

CELLSTAR CORP  
Form DEFR14A  
December 22, 2003

**SCHEDULE 14A INFORMATION**

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant:

Filed by a Party other than the Registrant:

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to (S) 240.14a-12

**CELLSTAR CORPORATION**

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(Name of Registrant as Specified in Its Charter)

**N/A**

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(Name of Person(s) Filing Proxy Statement if Other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1)	Title of each class of securities to which transaction applies:
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(4) Proposed maximum aggregate value of transaction:

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Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount previously paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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**January 5, 2004**

To CellStar Corporation Stockholders:

You are cordially invited to attend the 2002 Annual Meeting of Stockholders of CellStar Corporation (the Company ) to be held at the Omni Dallas Hotel at Park West, 1590 LBJ Freeway, Dallas, Texas, on Tuesday, February 10, 2004, at 10:00 a.m., Dallas time.

The attached Notice of Annual Meeting and Proxy Statement fully describe the formal business to be transacted at the annual meeting, which consists of (i) the election of two Class II directors of the Company and (ii) the approval of the CellStar Corporation 2003 Long-Term Incentive Plan.

Directors and officers of the Company will be present to help host the annual meeting and to respond to any questions that our stockholders may have. I hope you will be able to attend.

For the reasons described in the accompanying Proxy Statement, the Company's Board of Directors believes that a favorable vote on each of the matters to be considered at the annual meeting is in the best interests of the Company and its stockholders and unanimously recommends a vote FOR each such matter. Accordingly, we urge you to review the accompanying material carefully and to return the enclosed proxy promptly.

Please sign, date and return the enclosed proxy without delay. If you attend the annual meeting, you may vote in person even if you have previously mailed a proxy.

I look forward to seeing you at the annual meeting.

Sincerely,

Terry S. Parker

*Chief Executive Officer*

**CELLSTAR CORPORATION**

**1730 Briercroft Court**

**Carrollton, Texas 75006**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held February 10, 2004**

NOTICE IS HEREBY GIVEN that the 2002 Annual Meeting of Stockholders (the Meeting) of CellStar Corporation, a Delaware corporation (the Company), will be held at the Omni Dallas Hotel at Park West, 1590 LBJ Freeway, Dallas, Texas, on Tuesday, February 10, 2004, at 10:00 a.m., Dallas time, for the following purposes:

- (1) To elect two Class II directors for a term expiring in 2006;
- (2) To approve the CellStar Corporation 2003 Long-Term Incentive Plan; and
- (3) To transact such other business as may properly come before the Meeting or any adjournment or adjournments thereof.

The close of business on December 18, 2003, has been fixed by the Company's Board of Directors as the record date for determining stockholders entitled to notice of and to vote at the Meeting or any adjournment or adjournments thereof. For a period of at least ten days prior to the Meeting, a complete list of stockholders entitled to vote at the Meeting will be open for the examination of any stockholder during ordinary business hours at the Company's offices located at 1730 Briercroft Court, Carrollton, Texas 75006.

WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON, YOU ARE URGED TO COMPLETE, DATE, SIGN AND RETURN PROMPTLY THE ENCLOSED PROXY IN THE ACCOMPANYING ENVELOPE. NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES. PROXIES FORWARDED BY OR FOR BROKERS OR FIDUCIARIES SHOULD BE RETURNED AS REQUESTED BY THEM.

By Order of the Board of Directors,

Elaine Flud Rodriguez

*Senior Vice President, Secretary*

*and General Counsel*

Carrollton, Texas

January 5, 2004

**CELLSTAR CORPORATION**

**1730 Briercroft Court**

**Carrollton, Texas 75006**

**PROXY STATEMENT**

**FOR**

**ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held February 10, 2004**

This Proxy Statement is furnished in connection with the solicitation of proxies ( Proxies ) by the Board of Directors of CellStar Corporation (the Company or CellStar ) for use at the 2002 Annual Meeting of Stockholders (the Meeting ) of the Company to be held at the Omni Dallas Hotel at Park West, 1590 LBJ Freeway, Dallas, Texas, on Tuesday, February 10, 2004, at 10:00 a.m., Dallas time, or at such other time and place to which the Meeting may be adjourned. The date on which this Proxy Statement, 2002 financial information, and accompanying Proxy are intended to first be sent or given to stockholders is January 5, 2004.

All shares represented by valid Proxies, unless the stockholder specifies otherwise, will be voted (i) FOR the election of the two persons named under Proposal I Election of Directors as nominees for election as Class II directors; and (ii) FOR the approval of the CellStar Corporation 2003 Long-Term Incentive Plan (the 2003 Incentive Plan ).

The Board of Directors knows of no other business to be presented at the Meeting. If any other business is properly presented, the persons named in the enclosed Proxy have authority to vote on such matters in accordance with such persons discretion. Where a stockholder has appropriately specified how a Proxy is to be voted, it will be voted accordingly.

A stockholder executing a Proxy retains the right to revoke it at any time prior to exercise at the Meeting. A Proxy may be revoked by delivery of written notice of revocation to the Secretary of the Company, by execution and delivery of a later Proxy, or by voting the shares in person at the Meeting.

**RECORD DATE AND VOTING SECURITIES**

The record date for determining the stockholders entitled to notice of and to vote at the Meeting and any postponements and adjournments thereof was the close of business on December 18, 2003 (the Record Date ), at which time the Company had issued and outstanding 20,357,742 shares of common stock, par value \$0.01 per share ( Common Stock ). Common Stock is the only class of outstanding voting securities of the Company.

**QUORUM AND VOTING**

The presence at the Meeting, in person or by Proxy, of the holders of at least a majority of the outstanding shares of Common Stock as of the Record Date is necessary to constitute a quorum for the conduct of business at the Meeting. Each share of Common Stock represented at the Meeting in person or by Proxy will be counted toward a quorum. If a quorum is not present or in the event that a sufficient number of votes to approve a proposal is not present at the Meeting, the persons named in the Proxies may propose one or more adjournments of the Meeting to permit further solicitation of Proxies. Any such adjournments will require the affirmative vote of the holders of a majority of the shares present in person or represented by Proxy at the session of the Meeting to be adjourned. If a quorum is not present, then, in accordance with the bylaws of the Company, Proxies will be used to vote for adjournment. If a quorum is present, but the vote required to approve a proposal is not obtained, the Proxies to be used to vote in favor of such proposal will be voted in favor of an adjournment to solicit further Proxies with respect to such proposal and the Proxies to be used to vote against such proposal will be voted against an adjournment to solicit further Proxies with respect to such proposal. Each share of Common Stock is entitled to one vote with respect to all matters presented for stockholder vote at the Meeting.

