers as the local manufacturers had more low priced handsets. Local Chinese manufacturers now have an estimated 30 percent market share. The Company s revenues in future periods will be significantly impacted by its ability to obtain low priced handsets from its current suppliers or from new suppliers. Historically, carriers in China have not subsidized the sale of handsets in connection with activations as is frequently done in the U.S. market. As the Chinese market shifts toward less expensive handsets, the Company s sales of higher-end handsets have been negatively impacted. The Company does not currently have supply agreements with manufacturers of low-end handsets, however, the Company is working to increase its product offerings to include such low-end handsets. There can be no assurance that the Company will be able to procure such low-end handsets on favorable terms such that it can effectively compete in this area.

Revenues from the Company s operations in Hong Kong decreased from $172.9 million to $38.9 million. As the availability in China of in-country manufactured product has increased, sales to the Company s Hong Kong-based customers that ship products to the remainder of China have decreased. Additionally, the Company s primary supplier in Hong Kong has significantly reduced the supply of product available in Hong Kong to encourage the purchase in China of the supplier s in-country manufactured product. Revenues from the Company s operations in Singapore increased $48.8 million to $139.2 million, or 54.0%, due to carrier promotions and increased sales to customers in the India, Malaysia, and Middle Eastern markets. Revenues from the Taiwan operations were $30.0 million, compared to $29.2 million in 2001. The Company s supplier base in Taiwan is limited, and there were no compelling new products from its major supplier. The Company s operations in Taiwan were also affected by the high market penetration rate. Revenues in The Philippines declined from $44.1 million to $25.1 million, primarily due to a large customer purchasing directly from the manufacturer.

North American Region revenues were $558.2 million, a decrease of $20.4 million compared to $578.6 million in 2001. The decrease in North America was primarily due to a $27.0 million decrease in product sales to a major U.S. account which was converted in the first quarter of 2001 to a consignment model with fulfillment fees. The decline was partially offset by growth due to promotions and new products.

In the fourth quarter of 2002, the parent of one of the Company s largest customers announced that some of the customer s lenders under its vendor credit facilities had ceased funding new loan requests, that it was in default on certain credit facilities and that it was seeking new sources of financing and a restructuring of its outstanding indebtedness. These events of default provided the customer s credit facility lenders with certain rights under their credit agreements, including the right to declare their existing loans due and payable. Revenues from this customer were less than 10% of the Company s consolidated revenues for fiscal 2002.

In October of 2002, the Company entered into an agreement with the customer to convert its current business relationship to a primarily consignment relationship. Although the new business model did not have a significant impact on fiscal 2002 revenues, the Company anticipates that revenues in future periods will decrease as the Company receives fulfillment fees for the services provided pursuant to the agreement instead of product revenues. The future impact on net income is dependent upon the volume of fulfillment activity and the amount of fulfillment fees received compared to the gross margin on product sales. There can be no assurance that fulfillment fees under the new agreement will equal historical gross profit. By converting to a primarily consignment relationship, the Company has reduced its accounts receivable exposure. The Company has also

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reduced working capital requirements since the Company will not be required to purchase and hold inventory for that segment of the business relationship. The agreement expired on January 31, 2003 but has been extended through February 28, 2003. The Company expects to extend the current agreement, with certain modifications, until March 31, 2003. During this extension, the Company intends to negotiate a new agreement with this customer. There can be no assurance the agreement will be renewed or that the customer will maintain similar volumes of business in the future. The Company expects a decline in volume for fiscal 2003 which could have a material adverse impact on the Company s financial results.

The Company s operations in the Latin America Region provided $341.6 million of revenues, compared to $411.1 million in 2001, a $69.5 million decrease. Revenues in Mexico, the region s largest revenue contributor, were $185.6 million compared to $250.3 million in 2001 due primarily to a decrease of $49.9 million in sales to the Company s largest carrier customer in Mexico due to increased market competition. Revenues from the Company s Miami export operations were $55.2 million compared to $55.0 million a year ago. Revenues from the Company s Colombia operations were $78.6 million in 2002 and $72.3 million in 2001. As part of the Company s overall plan to reposition its operations and to reduce its in-country exposure in Colombia, the Company is negotiating with its major carrier customer in Colombia to shift the Company s business with the carrier to the Company s Miami export operation. Revenues from the Company s primarily service operations in Chile were $5.7 million in 2002 and $3.8 million in 2001. Combined revenues for the Company s operations in Argentina and Peru, which were divested in the third quarter of 2002, were $16.5 million in 2002 and $28.4 million in 2001. Revenues from the Company s Venezuela operations, which were sold in December 2000, were $1.2 million in 2001.

The Company s European Region operations recorded revenues of $181.3 million, a decrease of $49.4 million, from $230.7 million in 2001. Revenues from the Company s U.K. operations, which were closed in the third quarter of 2002, were $47.5 million in 2002 and $111.4 million in 2001. The Company s Sweden operations decreased $3.6 million from $86.7 million in 2001 to $83.1 million in 2002. Revenues from the Company s Netherlands operations were $50.7 million in 2002 compared to $32.5 million in 2001, an increase of $18.2 million. This increase is being driven by the addition of new customers as well as increased sales to existing customers. The handset market in Europe is highly penetrated and is increasingly driven by replacement sales. Replacement sales have been depressed due to delays in the rollout and acceptance of new handset technologies and services. In January, 2003, the Company signed a letter of intent with local management for the sale of its Netherlands operations. There can be no assurance that the sale will be completed due to a number of contingencies contained in the letter of intent. In addition, as part of the Company s overall plan to reposition its operations, the Company will explore opportunities to sell its operations in Sweden.

Gross Profit. Gross profit decreased $5.0 million from $135.8 million to $130.8 million. Gross profit as a percentage of revenues was 5.9% for fiscal 2002 compared to 5.6% for the prior year. Gross profit as a percentage of revenues improved primarily as a result of additional incentives received from manufacturers and changes in the Company s geographic mix of revenues. Cost of sales in 2002 included a $1.1 million charge related to inventory, the marketability of which was negatively impacted by the Company s decision to exit the U.K., Peru and Argentina operations. The Company recovered $0.9 million in cash associated with the third party theft and fraud losses in the U.K. in 2000. This recovery is recorded in cost of sales in the fourth quarter of 2002.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses decreased $1.1 million from $113.8 million to $112.7 million. This decrease was primarily attributable to a decrease in payroll and benefits of $1.2 million, and bad debt expense of $2.2 million, offset partially by an increase in insurance premiums. Bad debt expense was $4.5 million and $6.7 million in 2002 and 2001, respectively. Bad debt expense in 2001 included a recovery of $3.9 million related to a receivable from a satellite handset customer, which was reserved in the fourth quarter of 2000. Selling, general, and administrative expenses in 2002 included a $1.1 million charge associated with the closure of the Company s operations in the U.K., Peru and Argentina, primarily bad debt expense related to receivables, the collectibility of which was negatively impacted by the Company s decision to exit these operations. Selling, general and administrative expenses for the Company s operations in the U.K., Peru, and Argentina were $7.1 million and $11.3 million in 2002 and 2001,

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respectively. Fiscal year 2002 included $1.1 million in senior management transition costs. In the fourth quarter of 2001, the Company recorded a charge of $3.0 million related to a value-added tax asset in Mexico, the recoverability of which is uncertain. In the fourth quarter of 2002, the Company recorded an additional charge of $1.5 million related to an additional portion of the value-added tax, the recoverability of which is uncertain. Selling, general, and administrative expenses as a percentage of revenues were 5.1% and 4.7%, in 2002 and 2001, respectively.

Impairment of Assets. In the second quarter of 2002, the Company decided as part of its plan to reposition its operations to exit the U.K., Peru and Argentina as soon as practicable. As a result of this decision, an impairment charge of $3.7 million was incurred for the three months ended May 31, 2002, which included $2.2 million for accumulated foreign currency translation adjustments as a result of the Company s liquidation of its investment in each of these operations and $1.5 million for property and equipment. The property and equipment was reduced to estimated market value.

Severance and Exit Charges. In the second quarter of 2002, the Company recorded $2.6 million in severance and exit charges related to the Company s decision to exit the U.K., Peru and Argentina. Of the $2.6 million in severance and exit charges, all of which consisted of cash outlays, $1.8 million has been paid or settled as part of the transfer of the company s Peru and Argentina operations to local management and the shutdown of the U.K. operations and $0.8 million has not been paid as of November 30, 2002. The remaining $0.8 million relates to lease payments associated with the U.K. operations.

The severance and exit charges consist of the following (in thousands):

Severance 80 Employees	$ 1,626
Lease accruals	780
Other	160
	$ 2,566

Separation Agreement. The Company announced on July 6, 2001, that Alan H. Goldfield retired effective immediately from the position of Chairman and Chief Executive Officer and that James L. Rocky Johnson, who has served on the Board of Directors since March 1994, became non-executive Chairman of the Board. Terry S. Parker, a member of the Board of Directors and a former President and Chief Operating Officer of CellStar, rejoined the Company as Chief Executive Officer. The Company recorded expense of $5.7 million in the third quarter of 2001 related to the separation agreement between the Company and Mr. Goldfield. Included in the $5.7 million charge is a cash payment of $4.3 million and stock option compensation expense of $0.6 million.

Restructuring Charge. In connection with its previously announced intent, the Company restructured its Miami facilities in the second quarter of 2001 to reduce the size and cost of those operations, resulting in a charge of $0.8 million, primarily related to the impairment of leasehold improvements.

Equity in Loss of Affiliated Companies. Equity in loss of affiliated companies was $0.8 million in 2001 primarily due to losses from the Company s 49% minority interest in CellStar Amtel. As a result of the deterioration in the Malaysia market, the Company divested its ownership in the third quarter of 2002.

Gain on Sale of Assets. During the first quarter of 2001, the Company recorded a gain on sale of assets of $0.9 million primarily associated with the sale of its Venezuela operations in December 2000.

Interest Expense. Interest expense decreased to $7.6 million from $15.4 million. The decrease was primarily a result of the completion of the Company s exchange offer (see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources) on February 20, 2002, as well as lower borrowing levels and a lower interest rate on the Company s domestic credit facility.

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Impairment of Investment. The Company recorded a $2.2 million impairment charge in the third quarter of 2001 to reduce the carrying value of its 3.5% investment in a Taiwan retailer. The Company purchased its 3.5% investment in the Taiwan retailer in January of 2000 for $4.1 million. The Taiwan retailer s common stock was not traded on a foreign market of the breadth and scope comparable to a U.S. market, and the Company accounted for the investment on the cost basis. The Company used the information it received from an Asian market that is similar to an over-the-counter market in the U.S. as a means of monitoring its investment for other than temporary impairment. Initially the trading price increased significantly (90% above the Company s cost during the first quarter of 2000). During the third quarter of 2000, the price began to decrease but was still above the Company s cost by almost 33%. This downward trend continued into the third quarter of 2001. In addition, the overall Taiwan stock market declined over 50% from January 2000 to August 2001. Beginning with the retailer s first quarter of 2001, the Company also began to receive and review the operating results of the Taiwan retailer on a quarterly basis. The Company s results in Taiwan also declined during this time period which management believed reflected the economic and political environment in Taiwan. Until the third quarter of 2001, management believed these declines were temporary and that conditions would soon improve. During the third quarter of 2001, based on the continuing decline in the trading price, the Taiwan stock exchange, and the Taiwan economy, the Company considered that the decrease in value of its investment was other than temporary. Accordingly, the Company recorded an impairment charge of $2.2 million in the third quarter of 2001 to write-down the Company s investment to the Company s pro rata share of the retailer s net book value, which the Company believed was the best indicator of the fair value of the investee. The Company continued to monitor the overall market conditions in Taiwan and again considered the investment to be impaired in the fourth quarter of 2002 and recorded a charge of $0.1 million to write-down the Company s investment to the Company s pro rata share of the retailer s net book value, which the Company believed was the best indicator of the fair value of the investee. The Company s remaining investment of $1.8 million at November 30, 2002 is included in other assets in the consolidated balance sheet.

Other, Net. Other, net decreased $3.4 million, from income of $5.3 million to income of $1.9 million, primarily due to a gain of $1.3 million in 2001 on foreign currencies compared to a gain of $0.5 million in 2002 and to a reduction in interest income from $3.2 million in 2001 compared to $1.4 million in 2002.

Income Taxes. Income tax expense increased from an expense of $2.2 million in 2001 to an expense of $47.1 million in 2002. The increase in 2002 is primarily a result of a change in the Company s historical accounting treatment for its undistributed earnings and/or losses of its Asia-Pacific Region subsidiaries. Prior to the fourth quarter of 2002, the Company did not accrue for U.S. Federal income taxes or tax benefits on the undistributed earnings and/or losses of its international subsidiaries because earnings have been reinvested and, in the opinion of management, would continue to be reinvested indefinitely. (See Note (7) of the Notes to Consolidated Financial Statements for CellStar Corporation contained in the Form 10-K for fiscal year ended November 30, 2001, filed with the Securities and Exchange Commission on February 28, 2002.) Accordingly, there was no liability recorded for such potential U.S. Federal income taxes. As a result of the progress in the fourth quarter of 2002 in evaluating the strategic options with regard to its Asia-Pacific Region, it was determined that the Company is now required by GAAP to account for the earnings in its Asia-Pacific Region as not being permanently reinvested since the Company has manifested its intent to pursue possible transactions designed to allow the Company to withdraw and return to the U.S. some or all of the value of those operations. Accordingly, in the quarter ended November 30, 2002, the Company was required to accrue U.S. Federal income taxes on the undistributed earnings of the Asia-Pacific Region of approximately $42.2 million.