To be elected, the nominees for election as a Class II director must receive the affirmative vote of the holders of a plurality of the shares of Common Stock present or represented at the Meeting and entitled to vote thereon. Votes may be cast in favor of or withheld with respect to each nominee. Votes that are withheld will be counted toward the determination of whether a quorum exists, but will be excluded entirely from the tabulation of votes for election of the specified nominee and, therefore, will not affect the outcome of the vote on such proposal.

Approval of Proposal II requires the affirmative vote of the holders of a majority of the shares of Common Stock present or represented at the Meeting and entitled to vote on such proposal. Votes may be cast in favor of, against or withheld with respect to such proposal. Votes that are withheld will be counted toward the determination of whether a quorum exists, and will have the same effect as a vote against Proposal II.

Broker non-votes (*i.e.*, shares held by brokers or nominees as to which the brokers have no discretionary power to vote on a particular matter and have received no instructions from the persons entitled to vote such shares), if any, will be counted as present for purposes of determining the presence of a quorum. However, for purposes of determining the outcome of any matter as to which the broker has indicated on the Proxy or otherwise advised the Company that it does not have discretionary voting authority, those shares will be treated as not entitled to vote with respect to that matter. Broker non-votes will have no effect on Proposal I or Proposal II.



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**PROPOSAL I**
**ELECTION OF DIRECTORS**

The Company's Certificate of Incorporation provides for a board of directors (the Board or the Board of Directors) divided into three classes, as nearly equal in number as possible, with the term of office of one class expiring each year at the Company's Annual Meeting of Stockholders. Each class of directors is elected for a term of three years, except in the case of elections to fill vacancies or newly created directorships.

Due to the timing of changes to the Board over the past five years, the number of directors in each class was no longer as equal as possible. In order to rectify this disparity, the Board has reclassified Jere W. Thompson from a Class II director to a Class I director. In addition, in December 2003, the Nominating Committee of the Board recommended, and the Board elected, John T. Kamm to the Board as a Class III director.

There are two Class II directors to be elected for a term expiring at the Company's Annual Meeting of Stockholders in 2006 or until their successors have been elected and qualified. It is intended that the names of the nominees indicated below will be placed in nomination and that the persons named in the Proxy will vote for their election. Each of the nominees has indicated his willingness to serve as a member of the Board of Directors if elected; *however*, in case any nominee shall become unavailable for election to the Board of Directors for any reason not currently known or contemplated, the persons named in the Proxy will have discretionary authority to vote the Proxy for a substitute. Proxies cannot be voted for more than two nominees.

Information concerning the two nominees proposed by the Board of Directors for election as Class II directors, along with information concerning the current Class I and Class III directors, whose terms of office will continue after the Meeting, is set forth below.

The nominees for election as Class II directors are as follows:

**Class II Nominees Term Expiring in 2006**

<u>Name</u>	<u>Age</u>	<u>Current Position</u>
James L. Johnson	76	Chairman of the Board
John L. ( J.L. ) Jackson	71	Director

The current directors whose terms will expire after fiscal 2003 are as follows:

**Class I Director Term Expiring in 2005**

<u>Name</u>	<u>Age</u>	<u>Current Position</u>
Dale V. Kesler	64	Director
Jere W. Thompson	71	Director

**Class III Director Term Expiring in 2004**

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<u>Name</u>	<u>Age</u>	<u>Current Position</u>
Terry S. Parker	58	Chief Executive Officer
John T. Kamm	52	Director

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

**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 Directors 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 the 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 the Board of Directors and also serves on the Audit Committee of the Board of Directors.

**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 the 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 the Board of Directors and also serves on the Audit and Compensation Committees of the 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.

**John T. Kamm** was elected by the Board of Directors to serve as a director of the Company in December of 2003, filling a vacancy in the Class III director group. Mr Kamm has worked in China for more than 30 years. Mr. Kamm is currently the President of Asia Pacific Resources, Inc., a San Francisco-based company he founded in 1993, which specializes in trade and investment, government affairs and U.S.-China relations. Mr. Kamm is also Chairman of Market Access Ltd., a Hong Kong-based consulting firm which he founded. Mr. Kamm currently serves as the Executive Director of the Dui Hua Foundation, a publicly supported organization dedicated to improving human rights in the United States and China, and Director of the Project in Human Rights Diplomacy of the Institute of International Studies of Stanford University. He is also an honorary professor of two Chinese universities, a Director of the National Committee on US-China Relations, a trustee of the World Affairs Council of California, and a member of the Advisory Council of Princeton-in-Asia. Mr. Kamm has been active in China trade for many years, including serving as Vice President, Far East, of Occidental Chemical Corporation from 1981 to 1991. Mr. Kamm also served as President of the American Chamber of Commerce in Hong Kong in 1990.

**The Board of Directors recommends a vote FOR the election of the nominees for Class II Directors named above.**

### MEETINGS OF DIRECTORS AND COMMITTEES

The business of the Company is managed under the direction of the Board of Directors. The Board meets on a regularly scheduled basis during the Company's fiscal year to review significant developments affecting the Company and to act on matters requiring Board approval. It also holds special meetings when an important matter requires Board action between scheduled meetings. The Board of Directors met twelve times during the 2003 fiscal year. During the 2003 fiscal year, each member of the Board participated in at least 75% of all Board and applicable committee meetings held during the period for which he was a director. The Company strongly encourages all members of the Board of Directors to attend the annual meeting each year. For the most recent annual meeting, all directors were in attendance.

The Board of Directors consists of a majority of independent directors as such term is defined in Rule 4200(a)(15) of the Marketplace Rules of the Nasdaq Stock Market. The Board of Directors has determined that James L. Johnson, John L. Jackson, Dale V. Kesler and Jere W. Thompson are independent directors. The independent directors meet in regularly scheduled executive sessions at least twice per year.

Stockholders may communicate with members of the Board of Directors by mail addressed to an individual member of the Board, to the full Board, or to a particular committee of the Board, at the following address: P.O. Box 810104, Carrollton, Texas, 75006. This information is also available on the Company's web site at [www.cellstar.com](http://www.cellstar.com).

The Board of Directors has established Audit, Compensation and Nominating Committees to devote attention to specific subjects and to assist it in the discharge of its responsibilities. The functions of those committees, their current members, and the number of meetings held during the 2003 fiscal year are described below.

*Compensation Committee.* The Board of Directors has a standing Compensation Committee, which has the power to oversee and recommend to the Board of Directors the compensation policies of the Company and the specific compensation of the Company's executives. The Board of Directors, or the Compensation Committee, if delegated the authority by the Board of Directors, also has the power to administer the 1993 Amended and Restated Long-Term Incentive Plan (the 1993 Plan), the Amended and Restated Annual Incentive Compensation Plan (the Incentive Plan), the 1994 Amended and Restated Non-Employee Director Nonqualified Stock Option Plan (the Directors Plan), and the 2003 Incentive Plan. Messrs. Jackson, Johnson, and Thompson are the current members of the Compensation Committee. Mr. Jackson serves as Chairman of the Compensation Committee. The Compensation Committee met four times during the 2003 fiscal year. All members of the Compensation Committee are independent directors.