No U.S. Federal income taxes on the undistributed earnings will be payable until such earnings are actually remitted back to the U.S. in the form of dividends or, in the case of a completed transaction such as those discussed above, sale proceeds. As of November 30, 2002, the Company has net operating loss carryforwards in the U.S. of approximately $70.4 million, a significant portion of which the Company believes it will be able to utilize to offset the taxes payable in the event that a transaction is completed. The Company therefore does not expect that the impact of the payment of any taxes associated with any such transaction will significantly impact the cash position of the Company at the time of such payment. Furthermore, the Company will have cash proceeds from any such transaction to fund the actual payment of such taxes. As a result of the accrual in the

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quarter ended November 30, 2002 of U.S. Federal income taxes on the undistributed earnings of the Asia-Pacific Region, the Company will not recognize tax expense in future periods for financial statement purposes on any such future transaction up to the amount of the tax recognized on the undistributed earnings.

Consistent with the change in historical accounting treatment for undistributed earnings discussed above, the Company recorded U.S. Federal income taxes of approximately $2.0 million in the fourth quarter of 2002 for previously undistributed earnings from Sweden, The Netherlands and Colombia. These previously undistributed earnings are no longer considered permanently reinvested following the completion of the Company s evaluations of these markets.

Extraordinary Gain (Loss) on Early Extinguishment of Debt, Net of Tax. In 2002, the Company had an extraordinary gain, net of tax, of $11.0 million primarily related to the Company s Exchange Offer. (See Note 12 to the Consolidated Financial Statements and Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources). In 2001, as a result of the early termination of its previously-existing revolving credit facility, the Company had an after tax extraordinary loss of $0.6 million, primarily related to the write off of deferred loan costs related to the facility.

Fiscal 2001 Compared to Fiscal 2000

Revenues. The Company s revenues decreased $41.9 million, or 1.7%, from $2,475.7 million to $2,433.8 million. The Company sold 13.7 million handsets in 2001 compared to 11.3 million in 2000. The average selling price of handsets was $160 in 2001 compared to $195 in 2000.

Revenues in the Asia-Pacific Region increased $188.7 million, or 18.4%, from $1,024.8 million to $1,213.5 million. The Company s operations in the PRC provided $876.7 million in revenue, an increase of $296.3 million, or 51.0%, from $580.4 million. Growth in China, where market penetration of handsets was approximately 10% of the total population, was driven by the addition of new wireless subscribers. However, the Company s growth in the PRC was negatively impacted in the fourth quarter of 2001 by the lack of availability of compelling new products and the implementation of new warranty requirements to the manufacturer, which resulted in the delay of consumer purchases. The Company s revenues in the PRC in the fourth quarter of 2001 of $203.0 million were the lowest since the fourth quarter of 2000 when revenues were $179.5 million. Revenues from the Company s operations in Hong Kong increased from $145.0 million in 2000 to $172.9 million in 2001. Revenues from the Company s operations in Singapore increased $47.5 million, or 110.6%, to $90.4 million due to third party subsidies and new products, including sales of two products for which the Company had exclusive rights. Revenues from Taiwan and The Philippines operations decreased $178.5 million, or 85.9%, and $4.6 million, or 9.4%, respectively, to $29.2 million and $44.1 million, respectively. The Company s operations in Taiwan and The Philippines were affected by economic and political turmoil in the respective countries. In addition, the Company s supplier base in Taiwan was limited, and there were no new compelling products from the Company s major supplier.

North American Region revenues were $578.6 million, an increase of $79.4 million, or 15.9%, when compared to $499.2 million. U.S. revenues benefited from strong promotional activity by several customers, as well as from the addition of new customers and expanded markets. Early in the first quarter of 2001, the Company converted a major U.S. account to a consignment basis with fulfillment fees. Revenues for the years ended November 30, 2001 and November 30, 2000, on a comparable basis, were $547.8 million and $399.9 million, respectively. The conversion to consignment did not significantly impact net income, but reduced account receivable exposure, inventory risk, and the need for working capital. By converting to consignment basis, the Company was not required to purchase and hold inventory for this customer which therefore eliminated the Company s exposure to declines in market prices.

The Latin American Region provided $411.1 million of revenues, compared to $636.4 million, or a 35.4% decrease. Revenues in Mexico decreased $133.0 million from $383.3 million in 2000, when the Company benefited from strong carrier promotions, to $250.3 million in 2001. The decrease was primarily due to reduced promotional activities by carrier customers and to reduced business with carrier customers. Revenues for Brazil were $40.6 million in 2000. The Company sold its Brazil operations in August 2000 (see Management s Discussion and Analysis of Financial Condition and Results of Operations International Operations). Revenues from Venezuela operations were $36.6 million in 2000. The Company sold its Venezuela operations in December 2000 (see Management s Discussion and Analysis of Financial Condition and Results of Operations International Operations). Revenues from the Company s operations in Miami decreased $24.1 million from $79.1 million in 2000 to $55.0 million in 2001 as increased product availability from in-country manufacturers in Latin America reduced exports from Miami. The Company phased out a major portion of its redistributor business in its Miami and North American operations, starting in the second quarter of 2000, due to the volatility of the redistributor business, its relatively lower margins, and higher credit risks. As a result, the Company restructured its Miami operations to reduce the size and cost of the operation, resulting in a charge of $0.8 million in the second quarter of 2001. Combined revenues from the operations in Argentina, Chile, Colombia and Peru increased $7.8 million to $104.6 million primarily due to significant promotional activity by a major carrier in Colombia during the first quarter of 2001.

The European Region recorded revenues of $230.7 million, a decrease of $84.7 million, or 26.9%, from $315.4 million, primarily due to the Company s decision to curtail its U.K. international trading operations in April 2000 (see Management s Discussion and Analysis of Financial Condition and Results of Operations International Operations) and a decline in the Company s Sweden operations. Revenues in the U.K. decreased from $163.8 million to $111.4 million, and revenues in Sweden decreased from $118.7 million to $86.7 million. In 2001, the handset market in Europe was highly penetrated and increasingly driven by replacement sales, which were depressed due to delays in the rollout of new handset technologies and services.

Gross Profit. Gross profit increased $24.3 million from $111.5 million, or 4.5% of revenues, to $135.8 million, or 5.6% of revenues. During 2000, the Company incurred $32.3 million in inventory obsolescence primarily as a result of price declines during the second quarter, and $3.2 million in third party theft and fraud losses during the purchase, transfer of title and transport of six shipments of wireless handsets related to the U.K. international trading operations. In 2001, the Company incurred $10.2 million in inventory obsolescence. The increase in gross profit as a percentage of revenues was due to better inventory management and product mix. Also in 2000, the Company s commitment to defend market share in the face of intense global industry price competition, particularly in the Asia-Pacific Region, negatively impacted the gross margin percentage. Based on 1999 s handset shortages and industry forecasts of higher demand, manufacturers significantly increased production in 2000. However, worldwide handset sales, while significantly higher in 2000, were still below industry forecasts. This resulted in a surplus of product during parts of 2000 driving stronger-than-usual competition for market share, mainly in the Asia-Pacific Region and to a lesser extent in the Latin American Region.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased $55.4 million from $169.2 million to $113.8 million. This decrease was principally due to a reduction in bad debt expense of $44.8 million from $51.5 million to $6.7 million in 2001. The bad debt expense in 2000 was primarily related to (i) certain U.S.-based accounts receivable from Brazilian importers, the collectibility of which deteriorated significantly in the second quarter of 2000, and which were further affected by the Company s decision to divest its majority interest in its joint venture in Brazil; (ii) accounts receivable from redistributors, many of which were impacted by a supply shortage in 1999 and were also further affected by the phase-out of a major portion of the redistributor business in the Miami and North America operations; (iii) accounts receivable in the Asia-Pacific Region whose businesses were adversely affected by competitive market conditions in Asia; and (iv) a receivable in the U.S. from a satellite handset customer. Bad debt expense in 2001 included a recovery of $3.9 million related to the receivable from a satellite handset customer, which was reserved in 2000. Selling, general and administrative expenses related to the Brazil and Venezuela operations, which were sold in August 2000 and December 2000, respectively, were $0.2 million in 2001 and $17.8 million in 2000 and included $2.5 million in bad debt expense. In the fourth quarter of 2001, selling, general and administrative expenses included a $3.0 million charge related to value-added taxes.

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Impairment of Assets. In the third quarter of 2000, the Company decided to exit its Venezuela operations. In the third quarter of 2000, the Company recorded a $4.9 million non-cash impairment charge to reduce the carrying value of certain Venezuela assets, primarily goodwill, to their estimated fair value. In December 2000, the Company sold its Venezuela operations. In the fourth quarter of 2000, the Company recorded a non-cash goodwill impairment charge of $6.4 million related to the operations in Peru due to a major carrier customer s proposed changes to an existing contract that adversely changed the long-term prospects of the Peru operations. In 2000, the Company also recorded a charge of $1.0 million to reduce the carrying value of other assets.

Separation Agreement. The Company announced on July 6, 2001, that Alan H. Goldfield retired effective immediately from the position of Chairman and Chief Executive Officer and that James L. Rocky Johnson, who has served on the Board of Directors since March 1994, became Chairman of the Board, and that Terry S. Parker, a member of the Board of Directors and a former President and Chief Operating Officer of the Company, rejoined the Company as Chief Executive Officer. In 2001, the Company recorded expense of $5.7 million related to the separation agreement between the Company and Mr. Goldfield. Included in the $5.7 million charge is a cash payment of $4.3 million and stock option compensation expense of $0.6 million.

Restructuring Charge. The Company restructured its Miami facilities in the second quarter of 2001 to reduce the size and cost of those operations, resulting in a charge of $0.8 million, primarily related to the impairment of leasehold improvements.

Equity in Loss of Affiliated Companies. Equity in loss of affiliated companies was $0.9 million in 2001 and $1.8 million in 2000 primarily due to losses from the Company s 49% minority interest in CellStar Amtel.

Gain on Sale of Assets. The Company recorded a gain on sale of assets of $0.9 million in 2001 primarily associated with the sale of its Venezuela operations in December 2000. In third quarter of 2000, the Company recorded a pre-tax gain of $6.0 million from the completion of the divestiture of its 51% ownership interest in its Brazil joint venture (see Management s Discussion and Analysis of Financial Condition and Results of Operations International Operations). During the third quarter 2000, the Company also completed the sale of its Poland operations and recognized a pre-tax gain of $0.2 million.

Interest Expense. Interest expense decreased to $15.4 million in 2001 from $19.1 million in 2000. This decrease was primarily related to the elimination of debt of the Brazil operations, which were sold in August 2000, and to a lesser extent, lower borrowings and interest rates on the Company s revolving credit facility. These decreases were partially offset by interest on additional borrowings in the Asia-Pacific Region.

Impairment of Investment. In 2001, the Company recorded an impairment charge of $2.2 million to reduce the carrying value of its 3.5% interest in a Taiwan retailer. The Company purchased its 3.5% investment in the Taiwan retailer in January of 2000 for $4.1 million. The Taiwan retailer s common stock was not traded on a foreign market of the breadth and scope comparable to a U.S. market, and the Company accounted for the investment on the cost basis. The Company used the information it received from an Asian market that is similar to an over-the-counter market in the U.S. as a means of monitoring its investment for other than temporary impairment. Initially the trading price increased significantly (90% above the Company s cost during the first quarter of 2000). During the third quarter of 2000, the price began to decrease but was still above the Company s cost by almost 33%. This downward trend continued into the third quarter of 2001. Beginning with the retailer s first quarter of 2001, the Company also began to receive and review the operating results of the Taiwan retailer on a quarterly basis. In addition, the overall Taiwan stock market declined over 50% from January 2000 to August 2001. The Company s results in Taiwan also declined during this time period which management believed reflected the economic and political environment in Taiwan. Until the third quarter of 2001, management believed these declines were temporary and that conditions would soon improve. During the third quarter of 2001 based on the continuing decline in the trading price, the Taiwan stock exchange, and the Taiwan economy, the Company considered that the decrease in value of its investment was other than temporary. Accordingly, the Company recorded an impairment charge of $2.2 million in the third quarter of 2001 to write-

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down the Company s investment to the Company s pro rata share of the retailer s net book value, which the Company believed was the best indicator of the fair value of the investee.

Other, Net. Other, net increased $4.4 million, from income of $0.9 million to income of $5.3 million, primarily due to gains on foreign currencies related to European operations in 2001 compared with losses in 2000.

Income Taxes. Income tax expense increased from a benefit of $20.8 million in 2000 to an expense of $2.2 million in 2001 due to changes in pretax income. The Company s annual effective tax rate for 2001 was 65% and for 2000 was 25%. The increase in the effective tax rate for 2001 is primarily due to the impact of non-deductible items. The impact of the non-deductible items is greater in 2001 due to the smaller amount of pretax income.

Extraordinary loss on early extinguishment of debt, net of tax. As a result of the early termination of its previously-existing revolving credit facility, the Company had an after tax extraordinary loss of $0.6 million, primarily related to the write off of deferred loan costs related to the facility.

Liquidity and Capital Resources

The following table summarizes the Company s contractual obligations at November 30, 2002 (amounts in thousands):

		Payments Due By Period			
	Total	**Less than One Year**	**One to Three Years**	**Four to Five Years**	**More than Five Years**
Contractual obligations					
Notes payable					
Revolving credit facility (variable interest, 5.25% at November 30, 2002)	$ 23,089	23,089			
People s Republic of China credit facilities (0.00% to 5.85% at November 30, 2002)	30,258	30,258			
12% senior subordinated notes	12,374			12,374	
Operating leases	9,154	3,721	4,678	543	212
Total contractual obligations	$ 74,875	57,068	4,678	12,917	212

During the year ended November 30, 2002, the Company relied primarily on cash available at November 30, 2001, funds generated from operations, borrowings under its credit facilities and cash generated from the closure and/or divestiture of certain of its operations to fund working capital, capital expenditures and expansions.

On October 15, 1997, the Company entered into a five year $135.0 million Multicurrency Revolving Credit Facility (the Facility) with a syndicate of banks. During fiscal year ended November 30, 1999, the amount of the Facility was reduced from $135.0 million to $115.0 million due to the release of a syndication member bank. The Company entered into three amendments during fiscal year 2000 and two additional amendments during the first quarter of 2001 to allow it to remain in compliance with certain covenants.

On February 27, 2001, the Company and its banking syndicate executed a Second Amended and Restated Credit Agreement which further reduced the amount of the Facility to $85.0 million and called for further reductions in the amount of the facility during the remainder of the Company s fiscal year. The Second Amended and Restated Credit Agreement called for an interest rate increase, shortened the term of the Facility, provided for additional collateral for the Facility, provided for dominion of funds by the banks for the Company s domestic operations, limited the borrowing base and tightened restrictions on the Company s ability to fund its operations.

As of September 28, 2001, the Company had negotiated and finalized a new, five-year, $60.0 million Loan and Security Agreement (the New Facility) with a bank and terminated the previously existing Facility. On

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October 12, 2001 the Company finalized an amendment to the New Facility increasing the commitment amount from $60.0 million to $85.0 million. The New Facility lowers the applicable interest rate margin by 25 basis points from its level at August 31, 2001, and provides a more extensive borrowing base, more flexible financial covenants and greater flexibility in funding foreign operations.

Fundings under the New Facility are limited by a borrowing base test, which is measured weekly. Interest on borrowings under the New Facility is at the London Interbank Offered Rate or at the bank s prime lending rate, plus an applicable margin. The New Facility is also 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. The New Facility is further secured by the Company s domestic accounts receivable, inventory, property, plant and equipment and all other domestic real property and intangible assets. The New Facility contains, among other provisions, covenants relating to the maintenance of minimum net worth and certain financial ratios, exchanging, refinancing or extending of the Company s convertible notes, dividend payments, additional debt, mergers and acquisitions and disposition of assets. As of November 30, 2002, the Company had borrowed $23.1 million under the New Facility.

In connection with the Company s decision to reposition its operations (See Management s Discussion and Analysis of Financial Condition and Results of Operations International Operations Repositioning of Operations) the New Facility was amended to allow the Company to pursue its exit strategy from the U.K., Peru and Argentina, and any similar decision the Company may make with respect to the balance of its European and Latin American markets, excluding Mexico and Miami.

On February 6, 2003, the Company finalized an amendment to the New Facility that allowed for the exclusion of certain charges from certain financial covenants in the loan agreement related to credit facilities that it may establish in its Mexico operations. On February 28, 2003, the Company completed an amendment to the New Facility that allowed for the exclusion of U.S. Federal income taxes on undistributed earnings associated with the Company s Asia-Pacific, European, and Latin American Regions, excluding Mexico and Miami, from certain financial covenants in the loan agreement (see Management s Discussion and Analysis of Financial Condition and Results of Operations).

As of February 20, 2003, the Company had borrowed $20.9 million under the New Facility.

At November 30, 2002, the Company s operations in China had three lines of credit totaling approximately 250 RMB (approximately USD $30.3 million), bearing interest at rates ranging from 0.00% to 5.85%. The loans have maturity dates through March 2003. The Company typically renews these lines of credit for three to six month terms, although there can be no assurance that these lines of credit will be renewed in the future. The lines of credit are either fully or partially collateralized.

The fully collateralized loans (approximately $25.2 million) are collateralized by either U.S. dollar cash deposits in Hong Kong ($5.8 million of loans collateralized by a $7.0 million cash deposit) or PRC accounts receivable ($19.4 million of loans). The partially collateralized loans total $5.1 million and are collateralized by $1.0 million in cash in the PRC. Restricted cash of $12.2 million in Hong Kong was serving as collateral for an additional $12.0 million line of credit in the PRC that was not utilized as of November 30, 2002. An additional $3.0 million of restricted cash in Hong Kong was unutilized at November 30, 2002.

At February 20, 2003, the Company had borrowings of $45.9 million in its China operations. The borrowings were similarly either fully or partially collateralized as described above by cash deposits or by PRC accounts receivable.

On October 24, 2002, the Company entered into a revolving credit facility in Sweden of 70 million Swedish Krona (approximately $7.5 million). The facility is secured by the accounts receivable of the Sweden operations and bears interest at a rate of 5.60%. The facility matures on December 31, 2003, but is automatically extended for 12 months unless terminated by one of the parties. The credit facility contains certain financial and other

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covenants for the Sweden operations. At November 30, 2002, the Company had no borrowings under this facility. At February 20, 2003, the Company had borrowed approximately $4.7 million under this line of credit.

The Company entered into a 6.0 million Euro (approximately $6.2 million) credit facility on December 20, 2002 in The Netherlands. The facility is collateralized by accounts receivable, inventory and fixed assets from the Company s Netherland operations and bears interest at a variable rate, which consists of the bank s Euro Base rate, plus a margin. The interest rate of the facility is currently 5.00%. The facility may be terminated without notice by either party. The credit facility contains certain financial and other covenants for The Netherlands operations. At November 30, 2002, the Company had no borrowings under this facility. At February 20, 2003, the Company had borrowed approximately $5.9 million under this line of credit.

The credit facilities in Sweden and the Netherlands were established to pay off intercompany loans, remit cash to the U.S., and to lower the Company s net working capital investment in these operations. As of February 13, 2003, the Company has returned $10.1 million to the U.S. as a result of entering into these credit facilities. By leveraging the assets of these operations and returning cash to the U.S, the Company believes that it has enhanced the potential marketability of these businesses.

On December 30, 2002, the Company entered into a 30 million Taiwan dollar (approximately $0.9 million) line of credit in Taiwan. The Taiwan line of credit is collateralized by real estate owned in Taiwan, bears interest at 2.70%, and matures on February 27, 2003.

At November 30, 2001, the Company had $150.0 million of 5% convertible subordinated notes due October 15, 2002 (the Subordinated Notes), which were convertible into 1.1 million shares of common stock at $138.34 per share (adjusted for the effect of the one-for-five reverse stock split effective on February 22, 2002) at any time prior to maturity.

On January 14, 2002, the Company filed an S-4 registration statement (the Exchange Offer) with the Securities and Exchange Commission offering to exchange, for each $1,000 principal amount of the Subordinated Notes, $366.67 in cash and, at the election of the holder, one of the following options: a) $400.94 principal amount of 12% Senior Subordinated Notes due January 2007 (the Senior Notes), b) $320.75 principal amount of Senior Notes and $80.19 principal amount of 5% Senior Subordinated Convertible Notes due November 2002, (the Senior Convertible Notes), or c) $400.94 principal amount of Senior Convertible Notes.

On February 20, 2002, the Company completed its Exchange Offer for its Subordinated Notes. Holders owning $128.6 million of Subordinated Notes exchanged them for $47.2 million in cash, $12.4 million of Senior Notes and $39.1 million of Senior Convertible Notes. Upon completion of the Exchange Offer, $21.4 million of the Subordinated Notes were not exchanged. The Company recognized an extraordinary gain of $11.0 million after-tax in 2002 as a result of the exchange.

Between February 20, 2002, and July 29, 2002, the Company purchased, for a combination of cash and its common stock, $4.5 million of its Subordinated Notes. On October 15, 2002, the Company redeemed at maturity, for cash, the remaining $16.9 million of its Subordinated Notes.

The $39.1 million of Senior Convertible Notes were manditorily convertible into the Company s common stock on November 30, 2002, and bore interest at 5%, payable semi-annually in arrears, in either cash or stock, at the Company s option, on August 15, 2002, and November 30, 2002. The Senior Convertible Notes were converted into 7.8 million shares of the Company s common stock at a conversion price of $5.00 per share (adjusted for the effect of the one-for-five reverse stock split effective on February 22, 2002).

At November 30, 2002, long-term debt consisted of $12.4 million of the Company s Senior Notes. The Senior Notes bear interest at 12%, payable in cash in arrears semi-annually on February 15 and August 15, commencing August 15, 2002. The Senior Notes contain certain covenants that restrict the Company s ability to

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incur additional indebtedness; make investments, loans and advances; declare dividends or certain other distributions; create liens; enter into sale-leaseback transactions; consolidate; merge; sell assets and enter into transactions with affiliates.

Cash, cash equivalents, and restricted cash at November 30, 2002 were $53.0 million, compared to $89.3 million at November 30, 2001, primarily reflecting the use of the cash for the Exchange Offer, to redeem the Subordinated Notes at maturity, and to reduce debt in the Company s operations in the Asia-Pacific Region.

Compared to November 30, 2001, accounts receivable decreased from $216.0 million to $175.1 at November 30, 2002. Accounts receivable days sales outstanding for fiscal year 2002, based on monthly accounts receivable balances, were 31.5, compared to 36.1 for fiscal year 2001. Inventories declined to $163.2 million at November 30, 2002, from $218.9 million at November 30, 2001. Inventory turns for fiscal year 2002, based on monthly inventory balances, were 10.4 turns per year, compared to 10.7 for fiscal year 2001. Accounts payable declined to $166.1 million at November 30, 2002, compared to $229.0 million at November 30, 2001. Working capital balances have declined in connection with the conversion in the U.S. of a large customer to a primarily consignment relationship (See Business-North American Region). The Company experienced a decrease in accounts receivable, inventory and accounts payable of approximately $30 million, $9 million and $35 million, respectively, from November 30, 2001, to November 30, 2002, due to the conversion. The closure of the Company s U.K. operations and the divestiture of the Company s Peru and Argentina operations during 2002 has also contributed to the decline. Additionally, management has worked aggressively to reduce accounts receivable and inventory levels and improve turnover through tightening of credit policies to limit risk, aggressive collection efforts, and better purchasing and inventory management.

Management of the Company has made a number of estimates and assumptions related to the reporting of the allowance for doubtful accounts and the reserve for inventory obsolescence in preparation of the consolidated financial statements in conformity with generally accepted accounting principles. 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, the financial condition of the customer, economic conditions in the customer s country and industry conditions. 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 expects to receive from the vendor. Actual amounts could differ significantly from management s estimates.

There is no effect on liquidity due to transactions, arrangements or relationships with unconsolidated entities.

Based upon current and anticipated levels of operations, the Company anticipates that its cash flow from operations, together with amounts available under its credit facilities and existing unrestricted cash balances, will be adequate to meet its anticipated cash requirements in the foreseeable future. In the event that existing unrestricted cash balances, cash flows and available borrowings under the credit facilities are not sufficient to meet future cash requirements, the Company may be required to reduce planned expenditures or seek additional financing. The Company can provide no assurances that reductions in planned expenditures would be sufficient to cover shortfalls in available cash or that additional financing would be available or, if available, offered on terms acceptable to the Company.

International Operations

The Company s foreign operations are subject to various political and economic risks including, but not limited to, the following: political instability, economic instability, currency controls, currency devaluations, exchange rate fluctuations, potentially unstable channels of distribution, increased credit risks, export control laws that might limit the markets the Company can enter, inflation, changes in laws and enforcement policies related to foreign ownership of businesses abroad, foreign tax laws, trade disputes among nations, changes in cost of and access to capital, changes in import/export regulations, including enforcement policies, gray market resales, and tariff and freight rates.

In addition to the factors listed above, threats of terrorist attacks in the United States, the U.S. retaliation for these attacks, possible U.S. military action in Iraq, the related decline in consumer confidence and continued economic weakness in the U.S. and throughout the countries in which the Company does business could have a material adverse impact on our business.

Asia-Pacific

The Company believes that the intrinsic value of its Asia-Pacific Region is not currently reflected in the market price of the Company s common stock. As a result, the Company engaged UBS Warburg to assist it in evaluating transactions that could result in recognizing the value that it believes is locked up in the Asia-Pacific Region. Those evaluations have focused on a number of possible transactions including a possible initial public offering of all or a portion of the Asia-Pacific Region operations, a sale to outside investors or a management buyout. Based on these evaluations, the Company has decided to pursue an initial public offering of its Greater China Operations on an exchange in Asia. Although the Company intends to pursue the transaction that it believes will be most favorable to the Company, there are a number of steps to be completed before there is such a transaction. Accordingly, there can be no assurance of the timing of the transaction or that any transaction will occur.