The Board of Directors has established an arrangement for the granting and issuance of stock options to non-executive employees of the Company under the 1993 Plan. This arrangement provides for a specified number of options (as recommended by the Compensation Committee to the Board) to be made available to each of the Company's regions, which options may be dispensed at the discretion of the regional management as approved by the Chief Executive Officer to eligible non-executive employees within that region during the course of the fiscal year. In the event the regional management dispenses its entire allotment of options before the end of the fiscal year, the Compensation Committee may, but is not obligated to, recommend to the Board that it allocate an additional number of options to the region for distribution to non-executive employees within that region. The Board of Directors will establish a similar arrangement for the granting and issuance of stock options to non-executive employees of the Company under the 2003 Incentive Plan.

*Nominating Committee.* The Board of Directors has a standing Nominating Committee which has the responsibility of (i) evaluating and selecting candidates to fill vacancies on the Board of Directors and (ii) considering director nominees presented by stockholders. Messrs. Thompson and Johnson are the current members of the Nominating Committee. Mr. Thompson serves as Chairman of the Nominating Committee. The Nominating Committee held one telephonic meeting in fiscal 2003.

Early in fiscal 2004, the Nominating Committee adopted a Charter to further define and clarify the roles and responsibilities of its members. The current Nominating Committee Charter is attached hereto as Appendix A. All members of the Compensation Committee are independent directors.

In December of 2003, pursuant to the Company's bylaws, the Nominating Committee nominated John T. Kamm to fill a vacancy in Class III directors left by the resignation in July of 2001 of Chairman and CEO Alan H. Goldfield. Mr. Kamm's nomination was recommended to the Nominating Committee by the Chief Executive Officer. The Nominating Committee reviewed Mr. Kamm's qualifications and recommended him for election to the Board of Directors based on his Chinese language skills, extensive knowledge of business practices in China and Hong Kong, knowledge of the Company's business operations in China, and general business background. Although the Committee has the authority to select, direct, and, if appropriate, terminate any search firm used to identify candidates for Board membership, no such search firm was used for the nomination of Mr. Kamm. Prior to joining the Board of Directors, the Company retained Mr. Kamm as a consultant, through his company, Asia Pacific Resources, Inc., from October 2001 through June 2003 to render services on all aspects of the Company's business in the Far East, with special emphasis on China. Mr. Kamm received payments of more than \$60,000 in two of the last three fiscal years. Therefore, Mr. Kamm does not qualify as an independent director under Rule 4200(a)(15) of the Marketplace Rules of the Nasdaq Stock Market.

When considering a potential director candidate, the Nominating Committee looks for demonstrated character; judgment; relevant business, functional and industry experience; and a high degree of acumen. There are no differences in the manner in which the Nominating Committee evaluates nominees for director based on whether the nominee is recommended by a stockholder. The Nominating Committee has not received any recommended nominees from any stockholders in connection with this Proxy Statement.

One of the functions of the Nominating Committee is to review and consider nominations made by stockholders of the Company. The Company's Certificate of Incorporation provides that a stockholder may nominate a person or persons for election to the Board of Directors at a meeting of the Company's stockholders only if written notice of such nomination (a "Stockholder's Notice") is received by the Secretary of the Company no less than 60 days prior to the meeting; provided, however, that in the event that less than 70 days' notice or prior public disclosure of the date of the meeting is given or made to stockholders, the Stockholder's Notice must be received by the Company no later than the close of business on the tenth day following the first to occur of the date on which such notice was mailed or the date that public disclosure of the date of the meeting was made. The Certificate of Incorporation requires that the Stockholder's Notice include: (i) the name, business address, and residence address of the nominating stockholder; (ii) a representation that the nominating stockholder is a holder of record of shares of the Company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the Stockholder's Notice; (iii) the name, age,

business address, residence address and principal occupation of the nominee; (iv) a description of all arrangements or understandings between the nominating stockholder and such nominee or nominees and any other person or persons (naming such person or persons) pursuant to which the nomination is being made by the nominating stockholder; (v) any other information relating to the nominating stockholder and such nominee or nominees that is required to be disclosed in a proxy statement or Schedule 13D filing; and (vi) the consent of each such nominee to serve as a director of the Company if elected.

*Audit Committee.* The Board of Directors has a standing Audit Committee, which has been charged with certain powers and duties including, among others, authority to (i) recommend to the Board the appointment of the firm selected to be independent certified public accountants for the Company and monitor the performance of such firm; (ii) review and approve the scope of the annual audit and evaluate with the independent certified public accountants the Company's annual audit and annual consolidated financial statements; (iii) review with management the status of internal accounting controls and internal audit procedures and results; (iv) evaluate problem areas having a potential financial impact on the Company that may be brought to the Committee's attention by management, the independent certified public accountants, or the Board; and (v) evaluate the public financial reporting documents of the Company. The Audit Committee is required to have and will continue to have at least three members, all of whom must be independent directors as defined in Rule 4200(a)(15) of the Marketplace Rules of the Nasdaq Stock Market, as may be modified or supplemented. Messrs. Kesler, Thompson, and Jackson are the current members of the Audit Committee. Mr. Thompson was appointed to the Audit Committee effective as of April 2, 2002. Mr. Johnson served as a member of the Audit Committee in fiscal 2002 until Mr. Thompson's appointment. The Audit Committee met eleven times during the 2002 fiscal year.

Dale Kesler has been designated by the Board of Directors as an audit committee financial expert. Mr. Kesler was a former partner at Arthur Anderson and has served on various boards and audit committees of publicly-held companies, thus the Board believes Mr. Kesler has the requisite understanding and experience to meet such standard. In addition, the Board determined that Mr. Jackson and Mr. Thompson are financially literate in the areas that are of concern to the Company, and are able to read and understand fundamental financial statements. The Board has also determined that Mr. Kesler, Mr. Jackson, and Mr. Thompson each meet the independence requirements set forth in the Rule 4200(a)(15) of the Marketplace Rules of the Nasdaq Stock Market. No member of the Audit Committee participated in the preparation of the financial statements of the Company or any current subsidiaries of the Company at any time during the past three years. In addition, no member of the Audit Committee accepted any consulting, advisory, or other compensatory fee from the Company, other than for service on the Board or its committees, and no member of the Audit Committee was an affiliate of the Company or any of its subsidiaries in fiscal 2003.