The Company began exploring possible methods of realizing the value of its operations in Hong Kong, the PRC, and Taiwan (the Greater China Operations) in late Spring 2002. In June 2002, the Company engaged the Hongkong and Shanghai Banking Corporation Limited to act as the lead underwriter if the Company decided to pursue an initial public offering of the Greater China Operations (the IPO). In July 2002, the Company engaged UBS Warburg to act as financial advisor to the Company to assist the Company in evaluating and structuring a potential offering as well as to review other possible transactions which could achieve the Company s goals. In July 2002, the Company entered into a new employment agreement with A.S. Horng, Chairman, Chief Executive Officer and General Manager of CellStar (Asia) Corporation Limited, in anticipation of the expiration of the existing employment agreement in January 2003. As an incentive for Mr. Horng to enter into such agreement, the Company agreed to pay a signing bonus of $1.5 million, and also agreed to pay an additional bonus in the amount of $1.5 million upon the successful completion of any public offering related to the Asia-Pacific Region. In September 2002, the Company engaged Raymond James & Associates, Inc. (Raymond James) as an additional financial advisor to advise the Board on the fairness of a proposed transaction. In September 2002, the Company submitted an outline of the proposed structure for the IPO to the Stock Exchange of Hong Kong (SEHK) seeking informal approval of the proposed structure. Throughout the period from September 2002 to January 2003, the Company was responding to comments and concerns of the SEHK. In January 2003, the SEHK advised the Company that it had tentatively approved the proposed structure. On March 13, 2003, the Board of Directors received the Raymond James fairness opinion, approved the terms of the transaction and authorized management to proceed with the listing on the SEHK and the filing of a preliminary proxy statement with the SEC. Throughout the period from September 2002 to March 2003, the Company was negotiating the terms of the transaction with the CellStar Asia management team. On March 14, 2003, the Company entered into a non-binding letter of intent with the CellStar Asia management team setting forth the structure of the proposed transaction and the proposed agreements between the CellStar Asia management team and the Company. On March 14, 2003, the Company filed the preliminary proxy statement with the SEC, and on March 17, 2003, the Company filed documents with the SEHK to commence the process of applying for listing.

As a result of such evaluation process, however, the Company is now required by GAAP to effect a change in its historical accounting treatment for the undistributed earnings of its Asia-Pacific Region subsidiaries. Prior to the fourth quarter of 2002, the Company did not accrue for U.S. Federal income taxes or tax benefits on the undistributed earnings and/or losses of its international subsidiaries because earnings have been reinvested and, in the opinion of management, would continue to be reinvested indefinitely. (See Note (7) of the Notes to Consolidated Financial Statements for CellStar Corporation contained in the Form 10-K for fiscal year ended

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November 30, 2001, filed with the Securities and Exchange Commission on February 28, 2002.) Accordingly, there was no liability recorded for such potential U.S. Federal income taxes. As a result of the progress in the fourth quarter of 2002 in evaluating the strategic options with regard to its Asia-Pacific Region, it was determined that the Company is now required by GAAP to account for the earnings in its Asia-Pacific Region as not being permanently reinvested since the Company has manifested its intent to pursue possible transactions designed to allow the Company to withdraw and return to the U.S. some or all of the value of those operations. Accordingly, in the quarter ended November 30, 2002, the Company was required to accrue U.S. Federal income taxes on the undistributed earnings of the Asia-Pacific Region of approximately $42.2 million.

As noted above, the Company began to explore its options in regards to the Asia-Pacific Region in the Spring of 2002. In exploring the options, an IPO was the alternative that would most likely result in the highest value for the stockholders. Before the IPO was a realistic possibility, a number of issues had to be resolved, the failure of which could potentially stop the IPO. These items included the participation of the CellStar Asia management team, the approval of a structure by the SEHK, and a fairness opinion from Raymond James. It was not until late in the fourth quarter of 2002 and into the first quarter of 2003 that it became apparent to the Company that an IPO was a realistic possibility. During the second to fourth quarters of 2002, the Company also had to evaluate its options if the IPO was not a realistic possibility, and determine if the stockholders would be better served by a management buyout, a third party sale, or the Company maintaining the Greater China Operations and continuing to operate them. As the Company had previously reinvested the earnings in its Asia-Pacific operations and met the indefinite reversal criteria of APB 23 and the Company did not change its view that earnings were permanently invested, the Company did not believe it was proper to change the tax treatment of these undistributed earnings until the Company determined that the circumstances had changed and that it was apparent that some or all of the undistributed earnings would be remitted in the foreseeable future. This did not become apparent to the Company until the fourth quarter of 2002.

No U.S. Federal income taxes on the undistributed earnings will be payable until such earnings are actually remitted back to the U.S. in the form of dividends or, in the case of a completed transaction such as those discussed above, sale proceeds. As of November 30, 2002, the Company has net operating loss carryforwards in the U.S. of approximately $70.4 million, a significant portion of which the Company believes it will be able to utilize to offset the taxes payable in the event that a transaction is completed. The Company therefore does not expect that the impact of the payment of any taxes associated with any such transaction will significantly impact the cash position of the Company at the time of such payment. Furthermore, the Company will have cash proceeds from any such transaction to fund the actual payment of such taxes. As a result of the accrual in the quarter ended November 30, 2002, of U.S. Federal income taxes on the undistributed earnings of the Asia-Pacific Region, the Company will not recognize tax expense in future periods for financial statement purposes on any such future transaction up to the amount of the tax recognized on the undistributed earnings.

Repositioning of Operations

In April 2000, the Company curtailed a significant portion of its U.K. international trading operations following third party theft and fraud losses. The trading business involves the purchase of products from suppliers other than manufacturers and the sale of those products to customers other than network operators or their dealers and other representatives. As a result of the curtailment, the Company experienced a reduction in revenues for the U.K. operations after the first quarter of 2000 compared to 1999. Since the curtailment, the Company experienced operating losses in its U.K. operations. For the quarter ended May 31, 2000, the Company recorded a $4.4 million charge consisting of $3.2 million from third party theft and fraud losses during the purchase, transfer of title and transport of six shipments of wireless handsets, and $1.2 million in inventory obsolescence expense for inventory price reductions incurred while the international trading business was curtailed pending investigation. The Company has recovered $0.9 million in cash associated with the third party theft and fraud losses. This recovery is recorded in cost of sales in the fourth quarter of 2002. The Company is pursuing legal action where appropriate to recover additional amounts. However, the ultimate recovery in relation to these losses, if any, cannot be determined at this time.

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The Argentine economy has been in a state of turmoil since the Argentine government removed the fixed exchange rate maintained between the Argentine peso and the U.S. dollar. In the fourth quarter of 2000, the Company recorded a non-cash goodwill impairment charge of $6.4 million related to the operations in Peru due to a major carrier customer s proposed changes to an existing contract that adversely affected the long-term prospects of the Peru operations. From the second quarter of 2001 until the divestiture in the third quarter of 2002, the Company incurred losses in its Peru operations.

In the second quarter of 2002, the Company decided, as part of its plan to reposition its operations, to exit the U.K., Peru and Argentina as soon as practicable due to the poor performance of these operations. The Company determined that improving its position in the U.K. market would require substantial investment, which the Company was not willing to make. The economic climate in Peru and Argentina, coupled with the small scale of the Company s operation in those countries, provided little upside and significant risk. In addition, the Company decided to evaluate the balance of its European and Latin American markets, excluding Mexico and Miami, over the remainder of the year, assessing each operation in view of its over-all long-term strategy. In conjunction with this decision, the Company s revolving credit facility was amended to allow the Company to pursue its exit strategy from these markets, and any similar decision the Company may make with respect to the balance of its European and Latin American operations. As a result of the decision to exit the U.K., Peru and Argentina, the Company recorded a pre-tax charge of $10.2 million for the three months ended May 31, 2002.

During the third quarter of 2002, the Company completed its divestitures of its Peru and Argentina operations at approximately book value to local management and closed the U.K. operations, except for certain administrative matters. In the divestitures, the Company obtained promissory notes totaling $0.9 million and $0.2 million for Peru and Argentina, respectively. These promissory notes are fully reserved and will remain reserved pending receipt of payments by the Company. In the third and fourth quarters of 2002, the Company reversed $3.3 million of the allowances related to the exit charge for the U.K. operations as the amounts collected on accounts receivable and the market value of the inventory exceeded original estimates. Also, due to the progress made with the tax authorities, the valuation allowance was reversed on an income tax receivable.

The following table summarizes the income statement classification of the charge (in thousands):

	Three months ended May 31, 2002	Reversal of allowances	Net charge
Cost of Sales	$ 2,256	(1,131)	1,125
Selling, general and administrative	1,691	(588)	1,103
Impairment of assets	3,655		3,655
Severance and exit charges	2,566		2,566
Total charge	10,168	(1,719)	8,449
Tax benefit	(184)	(1,541)	(1,725)
Net charge	$ 9,984	(3,260)	6,724

Of the $2.6 million in severance and exit charges, all of which consisted of expected cash outlays, $1.8 million has been paid or settled as part of the divestiture of the Company s Peru and Argentina operations and the shutdown of the U.K. operations. The remaining $0.8 million relates to lease payments associated with the U.K. operations and has not yet been paid as of November 30, 2002. Monthly lease payments are expected to be made over the next five years unless a settlement can be reached with the lessor.

The severance and exit charges consists of the following (in thousands):

Severance 80 employees	$ 1,626
Lease accruals	780
Other	160
	$ 2,566

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In connection with the repositioning of its operations, the Company announced that Dale H. Allardyce would resign from the position of President and Chief Operating Officer and that Terry S. Parker, the Company s Chief Executive Officer, would assume the duties of President and Chief Operating Officer. Included in the severance charges is $0.6 million related to Mr. Allardyce s separation. The severance charge includes all of the employees (58) for the U.K. operations and certain employees (21) for Argentina. The remaining employees in Argentina and Peru were part of the divestiture.

The Company recorded an impairment charge of $3.7 million for the three months ended May 31, 2002, which included $2.2 million for accumulated foreign currency translation adjustments as a result of the Company s liquidation of its investments in each of these operations and $1.5 million for property and equipment. The property and equipment were reduced to estimated market value of $0.1 million.

Following is a summary of the combined results of operations, including the exit charge in the U.K., Peru, and Argentina (in thousands):

	Fiscal year ended November 30,		
	2002	**2001**	**2000**
Revenues	$ 63,942	139,916	$ 203,382
Cost of sales	61,585	134,863	196,426
Gross profit	2,357	5,053	6,956
Selling, general and administrative expenses	6,893	10,368	8,502
Impairment of assets	3,655		6,435
Severance and exit charges	2,566		
Operating loss	$ (10,757)	(5,315)	(7,981)

As of February 14, 2003, the Company has repatriated $7.7 million in cash to the U.S. from the exited operations.

The Company has completed the evaluation of the balance of its European and Latin American markets, excluding Mexico and Miami. The Company has decided to continue its operations in Chile as these operations are expected to continue to be profitable and to generate cash. To reduce its in-country exposure in Colombia, the Company is negotiating with its major carrier customer in Colombia to shift the Company s business with the carrier to the Company s Miami export operation. In January 2003, the Company signed a letter of intent with local management for the sale of its Netherlands operations. There can be no assurance that the sale will be completed due to a number of contingencies contained in the letter of intent. The Company will explore opportunities to sell its operations in Sweden. In Sweden and The Netherlands, the market is highly competitive and highly penetrated. The operations in Sweden and The Netherlands do not present significant growth opportunities without significant investment of capital. The Company excluded Miami from the evaluation due to the recent performance of this operation and the export opportunities into Latin America that the Company believes exist in this market. Despite the disappointing performance in Mexico, the Company believes growth and profit potential exist in the Mexico market due to the size of this market. However, significant improvement in the Company s Mexico operations will need to be made in 2003. If significant improvement is not made, the Company will evaluate its overall position in its Mexico operations.

Consistent with the change in historical accounting treatment for undistributed earnings in the Asia-Pacific Region, the Company recorded U.S. Federal income taxes of approximately $2.0 million in the fourth quarter of 2002 for previously undistributed earnings from Sweden, The

Netherlands and Colombia. These previously undistributed earnings are no longer considered permanently reinvested following the completion of the Company s evaluations of these markets.

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Other

At November 30, 2002, the Company has a gross value-added tax prepaid asset in its Mexico operations of $10.7 million related to the Company s 1998 to 2001 returns. The Company is seeking resolution of this issue with the tax authorities in Mexico. In the fourth quarter of 2001, the Company recorded a charge of $3.0 million related to such value-added tax, the recoverability of which is uncertain. In the fourth quarter of 2002, the Company recorded an additional charge of $1.5 million related to an additional portion of the value-added tax, the recoverability of which is uncertain.

In Mexico, the requirements of the Mexican tax authority for a refund request specify that all original documents (original invoices, original import documents, etc.) must be available for review by the tax authority in order to substantiate the refund claim. The gross asset balance of $10.7 million consists of amounts accumulated for the period from 1998 through 2001. Numerous personnel changes and computer system changes in the Company s Mexico operations have led the Company to conclude that all of the original supporting documentation may not be available. While the Company is pursuing the full refund request of $10.7 million with the tax authorities, the supporting documentation may not meet the requirements of the Mexican tax authorities for the full refund request. As a result of the Company s review of the documentation, the Company recorded a charge for $3.0 million in the fourth quarter of 2001 and an additional charge of $1.5 million in the fourth quarter of 2002. The Company believes it has all of the documentation necessary to support the net balance.

The Company s sales from its Miami operations to customers exporting into South American countries have declined as a result of increased in-country manufactured product availability in South America, primarily Brazil. In the second quarter of 2000, the Company phased out a major portion of its redistributor business in Miami due to the volatility of the business, the relatively lower margins, and higher credit risks. The Company restructured its Miami operations in the second quarter of 2001 to reduce the size and cost of the operation, resulting in a charge of $0.8 million, primarily related to the impairment of leasehold improvements.

In 2000 and 2001, the Company incurred losses of $1.8 million and $0.7 million, respectively, related to its minority interest in CellStar Amtel. As a result of the deterioration in the Malaysia market, the Company divested its ownership in the third quarter of 2002.

During the third quarter ended August 31, 2000, the Company decided, based on the current and future economic and political outlook in Venezuela, to divest its operations in Venezuela. In that quarter, the Company recorded an impairment charge of $4.9 million to reduce the carrying value of certain Venezuela assets, primarily goodwill, to their estimated fair value. In December 2000, the Company completed the sale of its Venezuela operations and recorded a gain of $1.1 million.