#### **Report of the Audit Committee of the Board of Directors**

The Board of Directors adopted a formal written charter for the Audit Committee on September 27, 1999, and has reviewed and reassessed the adequacy of the charter on an annual basis. The Audit Committee subsequently amended and restated the Audit Committee charter on January 21, 2000, on September 5, 2001, on October 13, 2003, and again on December 5, 2003 in accordance with the Marketplace Rules of the Nasdaq Stock Market and the regulations of the Securities and Exchange Commission (the "SEC") regarding audit committees. The current Audit Committee Charter is attached hereto as Appendix B.

In fulfilling its responsibilities as set forth in its charter, the Audit Committee reviewed and discussed with management the Company's audited financial statements for the fiscal year ended November 30, 2002. The Audit Committee also discussed with the Company's independent auditors for fiscal 2002, KPMG LLP ( "KPMG" ), the matters required to be discussed by Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended by Statement on Auditing Standards No. 90, *Audit Committee Communications*.

The Audit Committee received the written disclosures and the letter from KPMG required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, and discussed with KPMG their independence with respect to the Company.





The Audit Committee reviewed and discussed with internal audit services the audit scope and plan for fiscal 2003, significant audit findings during fiscal 2002 and management's response thereto.

Based on these reviews and discussions and in reliance thereon, the Audit Committee recommended to the Board of Directors that the audited financial statements for the fiscal year ended November 30, 2002 be included in the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2002 as filed with the SEC on February 28, 2003, and amended by filings with the SEC on March 31, 2003, April 28, 2003, and July 9, 2003, and the Board of Directors approved the recommendation.

The Audit Committee reviewed and discussed the Company's financial statements for the quarterly periods ended February 28, 2003 and May 31, 2003 with KPMG, and reviewed and discussed the Company's financial statements for the quarterly period ended August 31, 2003 with Grant Thornton LLP, the Company's new independent auditors.

Dale V. Kesler

John L. ( J.L. ) Jackson

Jere W. Thompson

**Principal Accountant Fees**

The following table summarizes the fees paid or payable to KPMG for services rendered for the fiscal year ended November 30, 2002 (in thousands).

Audit Fees		\$ 1,086
Financial Information Systems Design and Implementation Fees		
All Other Fees:		
Audit Related Fees	\$ 544	
Tax Fees	956	1,500
	<u>          </u>	<u>          </u>
		<u>\$ 2,586</u>

The Audit Committee has considered whether the provision of financial information systems design and implementation services and other non-audit services is compatible with maintaining the principal accountant's independence.

**Changes in Principal Independent Accountant**

On July 31, 2003, KPMG resigned as the principal independent accountants and auditors of the Company. The audit reports of KPMG on the consolidated financial statements of the Company and subsidiaries as of and for the years ended November 30, 2002 and 2001 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles. The

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resignation of KPMG was not recommended or approved by the Board of Directors nor any audit or similar committee of the Board of Directors.

In connection with the audits of the Company's two most recent fiscal years ended November 30, 2002, and the subsequent interim period through July 31, 2003, there were no disagreements with KPMG on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements if not resolved to its satisfaction would have caused KPMG to make reference to the subject matter of such disagreements in connection with its opinion.

In connection with the audits of the Company's two most recent fiscal years ended November 30, 2002 and the subsequent interim period through July 31, 2003, there were no reportable events as that term is defined in Item 304(a)(1)(v) of Regulation S-K, except that KPMG issued a management letter in connection with its audit of the Company's financial statements for the fiscal year ended November 30, 2001, which identified material

weaknesses (as defined under standards established by the American Institute of Certified Public Accountants) in the Company's Mexico operations. These material weaknesses were insufficient documentation of accounting entries and procedures, failure to timely reconcile accounts receivable and accounts payable, inaccurate inventory aging, and lack of information technology controls to minimize the risk of data manipulation. Although there were no material weaknesses in the Company's internal controls on a consolidated basis for the fiscal year ended November 30, 2002, KPMG, in connection with its audit of the Company's consolidated financial statements for the fiscal year ended November 30, 2002, identified a material weakness at the Company's Mexico subsidiary level that relates to the reconciliation of certain manual accounting systems in Mexico.

In the second and third quarters of 2003, the Company implemented a system to increase automation of the activation process in order to reduce and/or eliminate duplicate activations and omissions and also has reduced the number of agents. In addition, the Company's manual reconciliation process with one of its major carrier customers previously involved numerous transactions and disputed items. The Company and the carrier customer manually reconciled these accounts. The Company has simplified the business process with the customer and the account is now timely reconciled. In addition, the Company made significant management changes during fiscal 2002 and 2003 in its Mexico operations.

The audit committee of the Company's board of directors discussed these material weaknesses with KPMG. KPMG has been authorized by the Company to respond fully to the inquiries of Grant Thornton LLP concerning these reportable events.

On August 6, 2003 the Company engaged the public accounting firm of Grant Thornton LLP ( Grant Thornton ) as its principal independent accountants and auditors. Such engagement was approved by the Board and the Audit Committee on August 6, 2003.

In the Company's two most recent fiscal years and any subsequent interim period prior to the engagement of Grant Thornton, neither the Company nor anyone acting on the Company's behalf has consulted with Grant Thornton regarding either:

- (i) the application of accounting principles to a specified transaction, either completed or proposed; or the type of audit opinion that might be rendered on the Company's financial statements, and neither a written report was provided to the Company nor oral advice was provided that Grant Thornton concluded was an important factor considered by the Company in reaching a decision as to the accounting, auditing, or financial reporting issue; or
- (ii) any matter that was either the subject of a disagreement, as that term is defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions to Item 304 of Regulation S-K, or a reportable event, as that term is defined in Item 304(a)(1)(v) of Regulation S-K.

**PROPOSAL II**

**APPROVAL OF THE CELLSTAR CORPORATION**

**2003 LONG-TERM INCENTIVE PLAN**

The Board of Directors has adopted the 2003 Incentive Plan effective as of March 13, 2003. A copy of the 2003 Incentive Plan, which is being submitted for stockholder approval at the Meeting, is attached to this Proxy Statement as Appendix C. The 2003 Incentive Plan will replace the 1993 Plan, which expired on December 3, 2003.

The following is a brief summary of certain provisions of the 2003 Incentive Plan, which summary is qualified in its entirety by reference to the full text of the 2003 Incentive Plan. Stockholders are urged to review carefully the entire text of the 2003 Incentive Plan attached hereto as Appendix C.