From 1998 to 2000, the Company s Brazil operations were primarily conducted through a majority-owned joint venture. Following a review of its operations in Brazil, the Company concluded that its joint venture structure, together with foreign exchange risk, the high cost of capital in that country, alternative uses of capital, accumulated losses, and the prospect of ongoing losses, were not optimal for success in that market. As a result, in the second quarter of 2000, the Company elected to exit the Brazil market and to divest its 51% interest in its joint venture. In August 2000, the Company completed its divestiture of its 51% interest in its joint venture. The Company fully reserved certain U.S.-based accounts receivable from Brazilian importers in the second quarter of 2000, the collectibility of which significantly deteriorated in the second quarter of 2000, and which were further affected by the decision, in the second quarter of 2000, to exit Brazil.

Impact of Inflation

Historically, inflation has not had a significant impact on CellStar s overall operating results as the majority of the Company s business is in markets that are relatively stable. However, the effects of inflation could have a

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material adverse impact on the Company if the markets become unstable. The following table summarizes the revenues and percentages of consolidated revenues for the Company s five largest geographical operations for the year ended November 30, 2002 (dollars in thousands):

Operation	Revenues	Percent
PRC	$ 882,033	40.2%
U.S.	613,402	27.9
Mexico	185,627	8.5
Singapore	139,188	6.3
Sweden	83,139	3.8
All others	293,225	13.3
Total	$ 2,196,614	100.0%

Critical Accounting Policies

The Securities and Exchange Commission issued Financial Reporting Release No. 60 which requires all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. Note 1 of the Notes to the Consolidated Financial Statements includes a summary of the significant accounting policies and methods used in the preparation of the Company s Consolidated Financial Statements. The following is a brief discussion of the more critical accounting policies and methods used by the Company.

(a) Significant Estimates

Management of the Company has made a number of estimates and assumptions related to the reporting of assets and liabilities in preparation of the consolidated financial statements in conformity with generally accepted accounting principles. The most significant estimates relate to the allowance for doubtful accounts, the reserve for inventory obsolescence, the deferred tax asset valuation allowance and impairment of goodwill.

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. In some years, the Company has experienced significant amounts of bad debt, including $51.5 million in 2000. In 2000, the decline in the redistributor market in the North American Region and Miami, the decision to exit the Brazil market, and the competitive market conditions significantly impacted bad debt expense. Actual amounts could differ significantly from management s estimates.

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 expects to receive from the vendor. In some years, the Company has experienced significant amounts of inventory obsolescence, including $32.3 million in 2000. After a supply shortage in 1999, there was an oversupply of product resulting in intense price competition in 2000, which significantly impacted obsolescence. Actual amounts could differ significantly from management s estimates.

In assessing the realizability of deferred income tax assets, management considers whether it is more likely than not that the deferred income tax assets will be realized. At November 30, 2002 the Company has deferred income tax assets, net of valuation-allowances, of $53.0 million, a significant portion of which relates to net operating loss carryforwards. The ultimate realization of deferred income tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences are deductible. Management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred income tax assets are deductible, management determines if it is more likely than not that the Company will realize the benefits of these deductible differences. The amount of the deferred income tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carry-forward period are reduced.

As a result of the Exchange Offer, the Company was deemed to have undergone an ownership change for purposes of the Internal Revenue code. The Company may have limitations beginning with the year ending November 30, 2002 on the utilization of its U.S. tax carry-forwards in accordance with Section 382 of the Internal Revenue Code.

Prior to the fourth quarter of 2002, the Company did not accrue for U.S. Federal income taxes or tax benefits on the undistributed earnings and/or losses of its international subsidiaries because earnings have been reinvested and, in the opinion of management, would continue to be reinvested indefinitely. (See Note (7) of the Notes to Consolidated Financial Statements for CellStar Corporation contained in the Form 10-K for fiscal year ended November 30, 2001, filed with the Securities and Exchange Commission on February 28, 2002.) Accordingly, there was no liability recorded for such potential U.S. Federal income taxes. As a result of the progress in the fourth quarter of 2002 in evaluating the strategic options with regard to its Asia-Pacific Region, it was determined that the Company is now required by GAAP to account for the earnings in its Asia-Pacific Region as not being permanently reinvested since the Company has manifested its intent to pursue possible transactions designed to allow the Company to withdraw and return to the U.S. some or all of the value of those operations. Accordingly, in the quarter ended November 30, 2002, the Company was required to accrue U.S. Federal income taxes on the undistributed earnings of the Asia-Pacific Region of approximately $42.2 million.

No U.S. Federal income taxes on the undistributed earnings will be payable until such earnings are actually remitted back to the U.S. in the form of dividends or, in the case of a completed transaction such as those discussed above, sale proceeds. As of November 30, 2002, the Company has net operating loss carryforwards in the U.S. of approximately $70.4 million, a significant portion of which the Company believes it will be able to utilize to offset the taxes payable in the event that a transaction is completed. The Company therefore does not expect that the impact of the payment of any taxes associated with any such transaction will significantly impact the cash position of the Company at the time of such payment. Furthermore, the Company will have cash proceeds from any such transaction to fund the actual payment of such taxes. As a result of the accrual in the quarter ended November 30, 2002 of U.S. Federal income taxes on the undistributed earnings of the Asia-Pacific Region, the Company will not recognize tax expense in future periods for financial statement purposes on any such future transaction up to the amount of the tax recognized on the undistributed earnings.

Consistent with the change in historical accounting treatment for undistributed earnings discussed above, the Company recorded U.S. Federal income taxes of approximately $2.0 million in the fourth quarter of 2002 for previously undistributed earnings from Sweden, The Netherlands and Colombia. These previously undistributed earnings are no longer considered permanently reinvested following the completion of the Company s evaluations of these markets.

At November 30, 2002, the Company had not provided for U.S. Federal income taxes on earnings of international subsidiaries of approximately $21.6 million as these earnings were considered permanently reinvested.

Goodwill represents the excess of the purchase price over the fair value of net assets acquired and is amortized using the straight-line method over 20 years. The Company assesses the recoverability of this intangible asset by determining the estimated future cash flows related to such acquired assets. In the event that goodwill is found to be carried at an amount that is in excess of estimated future operating cash flows, then the goodwill will be adjusted to a level commensurate with a discounted cash flow analysis using a discount rate reflecting the Company s average cost of funds.

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Management s estimates of future cash flows are based in part upon prior performance, industry conditions, economic conditions, and vendor and customer relationships. Changes in these factors or other factors could result in significantly different cash flow estimates and an impairment charge. In 1999, due to changing market conditions in Poland, the Company considered the remaining $4.5 million in goodwill related to its Poland operations to be impaired. In 2000, due to the current and expected economic conditions in Venezuela, the Company considered the goodwill related to the Venezuela operations impaired and recorded a $3.9 million impairment charge. In 2000, a major customer s change to an existing contract that adversely changed the long-term prospects of the Peru operation resulted in the Company recording a goodwill impairment charge of $6.4 million.

At November 30, 2002, the Company had goodwill, net of accumulated amortization, of $20.9 million related to its Asia-Pacific operations ($12.3 million) and its remaining Europe operations in Sweden and The Netherlands ($8.6 million). In January 2003, the Company signed a letter of intent with local management for the sale of its Netherlands operations. There can be no assurance that the sale will be completed due to a number of contingencies contained in the letter of intent (see Management s Discussion and Analysis of Financial Condition and Results of Operations-International Operations).

The Financial Accounting Standards Board has issued Statements No. 141 and No. 142, which will impact the Company s accounting policy for goodwill. For a more complete discussion of Statements No. 141 and No. 142, see Management s Discussion and Analysis of Financial Condition and Results of Operations-Accounting Pronouncements Not Yet Adopted in this Form 10-K.

(b) Revenue Recognition

For the Company s wholesale business, revenue is recognized when the customer takes title and assumes risk of loss. If the customer takes title and assumes risk of loss upon shipment, revenue is recognized on the shipment date. If the customer takes title and assumes risk of loss upon delivery, revenue is recognized upon delivery. In accordance with contractual agreements with wireless service providers, the Company receives an activation commission for obtaining subscribers for wireless services in connection with the Company s retail operations. The agreements contain various provisions for additional commissions (residual commissions) based on subscriber usage. The agreements also provide for the reduction or elimination of activation commissions if subscribers deactivate service within stipulated periods. The Company recognizes revenue for activation commissions on the wireless service providers activation of the subscriber s service and residual commissions when earned and provides an allowance for estimated wireless service deactivations, which is reflected as a reduction of accounts receivable and revenues in the accompanying consolidated financial statements. The Company recognizes fee service revenue when the service is completed or, if applicable, upon shipment of the related product, whichever is later.

(c) Vendor Credits

The Company recognizes price protection credits and other incentives, such as volume discounts, from vendors when such credits are received in writing from the vendor, or if the credits are based on sell-through to customers, when the credits have been received in writing from the vendor and the related product is sold. Price protection credits and other incentives are applied against inventory and cost of goods sold, depending on whether the related inventory is on-hand or has been previously sold at the time the credits are received in writing. Sell-through credits are recorded as a reduction in cost of goods sold in the period received.

The Company recognizes advertising allowances from vendors when such allowances are received in writing from the vendor and earned. Advertising allowances are generally for the reimbursement of specific incremental, identifiable costs incurred by the Company and are recorded as a reduction of the related cost. Allowances in excess of the specific costs incurred, if any, are recorded as a reduction costs of goods sold or inventory, as applicable.

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Accounting Pronouncements Not Yet Adopted

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (Statement) No. 141, Business Combinations. Statement No. 141 changes the accounting for business combinations to eliminate the pooling-of-interests method and requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. This statement also requires intangible assets that arise from contractual or other legal rights, or that are capable of being separated or divided from the acquired entity, be recognized separately from goodwill. Existing intangible assets and goodwill that were acquired in a prior purchase business combination must be evaluated and any necessary reclassifications must be made in order to conform with the new criteria in Statement No. 141 for recognition apart from goodwill. The Company does not expect the adoption of this statement to have a material impact on its consolidated results of operations or financial position.

In June 2001, the FASB issued Statement No. 142, Goodwill and Other Intangible Assets. Statement No. 142 addresses the initial recognition and measurement of intangible assets acquired (other than those acquired in a business combination, which is addressed by Statement No. 141) and the subsequent accounting for goodwill and other intangible assets after initial recognition. Statement No. 142 eliminates the amortization of goodwill and intangible assets with indefinite lives. Intangible assets with lives restricted by contractual, legal, or other means will continue to be amortized over their useful lives. Adoption of this statement will also require the Company to reassess the useful lives of all intangible assets acquired, and make any necessary amortization period adjustments. Goodwill and other intangible assets not subject to amortization will be tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Statement No. 142 requires a two-step process for testing goodwill for impairment. First, the fair value of each reporting unit will be compared to its carrying value to determine whether an indication of impairment exists. A reporting unit is an operating segment or one level below an operating segment. The Company s reporting units are Asia Pacific Greater China Operations, Asia Pacific South Pacific Operations, North America, Latin America Mexico, Latin America excluding Mexico, Sweden and The Netherlands. If an impairment is indicated, then the fair value of the reporting unit s goodwill will be determined by allocating the unit s fair value to its assets and liabilities (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination. The amount of impairment for goodwill and other intangible assets will be measured as the excess of its carrying value over its fair value. Goodwill and intangible assets acquired after June 30, 2001 will be immediately subject to the impairment provisions of this statement. For goodwill and other intangible assets acquired on or before June 30, 2001, the Company is required to adopt Statement No. 142 no later than the beginning of fiscal 2003. At November 30, 2002, the Company had goodwill, net of accumulated amortization, of $20.9 million related to its Asia-Pacific operations ($12.3 million) and its remaining Europe operations in Sweden and the Netherlands ($8.6 million). In January, 2003, the Company signed a letter of intent with local management for the sale of its Netherlands operations. There can be no assurance that the sale will be completed due to a number of contingencies contained in the letter of intent. The Company will explore opportunities to sell its operation in Sweden in view of the Company s long-term strategy (see Management s Discussion and Analysis of Financial Condition and Results of Operations-International Operations). The Company believes the adoption of Statement 142 will likely result in a one-time, non-cash pre-tax charge of $20.9 million to write-down the Company s goodwill.

In June 2001, the FASB issued Statement No. 143, Accounting for Asset Retirement Obligations, which addresses financial accounting and reporting obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) normal use of the asset. Statement No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset. The liability is accrued at the end of each period through charges to operating expense. If the obligation is settled for other than the carrying amount of the liability, the Company will recognize

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a gain or loss on settlement. The Company is required to adopt the provisions of Statement No. 143 no later than the beginning of fiscal year 2003, with early adoption permitted. The Company does not expect the adoption of this statement to have a material effect on its consolidated results of operations or financial position.

In October 2001, the FASB issued Statement No. 144, Accounting for the Impairment or Disposal of Long- Lived Assets, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While Statement No. 144 supersedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, it retains many of the fundamental provisions of that Statement. The Company is required to adopt the provisions of Statement No. 144 no later than the beginning of fiscal year 2003, with early adoption permitted. The Company does not expect the adoption of this statement to have a material effect on its consolidated results of operations or financial position.