**Administration of the 2003 Incentive Plan**

The 2003 Incentive Plan may be administered by the Board or by a committee of the Board. The Compensation Committee of the Board currently recommends any actions to be taken pursuant to the 2003 Incentive Plan to the full Board, who then acts on the recommendation. References to the Committee in this discussion of Proposal II shall mean the Board or a committee appointed by the Board to administer the 2003 Incentive Plan. Any member of the Compensation Committee may be removed, with or without cause, from the Compensation Committee at any time by resolution of the Board. The Committee has, subject to the terms of the 2003 Incentive Plan, the sole authority to grant Awards (as hereinafter defined) thereunder, to construe and interpret the 2003 Incentive Plan, and to make all other determinations and take any and all actions necessary or advisable for the administration of the 2003 Incentive Plan. Any interpretation, determination, or other actions made or taken by the Committee will be final, binding, and conclusive on all parties.

Notwithstanding the foregoing, the Board may delegate to the Chief Executive Officer ( CEO ) of the Company the authority, subject to the terms of the 2003 Incentive Plan and such terms as the Board shall determine, to determine and designate from time to time the eligible persons to whom Awards may be granted and to perform other specified functions under the 2003 Incentive Plan.

**Eligibility**

Any employee, director, or advisor of the Company or its subsidiaries is eligible to participate in the 2003 Incentive Plan; however, only employees of the Company and its subsidiaries are eligible to receive incentive stock options. The Committee determines which of the eligible participants qualify to receive Awards under the 2003 Incentive Plan. As of the end of fiscal 2003, it was expected that 5 directors and approximately 95 employees would be eligible to participate in the 2003 Incentive Plan. Unless earlier terminated by action of the Board of Directors or the Committee, the 2003 Incentive Plan will terminate on March 12, 2013.

**Description of Awards**

The 2003 Incentive Plan provides for the grant of any or all of the following types of awards (collectively, "Awards"): (i) stock options, including incentive stock options, within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), and non-qualified stock options; (ii) stock appreciation rights, in tandem with stock options or freestanding; (iii) restricted stock; and (iv) cash awards. Awards may be granted singly, in combination, or in tandem, as determined by the Committee in its discretion. The Committee generally has the authority to fix the terms and number of Awards to be granted under the 2003 Incentive Plan; provided that no participant may receive during any fiscal year Awards covering an aggregate of more than 150,000 shares of Common Stock under the 2003 Incentive Plan. With respect to any restrictions ("Mandated Restrictions") under the 2003 Incentive Plan that are based on the requirements of Rule 16b-3 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), Sections 422 or 162(m) of the Code, the rules of any exchange upon which the Company's securities are listed, or any other applicable law, rule, or restriction (collectively, "Applicable Law"), to the extent that any such Mandated Restrictions are no longer

required by Applicable Law, the Committee and the CEO, as applicable, shall have the discretion and authority to grant Awards under the 2003 Incentive Plan that are not subject to such Mandated Restrictions and to waive any such Mandated Restrictions with respect to outstanding Awards.

Stock options are exercisable to purchase Common Stock during a period specified in each option agreement and are exercisable in installments pursuant to a vesting schedule designated by the Committee. Stock appreciation rights entitle the holder to receive cash or (in the discretion of the Committee) shares of Common Stock having a value equal to the appreciation in the fair market value of the Common Stock underlying the stock appreciation right from the date of grant to the date of exercise. Restricted stock awards give the recipient the right to receive a specified number of shares of Common Stock, subject to such terms, conditions, and restrictions as the Committee deems appropriate. Restrictions may include limitations on the right to transfer or encumber the restricted stock until the expiration of a specified period of time and forfeiture of the restricted stock upon the occurrence of certain events such as termination of employment prior to the expiration of a specified period of time.

An aggregate of 1,000,000 shares of Common Stock are currently authorized and reserved for issuance under the 2003 Incentive Plan, subject to adjustments as described under Adjustments below. Shares to be optioned and sold may be made available from either authorized but unissued Common Stock, Common Stock held by the Company in its treasury or Common Stock purchased by the Company on the open market or otherwise. If an option granted under the 2003 Incentive Plan terminates or expires without having been exercised in full, or restricted stock granted under the 2003 Incentive Plan is forfeited for any reason, the unexercised or forfeited shares will be available for further grants of Awards under the 2003 Incentive Plan.

The 2003 Incentive Plan requires that the purchase price per share under any option or stock appreciation right may not be less than 100% of the fair market value of the underlying shares of Common Stock on the date of grant, or 110% of such value in the case of incentive stock options granted to any employee owning more than ten percent of the total combined voting power of all classes of stock of the Company (a Ten Percent Owner). In addition, the term of any option or stock appreciation right may not exceed ten years, or five years in the case of incentive stock options granted to a Ten Percent Owner. No option may be exercised beyond the expiration of its term. Vesting schedules for outstanding options may range from 100% vesting on the first anniversary of the date of grant to 25% vesting per year, generally beginning on the first anniversary of the date of grant. In addition, the vesting of certain outstanding options may be tied to the achievement of performance goals. The aggregate fair market value of Common Stock with respect to which incentive stock options are exercisable for the first time by any individual during any calendar year may not exceed \$100,000.

The 2003 Incentive Plan provides that, in the event of a Change of Control, all unvested options and stock appreciation rights will become fully exercisable, and all restrictions will lapse with respect to outstanding shares of restricted stock. Change of Control is defined as the occurrence of any of the following events: (i) any consolidation, merger, or share exchange 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 consolidation, merger, or share exchange of the Company in which the holders of Common Stock immediately prior to such transaction have the same proportionate ownership of common stock of the surviving corporation immediately after such transaction; (ii) any sale, lease, exchange, or other transfer (excluding transfer by way of pledge or hypothecation), in one transaction or a series of related transactions, of all or substantially all of the assets of the Company; (iii) approval by the stockholders of the Company of any plan or proposal for the liquidation or dissolution of the Company; (iv) the cessation of control (by virtue of their not constituting a majority of directors) of the Board by the individuals (the Continuing Directors) who (x) at the effective date of the 2003 Incentive Plan were directors or (y) become directors after the effective date of the 2003 Incentive Plan and whose election or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then in office who were directors at the effective date of the 2003 Incentive Plan or whose election or nomination for election was previously so approved; or (v) 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. To the extent that a participant's employment agreement differs from the 2003 Incentive Plan with respect to the meaning of Change of Control, if such employment agreement has been approved by the Committee, the definition included in such employment agreement will govern.

The exercise price for any option may be paid as follows: (i) in cash or by certified check, bank draft, or money order payable to the order of the Company; (ii) in Common Stock (including restricted stock) owned by the participant and valued at its fair market value on the date of exercise, and which the participant has not acquired from the Company within six months prior to the date of exercise; (iii) by delivery (including by fax) to the Company or its designated agent of an executed irrevocable option exercise form together with irrevocable instructions from the participant to a broker or dealer, reasonably acceptable to the Company, to sell certain of the shares of Common Stock purchased upon exercise of the 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 (iv) in any other form of valid consideration that is acceptable to the Committee in its sole discretion. Except as may otherwise be provided in an option agreement, if the participant fails to pay for any of the option shares or fails to accept delivery of those shares, the participant's right to purchase such shares may be forfeited. The closing price of the Common Stock on November 28, 2003, as quoted by the Nasdaq Stock Market, was \$13.83.