In April 2002, the FASB issued Statement No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. Statement No. 145 rescinds Statement No. 4, Reporting Gains and Losses from Extinguishment of Debt and an amendment of Statement No. 4, Statement No. 64, Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements. Statement No. 145 also rescinds Statement No. 44, Accounting for Intangible Assets of Motor Carriers. Statement No. 145 amends Statement No. 13, Accounting for Leases, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic affects that are similar to sale-leaseback transactions. Statement No. 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. Under Statement No. 4, all gains and losses from extinguishment of debt were required to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. Statement No. 145 eliminates Statement No. 4, and, thus the exception to applying Opinion 30 to all gains and losses related to extinguishments of debt (other than extinguishments of debt to satisfy sinking-fund requirements). As a result, gains and losses from extinguishment of debt should be classified as extraordinary items only if they meet the criteria in Opinion 30. Applying the provisions of Opinion 30 will distinguish transactions that are part of an entity s recurring operations from those that are unusual or infrequent or that meet the criteria for classification as an extraordinary item. Statement No. 145 becomes effective for fiscal years beginning after May 15, 2002, with early applications encouraged. The Company expects to reclassify the extraordinary gain on early extinguishment of debt resulting from its Exchange Offer upon adoption. The Company does not expect the adoption of the other portions of this statement to have a material effect on its consolidated results of operations or financial position.

In June 2002, the FASB issued Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities, which addresses financial accounting and reporting for the costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). Statement No. 146 is effective for exit or disposal activities initiated after December 31, 2002, with early applications encouraged. The Company does not expect the adoption of this statement to have a material effect on its consolidated results of operations or financial position.

In December 2002, the FASB issued Statement No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, an amendment of FASB Statement No. 123. Statement No. 148, amends FASB Statement No. 123, Accounting for Stock-Based Compensation , to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Statement No. 148 is effective for fiscal years ending after December 15, 2002, with early applications encouraged. The Company does not expect the adoption of this statement to have a material effect on its consolidated results of operations or financial position.

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Item 7(A). Quantitative and Qualitative Disclosures About Market Risk

Foreign Exchange Risk

For the year ended November 30, 2002 and 2001, the Company recorded net foreign currency losses of $1.5 million and $1.0 million, respectively, in costs of goods sold. For the year ended November 30, 2002 and 2001, the Company recorded in other income (expense), net foreign currency gains of $0.5 million and $1.3 million, respectively. As part of the Company s continuing evaluation of the European and Latin American Regions, the Company has recognized a foreign currency gain of $0.5 million in 2002 related to intercompany advances which were previously not considered to be payable in the foreseeable future.

The Company manages foreign currency risk by attempting to increase prices of products sold at or above the anticipated exchange rate of the local currency relative to the U.S. dollar, by indexing certain of its accounts receivable to exchange rates in effect at the time of their payment and by entering into foreign currency hedging instruments in certain instances. The Company consolidates the bulk of its foreign exchange exposure related to intercompany transactions in its international finance subsidiary. These transactional exposures are managed using various derivative alternatives, as considered necessary, depending on the length and size of the exposure. The Company continues to evaluate foreign currency exposures and related protection measures.

At November 30, 2002, the Company had no forward contracts and does not hold any other derivative instruments.

The Company has foreign exchange exposure on the restricted cash deposited by the Hong Kong entity on behalf of the PRC entity as the funds have been effectively converted into RMB. The Company also has foreign exchange exposure on the RMB lines of credit in China as they are collateralized by U.S. dollars. For the year ended November 30, 2002, $882.0 million, or 40.2%, of the Company s revenues were from the Company s operations in China. With the exception of intercompany activity, all revenues and expenses of the China operations are in RMB. The Company does not hold derivative instruments related to the RMB.

The Argentine economy has been in a state of turmoil since the Argentine government removed the fixed exchange rate maintained between the Argentine peso and the U.S. dollar. As a result of the Company s decision to exit its operations in Argentina, the Company recorded an impairment of $0.9 million for currency translation adjustments in the second quarter of 2002. The Company divested its operations in Argentina in the third quarter of 2002.

Derivative Financial Instruments

The Company periodically uses various derivative financial instruments as part of an overall strategy to manage its exposure to market risk associated with interest rate and foreign currency exchange rate fluctuations. The Company periodically uses foreign currency forward contracts to manage the foreign currency exchange rate risks associated with international operations. The Company evaluates the use of interest rate swaps and cap agreements to manage its interest risk on debt instruments, including the reset of interest rates on variable rate debt. The Company does not hold or issue derivative financial instruments for trading purposes. The Company s risk of loss in the event of non-performance by any counterparty under derivative financial instrument agreements is not significant. Although the derivative financial instruments expose CellStar to market risk, fluctuations in the value of the derivatives are mitigated by expected offsetting fluctuations in the matched instruments. The Company periodically uses foreign currency forward contracts to reduce exposure to exchange rate risks primarily associated with transactions in the regular course of its international operations. The forward contracts establish the exchange rates at which the Company purchases or sells the contracted amount of local currencies for specified foreign currencies at a future date. Forward contracts used by the Company are typically short-term in nature (45 days to one year), and the Company receives or pays the difference between the contracted forward rate and the exchange rate at the settlement date.

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At November 30, 2002, the Company had no forward contracts and does not hold any other derivative instruments.

Interest Rate Risk

The Company manages its borrowings under the revolving credit facility each business day to minimize interest expense. The interest rate of the Company s New Facility is an index rate at the time of borrowing plus an applicable margin on certain borrowings. The interest rate is based on either the agent bank s prime lending rate or the London Interbank Offered Rate. During the year ended November 30, 2002, the interest rates of borrowings under the U.S. revolving credit facility ranged from 5.25% to 6.0%. A one percent change in variable interest rates will not have a material impact on the Company. The Company has short-term borrowings in China bearing interest from 0.00% and 5.85% (see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources). The note payable in Taiwan bears interest at 2.70%. The credit facility in Sweden bears interest at 5.60%. The credit facility in Netherlands bears interest at 5.00%. The Senior Notes issued in February 2002 bear interest at 12.0% and mature January 15, 2007.

Item 8. Consolidated Financial Statements and Supplementary Data

See Index to Consolidated Financial Statements on Page F-1 of this Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Information regarding executive officers is provided under the caption Business Executive Officers of the Registrant.

The Company s Board of Directors consists of five directors. Each director has been elected to serve for a specified term or until his successor has been elected and qualified.

Set forth below is a description of the backgrounds of each of the directors of the Company.

Dale V. Kesler has served as a director of the Company since March 1999. Mr. Kesler retired as an active partner of the professional accounting firm of Arthur Andersen LLP in 1996 and served as the Managing Partner of Arthur Andersen s Dallas/Fort Worth office from 1983 to 1994. Mr. Kesler was responsible for strategic planning on a world-wide basis for the Audit and Business Advisory practices of Arthur Andersen in 1982 and 1983 and served as the head of the Audit Practice in the firm s Dallas office from 1973 to 1982. Mr. Kesler also serves on the Board of Directors of Elcor Corporation, New Millennium Homes, Resource Services, Inc., Triad Hospitals, Inc. and IMCO Recycling Inc., and serves as an advisory board member to Snelling and Snelling, Inc. Mr. Kesler currently serves as Chairman of the Audit Committee of CellStar s Board of Directors.

James L. Johnson has served as the non-executive Chairman of the Board of Directors since July 2001 and as a director of the Company since March 1994. Mr. Johnson has been Chairman Emeritus of GTE Corporation since May 1992 and served as GTE s Chairman and Chief Executive Officer from April 1988 to April 1992. Mr. Johnson began his career with Southwestern Associated Telephone Company (the predecessor company of GTE Central) in 1949. He was a member of GTE s Board of D irectors from 1985 to May 1999 and a member of the Board of Directors of Finova Group Incorporated (formerly GTE Financial) until 2001. He is currently a director of Harte Hanks Communications, Inc. and M.O.N.Y (Mutual of New York, Inc.). Mr. Johnson is also past Chairman of the United States Telephone Association. Mr. Johnson currently serves on the Nominating and Compensation Committees of CellStar s Board of Directors.

John L. (J.L.) Jackson has served as a director of the Company since March 1999. Mr. Jackson served as Chairman and Chief Executive Officer of Global Industrial Technologies, Inc. (formerly, INDRESCO) from 1993 to 1998. Before joining Global Industrial Technologies, Mr. Jackson was engaged in private executive business consulting from 1987 to 1993. From 1983 to 1987, Mr. Jackson served as a Director and as the President and Chief Operating Officer of Diamond Shamrock Corporation, and was Executive Vice President of Diamond Shamrock and President of its then newly-formed coal unit from 1979 to 1983. Mr. Jackson has served on numerous Boards of Directors, including the Fourth District Federal Reserve Bank of Cleveland, First Republic Bank, American Federal Bank, Hadson Energy Resources and National Gypsum Company. Mr. Jackson currently serves as Chairman of the Compensation Committee of CellStar s Board of Directors and also serves on the Audit Committee of CellStar s Board of Directors.

Jere W. Thompson has served as a director of the Company since October 1999. Mr. Thompson served as President and Chief Executive Officer of The Southland Corporation from 1986 to 1991. Mr. Thompson joined Southland in 1954 and was made Vice President of store operations in 1962. He became Southland s President in 1973 and was elected to Southland s Board of Directors in 1961. Mr. Thompson was engaged in private business consulting from 1991 to 1996 when he became the President of The Williamsburg Corporation. Mr. Thompson serves on the Board of Directors and is the former Chairman of The National Center for Policy Analysis. He is also a board member of St. Paul and Zale Lipshy University Hospitals, and a member and former Chairman of The Development Board and the College and Graduate School of Business Foundation Advisory Council for The University of Texas at Austin. Mr. Thompson currently serves as Chairman of the Nominating Committee of CellStar s Board of Directors and also serves on the Audit and Compensation Committees of CellStar s Board of Directors.

Terry S. Parker has served as Chief Executive Officer of the Company since July 2001, as a director of the Company since March 1995 and as President and Chief Operating Officer of the Company from March 1995 through July 1996. Mr. Parker served as Senior Vice President of GTE Corporation and President of GTE s Personal Communications Services, GTE s wireless division, from October 1993 until he joined the Company. From 1991 to 1993, Mr. Parker served as President of GTE Telecommunications Products and Services. Prior to 1991, Mr. Parker served as President of GTE Mobile Communications. Mr. Parker served on the Board of Directors for Nucentrix Corporation from 1998 until 2001, the Board of Directors of Highway Master Communications, Inc. from 1995 to 2000, the Board of Directors of Illinois Superconductor Corporation from 1998 to 2000, the Board of Directors of Equalnet Corporation from 1996 to 1999, and the Board of Directors of Telenetics Corporation from May 2000 to March 2001. Mr. Parker also served as the President and Chief Executive Officer of Telenetics from September 2000 until March 2001.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company s executive officers, directors, and persons who beneficially own more than 10% of a registered class of the Company s equity securities to file with the SEC initial reports of ownership and reports of changes in ownership of the Company s common stock (the Common Stock) and other equity securities of the Company. Such persons are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms that they file.

Based solely on the Company s review of such forms furnished to the Company, the Company believes that all filing requirements applicable to the Company s executive officers, directors, and greater than 10% beneficial owners were complied with, except for the following: In fiscal 2002, Mr. Kaiser, upon becoming an executive officer of the Company on December 12, 2001, did not timely file a Form 3; in fiscal 2001, Mr. Parker did not timely file a Form 4 or Form 5 reporting a change in beneficial ownership in connection with the acquisition of options to purchase 200,000 shares of Common Stock granted pursuant to his employment agreement dated July 5, 2001; and for fiscal 2000, the Company is unable to locate evidence that Mr. Thompson timely filed a Form 4 reporting a change in beneficial ownership in connection with a purchase of shares of Common Stock. Mr. Thompson filed a Form 5 in December of 2002 reporting beneficial ownership of such shares.

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Item 11. Executive Compensation

Summary Compensation Table

The following table sets forth information concerning the compensation in each of the Company s last three fiscal years of the Company s Chief Executive Officer and each of the other four most highly compensated executive officers of the Company (collectively, the Named Executive Officers) who were serving as such on November 30, 2002, based on salary and bonus earned during the fiscal year ended November 30, 2002.

		Annual Compensation			Long Term Compensation Awards		
Name and Principal Position	Year	Salary ($)	Bonus(*) ($)	Other Annual Compensation ($)	Restricted Stock Award(s) ($)	Securities Underlying Options (#)(1)(2)	All Other Compensation ($)
Terry S. Parker	2002	950,000	380,000				11,347(3)
Chief Executive Officer	2001	341,634(4)	200,000			204,000	5,494(3)
	2000					1,000(5)	
A.S. Horng	2002	841,818	1,566,966(6)			260,000	1,539(7)
Chairman, Chief	2001	800,133	300,000				1,539(7)
Executive Officer	2000	800,103	66,675			90,283	128(7)
and General Manager of							
CellStar (Asia)							
Corporation Limited							
Robert A. Kaiser	2002	436,442(8)	675,000(9)			80,000	12,381(3)
Senior Vice President	2001						
and Chief Financial	2000						
Officer							
Lawrence King	2002	369,290	30,005			7,000	3,365(10)
President and Chief	2001	360,058	70,780			12,000	3,365(10)

Operating Officer of	2000	360,058	30,005	8,627	12,021(11)
Asia Pacific					
Region					
Elaine Flud Rodriguez	2002	285,000	115,000	10,000	4,416(3)
Senior Vice President,	2001	265,000	35,774	15,000	4,179(3)
Secretary and	2000	250,000	10,000	11,272	3,833(3)
General Counsel					

(*) Bonus information includes payments earned in the stated fiscal year but actually paid in the subsequent fiscal year.

(1) Reflects options to acquire shares of Common Stock. The Company has not granted stock appreciation rights.