The 2003 Incentive Plan provides that, unless otherwise permitted by the Committee in its sole discretion, in the event of termination of a participant's service with the Company (i) any options and/or stock appreciation rights held by such participant may be exercised, to the extent exercisable on the date of termination, (a) for 12 months after termination, if termination is due to death or disability; (b) for three months after termination, if termination is due to retirement; and (c) for 30 days after termination, if termination is due to any reason other than death, disability, or retirement; provided that no option or stock appreciation right may be exercisable beyond its original expiration date; and (ii) any unvested shares of restricted stock held by such terminated participant will be forfeited. If a participant forfeits unvested shares of restricted stock and has paid consideration to the Company for such forfeited restricted stock, the Company is required to repay to the participant an amount equal to the lesser of the total consideration paid by the participant for such forfeited shares or the fair market value of such forfeited shares as of the date of the participant's termination.

### **Restrictions**

The options and stock appreciation rights granted under the 2003 Incentive Plan are not transferable or assignable other than by will or by the laws of descent and distribution. The designation by a participant of a beneficiary will not constitute a transfer of a stock option or stock appreciation right. Notwithstanding the foregoing, the Committee may, in its sole discretion, provide in an award agreement that non-qualified stock options or stock appreciation rights may be transferable (subject to certain restrictions for participants subject to the reporting requirements under Section 16 of the Exchange Act).

The Company is not required to sell or issue shares of Common Stock under any Award if the Committee determines, in its sole discretion, (i) that issuance of Common Stock would violate any provisions of any law or regulation of any governmental authority or any national securities exchange or inter-dealer quotation system or other forum in which shares of Common Stock are quoted or traded (including Section 16 of the Exchange Act and Section 162(m) of the Code) or (ii) that a necessary listing or quotation of the shares of Common Stock on a stock exchange or inter-dealer quotation system or any registration under state or federal securities laws required under the circumstances has not been accomplished. As a condition of any sale or issuance of shares of Common Stock under an Award, the Committee may require such agreements or undertakings, if any, as the Committee may deem necessary or advisable to assure compliance with any such law or regulation.

### **Adjustments**

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The 2003 Incentive Plan provides that (i) the maximum number of shares that may be awarded under the 2003 Incentive Plan and the maximum number of shares that may be awarded to any participant, (ii) the number



of shares subject to outstanding options and stock appreciation rights and the exercise prices of such options and stock appreciation rights, and (iii) the number of outstanding shares of restricted stock, are subject to such adjustments as are appropriate to reflect any stock dividend or other distribution, recapitalization, stock split, reverse stock split, rights offering, reorganization, merger, consolidation, split-up, split-off, share combination, subdivision of shares, share repurchase, exchange of shares, issuance of warrants or other rights to purchase shares, or other similar corporate transaction or event affecting the Common Stock. No adjustment shall be made for the issuance of securities for consideration, as may be determined by the Board of Directors.

If the Company merges or consolidates and the Company is not the surviving or resulting corporation, each share of Common Stock subject to an outstanding Award will be substituted for that number of shares of stock or that amount of cash or property of the surviving, resulting, or consolidated company that were distributed or distributable to the stockholders of the Company in respect to each share of Common Stock held by them and such outstanding Award will be thereafter exercisable for such stock, cash, or property in accordance with its terms. If the Company transfers all or substantially all of its assets to another entity or dissolves or liquidates or winds up its affairs, then each participant may thereafter receive upon exercise of an Award, the same kind and amount of any securities or assets as may be issuable, distributable, or payable upon any such sale, dissolution, liquidation, or winding up with respect to each share of Common Stock as if such Award had been exercised immediately prior to such sale, dissolution, liquidation, or winding up. Notwithstanding these adjustment provisions, all Awards granted under the 2003 Incentive Plan may be canceled by the Company, in its sole discretion, upon a merger, consolidation, or share exchange of the Company in which the Company is not the surviving or resulting corporation, or the reorganization, proposed sale of all or substantially all of the assets of the Company, or dissolution or liquidation of the Company, subject to each participant's right to exercise his or her option or stock appreciation rights for a period of 30 days immediately preceding the effective date of such event.

Upon the occurrence of an event requiring adjustment of the exercise price or shares issuable upon exercise, the Company is required to mail a copy of its computation of the adjustment to all participants, which will be binding on each participant.

If the Company makes a partial distribution of its assets in the nature of a partial liquidation (except for certain cash dividends) then the exercise price then in effect with respect to each outstanding stock option and stock appreciation right will be reduced in proportion to the percentage reduction in the tangible book value of the shares of Common Stock as a result of such distribution.

#### **Amendment of the 2003 Incentive Plan**

The Board of Directors or, if authorized, a committee of the Board, may from time to time discontinue or amend the 2003 Incentive Plan without the consent of the stockholders unless stockholder approval is required under the Code or if required by any law, regulation, or stock exchange or inter-dealer quotation system on which the shares of Common Stock to be issued pursuant to an Award are listed or quoted. Neither the Board of Directors, nor any committee of the Board, may increase the number of shares authorized and reserved for issuance under the 2003 Incentive Plan without stockholder approval. In addition, if an amendment would adversely affect an outstanding Award, the consent of the participant holding that Award must be obtained.

#### **Summary of Certain Federal Income Tax Consequences of the 2003 Incentive Plan**

*Incentive Stock Options.* No taxable income is realized by a participant and no tax deduction is available to the Company upon either the grant or exercise of an incentive stock option. If a participant holds the shares acquired upon the exercise of an incentive stock option for more than one year after the issuance of the shares upon exercise of the incentive stock option and more than two years after the date of the grant of the incentive stock option (the ISO Holding Period), the difference between the exercise price and the amount realized upon the sale of the shares will be treated as a long-term capital gain or loss and no deduction will be available to the Company. If the shares are transferred before the expiration of the ISO Holding Period, the participant will



realize ordinary income on the portion of the gain, if any, equal to the difference between the incentive stock option exercise price and the fair market value of the shares on the date of exercise or, if less, the difference between the amount realized on the disposition and the adjusted basis of the stock. The Company will also be entitled to a deduction on such amount unless such amount exceeds the Deduction Limitation and does not satisfy an exception to the Deduction Limitation. See Executive Compensation Report of the Compensation Committee of the Board of Directors on Executive Compensation Internal Revenue Code Section 162(m). Any further gain or loss from an arm's-length sale or exchange will be taxable as a long-term or short-term capital gain or loss, depending upon the holding period before disposition. Certain special rules apply if an incentive stock option is exercised by tendering stock.