(2) All figures in this column reflect an adjustment for the one-for-five reverse stock split (the Reverse Split) occurring on February 22, 2002.

(3) Consists of insurance premiums paid by the Company and Company matching contributions to the named executive s 401(k) plan.

(4) Mr. Parker was appointed Chief Executive Officer of the Company on July 5, 2001.

(5) Consists of options granted to Mr. Parker while serving as a director of the Company.

(6) Includes a signing bonus of $1,500,000 paid upon the effective date of Mr. Horng s new employment agreement, dated July 5, 2002, with CellStar Asia. Mr. Horng is also eligible to receive a bonus of

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$1,500,000 upon the successful completion of an initial public offering related to the Asia-Pacific Region. In the event the market capitalization of New CellStar Asia at the time of the IPO, as determined pursuant to the terms of the transaction, is $250 million or greater, such cash bonus will be increased to $2.5 million. See Executive Compensation Employee Contracts and Termination of Employment Agreements.

(7) Consists of a Company matching contribution to its Hong Kong retirement plan.

(8) Mr. Kaiser was appointed Senior Vice President and Chief Financial Officer on December 12, 2001.

(9) Consists of a signing bonus of $300,000, $200,000 paid pursuant to Mr. Kaiser s employment agreement, and a bonus of $175,000 paid pursuant to the Company s Amended and Restated Annual Incentive Compensation Plan (the Incentive Plan).

(10) Consists of insurance premiums paid by the Company and a Company matching contribution to its Hong Kong retirement plan.

(11) Consists of insurance premiums paid by the Company.

Option Grants During 2002 Fiscal Year

The following table provides information related to options granted to the Named Executive Officers during the fiscal year ended November 30, 2002.

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(1)(2)	
Name	**Number of Securities Underlying Options Granted(#)(2)(3)**	**% of Total Options Granted to Employees in Fiscal Year**	**Exercise or Base Price ($/ Sh)(2)(4)**	**Expiration Date**	**5% ($)**	**10% ($)**
Terry S. Parker(5)						
A.S. Horng	260,000	54.133	(6)	(6)	570,980	1,446,943
Robert A. Kaiser	80,000	16.656	4.60	December 11, 2011	231,353	586,248
Lawrence King	7,000	1.457	4.30	January 7, 2012	18,923	47,951
Elaine Flud Rodriguez	10,000	2.082	4.30	January 7, 2012	27,033	68,502

(1) The potential realizable value portion of the table illustrates value that might be realized upon exercise of the options immediately prior to the expiration of their term, assuming the specified compounded rates of appreciation on the Common Stock over the term of the options. These numbers do not take into account provisions of certain options providing for termination of the option following termination of employment, nontransferability or vesting over periods of up to ten years.

(2) All figures in this column reflect an adjustment for the Reverse Split.

(3) Reflects options to acquire shares of Common Stock. The Company has not granted stock appreciation rights. The options become exercisable with respect to 25% of the shares covered thereby on each of the first four anniversaries of the date of grant. In the event of a change of control (as defined in the Company s 1993 Amended and Restated Long-Term Incentive Plan (the 1993 Plan)), any unexercisable portion of the options will become immediately exercisable.

(4) The exercise price is equal to the fair market value of the Common Stock on the date of grant. The option exercise price may be paid as follows: (a) in cash or by certified check, bank draft or money order payable to the order of the Company; (b) in Common Stock (including restricted stock), valued at its fair market value on the date of exercise; (c) by delivery to the Company or its designated agent of an executed irrevocable option exercise form together with irrevocable instructions from the optionee to a broker or dealer, reasonably acceptable to the Company, to sell certain of the shares of Common Stock purchased upon exercise of the stock option or to pledge such shares as collateral for a loan from a third party and promptly deliver to the Company the amount of sale or loan proceeds necessary to pay such purchase price; and/or (d) in any other form of valid consideration that is acceptable to the Compensation Committee of the Board of Directors in its sole discretion.

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(5) Mr. Parker did not receive any option grants from the Company in fiscal 2002.
(6) The number, exercise price and expiration date of Mr. Horng s options are as follows:

Number	Exercise Price	Expiration Date
60,000	$4.300	January 7, 2012
200,000	$3.250	September 9, 2012

Option Exercises During 2002 Fiscal Year and Fiscal Year End Option Values

The following table provides information related to options exercised by the Named Executive Officers during the fiscal year ended November 30, 2002 and the number and value of options held on November 30, 2002. The Company does not have any outstanding stock appreciation rights. None of the Named Executive Officers in the table below exercised any options in fiscal 2002.

Name	Shares Acquired on Exercise (#)(1)	Value Realized ($)(2)	Number of Securities Underlying Unexercised Options at FY-End (#)(1)		Value of Unexercised In-the-Money Options/ at FY-End ($)(1)(3)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Terry S. Parker			105,750	103,750		
A.S. Horng			126,142	305,141		311,400
Robert A. Kaiser				80,000		7,200
Lawrence King			57,814	20,314		2,730
Elaine Flud Rodriguez			33,087	27,385		3,900

(1) All figures in this column reflect an adjustment for the Reverse Split.
(2) Value realized is calculated based on the difference between the option exercise price and the closing market price of the Common Stock on the date of exercise multiplied by the number of shares to which the exercise related.
(3) The closing price for the Common Stock, as reported by The Nasdaq National Market System on November 29, 2002, the last trading day of fiscal 2002, was $4.69. The value of unexercised in-the-money options is calculated on the basis of the difference between the option exercise price and $4.69 multiplied by the number of shares of Common Stock underlying the option.

Compensation of Directors

During the fiscal year ended November 30, 2002, each director of the Company who was not an officer or other employee of the Company (an Independent Director) received an annual retainer fee of $25,000, plus $1,500 for each meeting of the Board of Directors or committee of the Board of Directors that he attended and $750 for each telephonic Board of Directors or committee meeting that he attended. To the extent that any committee meeting is held on the same day as a full Board of Directors meeting or another committee meeting, only one $1,500 or $750 fee (as applicable) was paid. The Company also pays a per diem fee of $1,500 to each Independent Director for each day such director performs additional services for the Company at the request of the Chief Executive Officer. There were no per diem fees paid to any director for the fiscal year ended November 30, 2002.

In July 2001, Mr. Johnson was elected Chairman of the Board of Directors and the Company entered into an agreement with Mr. Johnson whereby he would receive annual compensation of $250,000 for serving as non-executive Chairman of the Board of Directors, in addition to whatever compensation and expense reimbursement he is entitled to as an Independent Director. Mr. Johnson received $250,000 for his services as Chairman during fiscal 2002, in addition to $55,000 in director and retainer fees as described above.

Pursuant to the Company s 1994 Amended and Restated Non-Employee Director Nonqualified Stock Option Plan (the Directors Plan), each Independent Director automatically receives an option (the Initial

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Option) to purchase 1,500 shares of Common Stock upon becoming an Independent Director. In addition to the Initial Option, each Independent Director receives an annual grant pursuant to the 1993 Plan of an option (the Annual Option) to purchase 1,000 shares of Common Stock, which option will be automatically granted on the date of the first full Board of Directors meeting following the end of each fiscal year. The Annual Option will vest with respect to 25% of the shares covered thereby on each of the first four anniversaries of the date of grant and will expire ten years following the date of grant. The exercise price of all options granted to Independent Directors must be equal to the fair market value of the Common Stock on the date of grant. The Directors Plan expires on March 3, 2004.

Directors who are also employees of the Company receive no additional compensation for serving as directors. All directors of the Company are entitled to reimbursement of their reasonable out-of-pocket expenses in connection with their travel to, and attendance at, meetings of the Board of Directors or committees thereof.

Employment Contracts and Termination of Employment and Change in Control Arrangements

The Company entered into employment agreements (collectively, the Employment Agreements or individually, an Employment Agreement) with Mr. Parker, Mr. Horng, Mr. Kaiser, and Ms. Rodriguez (collectively, the Executives and individually, an Executive), effective July 5, 2001, July 5, 2002, December 12, 2001, and January 21, 2000, respectively. Mr. King does not have an employment agreement with the Company. The Employment Agreements of Messrs. Parker, Horng, Kaiser and Ms. Rodriguez provide for annual base salaries of $850,000, $900,000, $450,000 and $250,000, respectively. Mr. Kaiser also received a signing bonus of $300,000. Mr. Horng received a signing bonus of $1.5 million, subject to repayment provisions if Mr. Horng terminates his Employment Agreement under certain conditions, and a success bonus of $1.5 million payable upon completion of the Company s divestiture (the the CellStar Asia Transaction), through a combination of an initial public offering (the IPO) and private placements, of up to 70% of its operations in the People s Republic of China, Hong Kong and Taiwan (the Greater China Operations), consisting of substantially all of its Asian operations; provided, however, that in the event the market capitalization, at the time of the IPO, of the holding company formed to hold the Greater China Operations (New CellStar Asia) is $250.0 million or greater as determined by CellStar, New CellStar Asia and the underwriters pursuant to the terms of the CellStar Asia Transaction, the success bonus will be increased to $2.5 million. The Employment Agreement with Mr. Horng will terminate upon completion of the the CellStar Asia Transaction without payment of compensation and will be replaced by a new employment agreement between New CellStar Asia and Mr. Horng. Each of the Employment Agreements also provides that the Executive is eligible to participate in an annual incentive plan approved by the Company s Board of Directors during the term of his or her Employment Agreement.

Pursuant to his original Employment Agreement, the Company acknowledged Mr. Kaiser s desire to assume greater responsibility for business operations, particularly in the North American Region of the Company s subsidiary, CellStar, Ltd. (Employer). Employer agreed to establish an escrow account in the amount of $700,000, which amount was to be paid to Mr. Kaiser in the event that he was not named as Senior Vice President of the Company and President of Employer s North American Region on or before June 1, 2002. Mr. Kaiser, the Company and Employer executed a First Amendment to Employment Agreement, effective as of April 2, 2002, which removed the requirement for the escrow and extended the date for the Company and Employer to name Mr. Kaiser as Senior Vice President of the Company and President of Employer s North American Region to on or before September 1, 2002. Mr. Kaiser, the Company and Employer executed a Second Amendment to Employment Agreement, effective as of September 10, 2002, which provided for the payment of $200,000 to Mr. Kaiser in consideration for Mr. Kaiser s agreement to further extend the date by which he would be named as Senior Vice President of the Company and President of Employer s North American Region to on or before March 1, 2003. The amendment further reduces the amount payable in the event Mr. Kaiser is not so named to $500,000. Such date may be extended an additional 90 days by mutual written agreement of the parties. Mr. Kaiser, the Company and Employer executed a Third Amendment to Employment Agreement as of February 28, 2003, extending the date by which he would be named as Senior Vice President of the Company and President of Employer s North American Region to on or before May 1, 2003. No additional compensation was paid to Mr. Kaiser for such extension.

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The Company is obligated, during the term of his Employment Agreement, to provide to Mr. Kaiser a life insurance policy with a face amount of $1,500,000 and a disability insurance policy with an annual disability benefit of $200,000 until attainment of age 65. The Company has in place insurance to cover a portion of such expenses. Mr. Kaiser and Mr. Horng are each eligible to participate in the life, health and disability insurance programs customarily made available to employees of the Company.

Each of the Employment Agreements has an initial term of four years, except that of Mr. Horng. Mr. Horng s Employment Agreement expires on the fifth anniversary of the date on which the Board of Directors of the Company notifies Mr. Horng that it has determined to discontinue the automatic daily extension of the Employment Agreement. Pursuant to his Employment Agreement, Mr. Horng is an employee of CellStar Asia, and any continuing obligations of the Company contained in his Employment Agreement will terminate upon the completion of the CellStar Asia Transaction. Upon such termination, Mr. Horng s outstanding options to purchase Common Stock will expire 30 days after the termination date. All of the Employment Agreements are subject to earlier termination as follows: (i) by the Company (a) due to the disability of the Executive, (b) for cause or (c) without cause ; or (ii) by the Executive (a) upon a material breach by the Company of the Employment Agreement (Company Breach), (b) within twelve months of a change in control or (c) without good reason (defined as termination for any reason other than Company Breach). If any Executive terminates his or her employment due to Company Breach or if any Executive is terminated by the Company without cause, he or she will be entitled to receive his or her accrued but unpaid base salary and annual incentive payments through the date of termination plus an amount equal to the product of (i)(a) his or her base salary plus (b) the amount of his or her annual incentive payments for the preceding year divided by 365 and (ii) multiplied by (a) with respect to the employees other than Mr. Horng, the lesser of (x) 720 or (y) the greater of the number of days remaining in the term of his or her employment or 365 or (b) with respect to Mr. Horng only, the number of days from the date the Board of Directors notifies Mr. Horng that it has determined to discontinue the automatic daily extension of his Employment Agreement to the end of the term, which period shall equal five years. In the event of termination of employment after a change in control, each of the Executives will be entitled to receive an amount equal to $100 less than three times his or her annualized includable compensation for the base period (as defined in Section 280G of the Code) or such lesser amount that is the maximum payment permitted by the Code that does not constitute an excess parachute payment.

Under the Employment Agreements, a termination will be deemed to be without cause if it is for any reason other than due to the disability of the Executive or for cause. Under the Employment Agreements, a termination will generally be considered to be for cause if it is due to the Executive s (i) continued unsatisfactory job performance after written warning or, in the cases of Messrs. Horng and Kaiser, gross incompetence or, in the case of Mr. Parker, willful failure to perform his duties, (ii) misconduct or, in the cases of Messrs. Horng and Kaiser, willful misconduct, that causes or is likely to cause material economic harm to, or discredit to the reputation of, the Company or its affiliated entities, (iii) failure to follow the directions of senior management or the Boards of Directors of the Company or the Executive s employer, (iv) conviction of or a plea of nolo contendre to a felony involving moral turpitude or the entry of an order by any federal or state regulatory agency prohibiting the Executive from participating in the affairs of the Company, or (v) any other material breach of his Employment Agreement that is not cured within thirty days after receipt of written notice from the Company specifying the breach.

For purposes of the Employment Agreements a change in control will be deemed to occur upon the occurrence of any of the following: (1) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of Common Stock would be converted into cash, securities or other property, other than a merger of the Company in which the holders of Common Stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger; (2) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of the Company; (3) any approval by the stockholders of the Company of any plan or proposal for the liquidation or dissolution of the Company; (4) the cessation of control (by virtue of their not constituting a majority of directors) of the Board of Directors by the

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Continuing Directors (as defined in the Employment Agreements); or (5) subject to applicable law, in a Chapter 11 bankruptcy proceeding, the appointment of a trustee or the conversion of a case involving the Company to a case under Chapter 7 of the United States Bankruptcy Code. Ms. Rodriguez s Employment Agreement was amended effective as of September 10, 2002 so that neither (i) the acquisition of beneficial ownership of 15% of the voting power of the Company s outstanding voting securities by any person or group who beneficially owned less than 10% of such voting power on the date of the Employment Agreement, or the acquisition of beneficial ownership of an additional 5% of the voting power of the Company s outstanding voting securities by any person or group who beneficially owned at least 10% of such voting power on the date of the Employment Agreement nor (ii) the execution by the Company and a stockholder of a contract that by its terms grants such stockholder or such stockholder s affiliate the right to veto or block decisions or actions of the Board of Directors, would constitute a change in control for purposes of the Employment Agreement. This amendment is consistent with the terms of the existing Employment Agreements of Mr. Parker and Mr. Kaiser, and with the recent Employment Agreement of Mr. Horng.

The Employment Agreements also provide that the Executives will be indemnified by the Company to the extent provided in the Company s Certificate of Incorporation or bylaws as of the date of the Employment Agreement and to the fullest extent permitted by changes to Delaware law. The Employment Agreements of all Executives include non-competition and confidentiality provisions.

Compensation Committee Interlocks and Insider Participation

For fiscal 2002, the Compensation Committee of the Board of Directors consisted of J.L. Jackson (Chairman), James L. Johnson, and Jere W. Thompson. No member of the Compensation Committee is or has been an officer or employee of the Company or any of its subsidiaries. Mr. Johnson, who also serves as the Company s non-executive Chairman of the Board of Directors, received a total of $305,000 in compensation for holding such position in fiscal year 2002. See Executive Compensation Compensation of Directors. Mr. Johnson was the only member of the Compensation Committee that had any relationship requiring disclosure pursuant to Item 404 of Regulation S-K promulgated by the SEC. No executive officer of the Company served on the compensation committee, or as a director, of another entity, one of whose executive officers served on the Company s Compensation Committee or on its Board of Directors in fiscal 2002.

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Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth information with respect to the number of shares of Common Stock beneficially owned as of February 28, 2003, by (i) each person known by the Company to beneficially own more than five percent (5%) of the outstanding shares of Common Stock; (ii) the Named Executive Officers; (iii) each director and nominee for director of the Company; and (iv) all directors and executive officers of the Company as a group. Unless otherwise noted, the persons named in the table have sole voting and investment power with respect to all shares of Common Stock beneficially owned by them.

Name of Beneficial Owner or Group	Amount and Nature of Beneficial Ownership	Percent of Class(1)
Alan H. Goldfield(2)	4,220,222(3)	20.5
Michael A. Roth and Brian J. Stark(4)	5,594,959(5)	27.5
The Northwestern Mutual Life Company(6)	1,128,400(7)	5.5
Terry S. Parker(8)	107,250(9)(10)	*
A.S. Horng(8)	637,712(11)	3.1
Robert A. Kaiser(8)(12)	20,080(13)	*
Lawrence King(8)	64,720(14)	*
Elaine Flud Rodriguez(8)	43,775(15)	*
James L. Johnson(8)	12,000(9)(16)	*
Dale V. Kesler(8)	4,700(9)(17)(18)	*
John L. (J.L.) Jackson(8)	6,500(9)(17)	*
Jere W. Thompson(8)	4,990(9)(17)	*
Current Directors and Executive Officers as a Group	911,852(19)	4.4

* Less than 1%.

(1) Based on 20,354,365 shares outstanding as of February 28, 2003. The Company converted its 5% Senior Convertible Notes due November 2002 (the Senior Convertible Notes) into 7,730,600 shares of Common Stock on November 30, 2002.

(2) The address for Mr. Goldfield is 1851 Turbeville Road, Denton, Texas 76210. Mr. Goldfield retired from his services as a director and officer of the Company in July 2001.

(3) Includes 3,541,222 shares held in various entities controlled by Mr. Goldfield and his wife. Also includes 474,000 shares that are subject to a revocable (upon 90 days written notice) proxy granted to Mr. Goldfield by Mr. A.S. Horng, which proxy gives Mr. Goldfield the right to vote such shares. Also includes 205,000 shares subject to options granted under the 1993 Plan, which options are exercisable within 60 days.

(4) The address for Messrs. Roth and Stark is 1500 West Market Street, Suite 200, Mequon, Wisconsin 53092.

(5) Based on a Schedule 13D filed with the SEC on March 12, 2002 by Michael A. Roth and Brian J. Stark, filing as joint filers pursuant to Rule 13D-1(k). Messrs. Roth and Stark reported sole dispositive and sole voting power with respect to 5,594,959 shares as a result of electing to exchange their 5% Convertible Subordinated Notes due October 2002 (the Subordinated Notes) for cash and Senior Convertible Notes pursuant to the Company s exchange offer. As of February 21, 2002, Stark Investments Limited Partnership (Stark) held 82,459 shares of Common Stock, and a face amount of $15,715,000 in Senior Convertible Notes, which were convertible into 3,143,000 shares (a current total of 15.8%) of Common Stock. As of February 21, 2002, Shepherd Trading (Shepherd) held 60,300 shares of Common Stock, and a face amount of $11,546,000 in Senior Convertible Notes, which were convertible into 2,309,200 shares (a current total of 11.6%) of Common Stock. Therefore, as of February 21, 2002, Messrs. Roth and Stark, in their capacity as the founding members of Stark Asset Management, L.L.C., a Wisconsin limited liability company, which serves as (a) the managing general partner of Stark, and (b) the investment manager of Shepherd, reported beneficial ownership of an aggregate of 5,594,959 shares, or approximately 27.5% of the Common Stock outstanding on February 28, 2003.

(6) The address for The Northwestern Mutual Life Insurance Company (Northwestern Mutual) is 720 East Wisconsin Avenue, Milwaukee, Wisconsin 53202.

(7) Based on a Schedule 13G filed with the SEC on February 12, 2003 by Northwestern Mutual, Northwestern Mutual reported shared voting power and shared dispositive power with regard to the 1,128,400 shares as follows: 1,048,400 shares are owned directly by Northwestern Mutual. Northwestern Mutual may be deemed to be the indirect beneficial owner of 80,000 shares owned by The Northwestern Mutual Life Insurance Company Group Annuity Separate Account (GASA). Northwestern Investment Management Company, LLC, a wholly-owned company of Northwestern Mutual, serves as an investment advisor to Northwestern Mutual and GASA and shares voting and investment power with respect to all of the aforementioned holdings.

(8) The address for such individual is 1730 Briercroft Court, Carrollton, Texas 75006.

(9) Includes 1,500 shares subject to options granted under the Directors Plan, which options are exercisable within 60 days.

(10) Includes 105,750 shares subject to options granted under the 1993 Plan, which options are exercisable within 60 days.

(11) Includes 474,000 shares that are subject to a revocable (upon 90 days written notice) proxy to vote such shares held by Alan H. Goldfield. Also includes 163,712 shares subject to options granted under the 1993 Plan, which options are exercisable within 60 days.

(12) Mr. Kaiser was appointed Senior Vice President and Chief Financial Officer of the Company on December 12, 2001.

(13) Includes 20,000 shares subject to options granted under the 1993 Plan, which options are exercisable within 60 days.

(14) Consists of 64,720 shares subject to options granted under the 1993 Plan, which options are exercisable within 60 days.

(15) Includes 42,655 shares subject to options granted under the 1993 Plan, which options are exercisable within 60 days.

(16) Includes 6,000 shares subject to options granted under the 1993 Plan, which options are exercisable within 60 days.

(17) Includes 3,000 shares subject to options granted under the 1993 Plan, which options are exercisable within 60 days.

(18) Includes 200 shares held jointly with Mr. Kesler s wife.

(19) Includes shares subject to options held by directors and Named Executive Officers more fully described in footnotes 9 through 18 above, and 10,125 shares subject to options granted under the 1993 Plan to executive officers not named in the table, which options are exercisable within 60 days.

Equity Compensation Plan Information

The following table sets forth information about the Company s equity compensation plans as of November 30, 2002:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options (1)	Weighted Average Exercise Price of Outstanding Options (1)	Number of Securities Remaining Available for Future Issuance (Excluding Securities Reflected in First Column)
Equity compensation plans approved by security holders	1,477,658(2)	$ 23.83	488,709(3)
Equity compensation plans not approved by security holders	50,000(4)	$ 10.25	0
Total	1,527,658		488,709

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(1) The Company does not have outstanding any warrants or rights to purchase its common stock, with the exception of its stockholder rights plan, which is offered to all stockholders on a pro rata basis.
(2) Consists of 1,470,158 shares of Common Stock issued pursuant to the 1993 Plan and its predecessors, and 7,500 shares of Common Stock issued pursuant to the Directors Plan.
(3) Consists of 470,709 shares of Common Stock which may be issued pursuant to the 1993 Plan and its predecessors, and 18,000 shares of Common Stock which may be issued pursuant to the Directors Plan.
(4) On July 5, 2001, the Company granted options to purchase 50,000 shares of Common Stock at an exercise price of $10.25 per share, adjusted to reflect the Reverse Split, to Terry S. Parker (the Parker Options). The Parker Options were granted in connection with Mr. Parker s appointment as Chief Executive Officer of the Company. 25% of the Parker Options vested immediately upon grant, and the remainder vest in 25% increments thereafter beginning on the first anniversary of the grant date. The Parker Options expire on July 5, 2011, unless a termination of service occurs. In addition, the Parker Options become immediately vested upon the occurrence of certain events, including termination from the Company without cause, Company Breach, or as a result of a Change in Control, as such terms are defined in Mr. Parker s employment agreement.

Item 13. Certain Relationships and Related Transactions

If the CellStar Asia Transaction occurs, A.S. Horng, the Chairman, CEO and General Manager of CellStar Asia, and an executive officer of the Company, will own 85% of a newly-formed company (ManCo) that will own 20% of the outstanding shares in New CellStar Asia. The remaining 15% of ManCo will be owned by Lawrence King, President and Chief Operating Officer of the Asia-Pacific Region and an executive officer of the Company, Conor Yang, Chief Financial Officer of the Asia-Pacific Region, and Peng-Hong See, Vice President of CellStar Asia, who will each own 5% of ManCo. Neither Mr. Yang nor Mr. See is considered by the Company to be an executive officer. The CellStar Asia management team determined the stock ownership of ManCo.

Assuming the market value of New CellStar Asia at the time of the IPO is $250.0 million, Mr. Horng s ownership interest in ManCo would be worth approximately $42.5 million, and Mr. King s ownership interest in ManCo would be worth approximately $2.5 million. In addition, pursuant to his employment agreement, Mr. Horng will receive a cash bonus of $1.5 million upon the successful completion of the IPO. In the event the market capitalization of New CellStar Asia at the time of the IPO, as determined pursuant to the terms of the CellStar Asia Transaction, is greater than or equal to $250.0 million, such cash bonus will be increased to $2.5 million. Mr. Horng and Mr. King are the only directors or executive officers of the Company who have a direct financial interest in the CellStar Asia Transaction. Each of the members of the CellStar Asia management team will enter into employment agreements with New CellStar Asia at the time of the IPO that will contain customary non-competition, non-solicitation and confidentiality covenants that management of New CellStar Asia believes are enforceable under Hong Kong law.

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In recognition of the key roles the Company s directors, certain executive officers and certain key employees have played in the CellStar Asia Transaction, such individuals were granted options to purchase shares of Common Stock (the Transaction Options) containing certain incentives for the completion of the CellStar Asia Transaction. The Transaction Options were granted on January 22, 2003 at an exercise price of $5.45 per share, which was the closing sale price of the Common Stock on the grant date, and will become exercisable with respect to 25% of the shares covered by the Transaction Options on each anniversary of the grant date; provided, however, that 100% of the shares shall become exercisable immediately upon the earlier to occur of (i) the closing of the CellStar Asia Transaction, if the CellStar Asia Transaction yields to the Company proceeds of US$50 million or more in cash or cash equivalents, (ii) if the grantee is a non-employee director, such person is not nominated and re-elected to the Board of Directors, or (iii) if the grantee is an employee, such person s employment is terminated without cause. The Transaction Options will terminate if not exercised within 10 years from the grant date. The grants of the Transaction Options were as follows:

Name and Principal Position	**Number of Transaction Options Granted**
Terry S. Parker Chief Executive Officer	50,000
Robert A. Kaiser Senior Vice President and Chief Financial Officer	50,000
Elaine Flud Rodriguez Senior Vice President, Secretary and General Counsel	50,000
Raymond L. Durham Vice President and Corporate Controller	20,000