The difference between the incentive stock option exercise price and the fair market value at the time of exercise of the Common Stock acquired upon the exercise of the incentive stock option may give rise to alternative minimum taxable income subject to an alternative minimum tax whether or not the participant makes a disposition of such shares. Special rules also may apply in certain cases where there are subsequent sales of shares in disqualifying dispositions and to determine the basis of the stock for purposes of computing alternative minimum taxable income on subsequent sale of the shares.

*Non-qualified Stock Options.* No taxable income generally is realized by the participant and no deduction is available to the Company upon the grant of a non-qualified stock option. Upon exercise of a non-qualified stock option, the participant will realize ordinary income on the portion of the gain, if any, equal to the difference between the non-qualified stock option exercise price and the fair market value of the shares on the date of exercise. The Company will also be entitled to a deduction on such amount unless such amount exceeds the Deduction Limitation and does not satisfy an exception to the Deduction Limitation. See Executive Compensation Report of the Compensation Committee of the Board of Directors on Executive Compensation Internal Revenue Code Section 162(m). The tax basis of shares acquired by the participant will be the fair market value of such shares on the date of exercise. When a participant disposes of shares acquired upon exercise of a non-qualified stock option, the difference between the fair market value of the shares on the date of exercise and the amount realized upon the sale of the shares generally will be treated as a capital gain or loss and will be long-term or short-term, depending on the holding period of the shares. The holding period commences upon exercise of the non-qualified stock option. The exercise of a non-qualified stock option will not trigger the alternative minimum tax consequences applicable to incentive stock options.

*Stock Appreciation Rights.* No taxable income is realized by a participant and no deduction is available to the Company upon the grant of a stock appreciation right. Upon the exercise of the stock appreciation right, the participant will realize ordinary income equal to the cash and/or the fair market value on the date of exercise of the shares received from the Company. The Company will also be entitled to a deduction on such amount unless such amount exceeds the Deduction Limitation and does not satisfy an exception to the Deduction Limitation. See Executive Compensation Report of the Compensation Committee of the Board of Directors on Executive Compensation Internal Revenue Code Section 162(m). The tax basis of any shares received by the participant will be the fair market value on the date of exercise. When a participant disposes of shares received upon exercise of a stock appreciation right, the difference between the fair market value of the shares on the date of exercise and the amount realized upon the sale of the shares generally will be treated as a capital gain or loss and will be long-term or short-term, depending on the holding period of the shares. The holding period commences upon exercise of the stock appreciation right.

*Restricted Stock.* Unless a participant otherwise elects to be taxed upon receipt of shares of restricted stock under the 2003 Incentive Plan, no taxable income is realized by the participant and no deduction is available to the Company upon the grant of restricted stock. However, the participant will realize ordinary income on the difference between the amount paid, if any, for the shares and the fair market value of the shares as of the first date the participant's interest in the shares is no longer subject to a substantial risk of forfeiture or such shares become transferable. A participant's rights in restricted stock awarded under the 2003 Incentive Plan are subject to a substantial risk of forfeiture if the rights to full enjoyment of the shares are conditioned, directly or

indirectly, upon the future performance of substantial services by the participant. Where shares of restricted stock received under the 2003 Incentive Plan are subject to a substantial risk of forfeiture, the participant can elect to realize ordinary income on the difference between the amount paid, if any, for the shares and the fair market value of the shares on the date of receipt in the year of receipt. To be effective, the election must be filed with the Internal Revenue Service within 30 days after the date the shares are transferred to the participant. The Company will also be entitled to a deduction on the difference between the amount paid, if any, for the shares and the fair market value of the shares on the date of receipt, unless such amount exceeds the Deduction Limitation and does not satisfy an exception to the Deduction Limitation. See

Executive Compensation Report of the Compensation Committee of the Board of Directors on Executive Compensation Internal Revenue Code Section 162(m). When a participant disposes of restricted shares received pursuant to the 2003 Incentive Plan, the difference between the fair market value of the shares on the date of receipt and the amount realized upon the sale of the shares generally will be treated as a capital gain or loss and will be long-term or short-term, depending on the holding period of the shares. The holding period commences on the date of receipt of the restricted shares.

*Cash Awards.* No taxable income is realized by a participant and no deduction is available to the Company upon the grant of a cash award if the award is subject to a substantial risk of forfeiture. However, the participant will realize ordinary income equal to the cash and/or the fair market value of any shares of Common Stock received from the Company as of the first date the award is no longer subject to a substantial risk of forfeiture. Notwithstanding the foregoing, if a cash award is paid in whole or in part in shares of Common Stock and the participant is subject to Section 16(b) of the Exchange Act on the date of receipt of such shares, the participant generally will not realize ordinary income until the expiration of six months from the date of receipt, unless the participant elects to realize ordinary income equal to the fair market value of the shares on the date of receipt. The Company will also be entitled to a deduction on such amount, unless such amount exceeds the Deduction Limitation and does not satisfy an exception to the Deduction Limitation. See Executive Compensation Report of the Compensation Committee of the Board of Directors on Executive Compensation Internal Revenue Code Section 162(m). No taxable income is realized by a participant and no deduction is available to the Company with respect to any stock options received pursuant to a cash award. Taxation to the participant (and deductibility for the Company) with respect to such stock options will be governed by the same rules as set forth above with respect to non-qualified stock options.

*Other Tax Matters.* If unmaturing installments of Awards are accelerated as a result of a Change of Control, any amounts received from the exercise by a participant of a stock option, the lapse of restrictions on restricted stock, or the deemed satisfaction of conditions of performance-based awards may be included in determining whether or not a participant has received an excess parachute payment under Section 280G of the Code, which could result in (i) the imposition of a 20% federal excise tax (in addition to federal income tax) payable by the participant on certain payments of Common Stock or cash resulting from such exercise or deemed satisfaction of conditions of performance awards or, in the case of restricted stock, on all or a portion of the fair market value of the shares on the date the restrictions lapse and (ii) the loss by the Company of a compensation deduction.

**2003 Incentive Plan Benefits**

Because awards under the 2003 Incentive Plan are discretionary, the Company cannot currently determine the number of Awards that may be granted under the 2003 Incentive Plan. In fiscal 2003, pursuant to the 1993 Plan, the following individuals and groups were granted options to purchase shares of Common Stock in the amounts indicated:

<u>Name and Principal Position</u>	<b>Number of Options Granted Under 1993 Plan in Fiscal 2003</b>
Terry S. Parker Chief Executive Officer	50,000
A.S. Horng Chairman, Chief Executive Officer and General Manager of CellStar (Asia) Corporation Limited	
Robert A. Kaiser Senior Vice President and Chief Financial Officer	50,000
Lawrence King President and Chief Operating Officer of Asia-Pacific Region	
Elaine Flud Rodriguez Senior Vice President, Secretary and General Counsel	50,000
All Current Executive Officers as a Group	200,000(1)
All Current Non-Executive Directors as a Group	104,000
All Employees, Including Officers Other Than Executive Officers	75,700

(1) Includes options to purchase 50,000 shares of Common Stock granted to executive officers not named in the table.

**The Board of Directors recommends a vote FOR the proposal to approve the 2003 Incentive Plan.**

## SECURITY OWNERSHIP OF CERTAIN

## BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information with respect to the number of shares of Common Stock beneficially owned as of November 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 Company's Chief Executive Officer and each of the Company's four other most highly compensated executive officers who were serving as such on November 30, 2003, based on salary and bonus earned during fiscal 2003 (collectively, the "Named Executive Officers"); (iii) each director and nominee for director of the Company who was serving in such capacity on November 30, 2003; 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	Percent of
	Beneficial Ownership	Class(1)
Alan H. Goldfield(2)	3,861,785(3)	18.8
Michael A. Roth and Brian J. Stark(4)	4,276,492(5)	21.0
The Northwestern Mutual Life Company(6)	1,128,400(7)	5.5
Terry S. Parker(8)	171,000(9)(10)	*
A.S. Horng(8)	725,283(11)	3.5
Robert A. Kaiser(8)(12)	54,580(13)	*
Lawrence King(8)	71,627(14)	*
Elaine Flud Rodriguez(8)	65,342(15)	*
James L. Johnson(8)	20,000(9)(16)	*
Dale V. Kesler(8)	12,700(9)(17)(18)	*
John L. ( J.L. ) Jackson(8)	14,500(9)(17)	*
Jere W. Thompson(8)	12,990(9)(17)	*
Current Directors and Executive Officers as a Group	1,165,847(19)	5.5

\* Less than 1%.

- (1) Based on 20,356,242 shares outstanding as of November 28, 2003.
- (2) The address for Mr. Goldfield is 1851 Turbeville Road, Denton, Texas 76210.
- (3) Includes 3,177,785 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 210,000 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 c/o Stark Investments, 3600 South Lake Drive, St. Francis, Wisconsin 53235.
- (5) Based on an amended Schedule 13D filed with the Securities and Exchange Commission on November 24, 2003 by Michael A. Roth and Brian J. Stark, filing as joint filers pursuant to Rule 13d-1(k) under the Exchange Act. Messrs. Roth and Stark reported sole dispositive and sole voting power with respect to 4,276,492 shares.
- (6) The address for The Northwestern Mutual Life Insurance Company ( Northwestern Mutual ) is 720 East Wisconsin Avenue, Milwaukee, Wisconsin 53202.
- (7) Based on an amended 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 132,000 shares subject to options granted under the 1993 Plan, which options are exercisable within 60 days, and 37,500 shares subject to options granted outside 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 223,783 shares subject to options granted under the 1993 Plan, which options are exercisable within 60 days, and 27,500 shares subject to options granted outside the 1993 Plan, which options are exercisable within 60 days.
- (12) Mr. Kaiser was appointed President and Chief Operating Officer of the Company on October 2, 2003.
- (13) Includes 52,500 shares subject to options granted under the 1993 Plan, which options are exercisable within 60 days.
- (14) Consists of 71,627 shares subject to options granted under the 1993 Plan, which options are exercisable within 60 days.
- (15) Includes 64,222 shares subject to options granted under the 1993 Plan, which options are exercisable within 60 days.
- (16) Includes 14,000 shares subject to options granted under the 1993 Plan, which options are exercisable within 60 days.
- (17) Includes 11,000 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 17,825 shares subject to options granted under the 1993 Plan to executive officers not named in the table, which options are exercisable within 60 days.

## EXECUTIVE COMPENSATION

## Summary Compensation Table

The following table sets forth certain information regarding compensation paid to the Named Executive Officers for each of the Company's last three fiscal years.

Name and Principal Position	Year	Annual Compensation		Long Term Compensation Awards				
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Restricted	Securities		All Other Compensation (\$)
					Stock Award(s) (\$)	Underlying		
						Options (#)(1)(2)		
Terry S. Parker	2003	950,000	(3)			50,000	3,361(4)	
Chief Executive Officer	2002	950,000	380,000				3,777(4)	
	2001	341,634(5)	200,000			204,000	3,256(4)	
A.S. Horng	2003	900,000	(3)				1,539(8)	
Chairman, Chief Executive Officer and General Manager of CellStar (Asia) Corporation Limited	2002	841,818	1,566,966 (6)			260,000	1,539(8)	
	2001	800,133	300,000				1,539(8)	
Robert A. Kaiser	2003	450,000	(3)(7)			50,000	12,282(4)	
President and Chief Operating Officer	2002	436,442(9)	675,000(10)			80,000	11,698(4)	
	2001							
Lawrence King	2003	369,231	(3)				3,510(11)	
President and Chief Operating Officer of Asia-Pacific Region	2002	369,290	30,005			7,000	3,365(11)	
	2001	360,058	70,780			12,000	3,365(11)	
Elaine Flud Rodriguez	2003	285,000	(3)			50,000	4,663(4)	
Senior Vice President, Secretary and General Counsel	2002	285,000	115,000			10,000	4,113(4)	
	2001	265,000	35,774			15,000	3,945(4)	

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



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- (2) All figures in this column reflect an adjustment for the Company's one-for-five reverse stock split that was effected on February 22, 2002 (the Reverse Split).
- (3) Bonuses to be based on a combination of certain Company and individual or operating unit goals, to be determined following the completion of the fiscal 2003 audit.
- (4) Consists of insurance premiums paid by the Company and Company matching contributions to the named executive's 401(k) plan.
- (5) Mr. Parker was appointed Chief Executive Officer of the Company on July 5, 2001.
- (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) Corporation Ltd (CellStar Asia).
- (7) Pursuant to his employment agreement, as amended, the Company is obligated to pay Mr. Kaiser the sum of \$500,000 relating to the timing of his promotion to President and Chief Operating Officer. The Company recorded this expense in its second fiscal quarter, however the amount has not been paid to Mr. Kaiser. Mr. Kaiser was named President and Chief Operating Officer on October 2, 2003. See Executive Compensation Employment Contracts and Termination of Employment and Change in Control Arrangements.
- (8) Consists of a Company matching contribution to its Hong Kong retirement plan.
- (9) Mr. Kaiser was appointed Senior Vice President and Chief Financial Officer on December 12, 2001.
- (10) 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 Incentive Plan. See Executive Compensation Employment Contracts and Termination of Employment and Change in Control Arrangements.
- (11) Consists of insurance premiums paid by the Company and a Company matching contribution to its Hong Kong retirement plan.

**Option Grants During 2003 Fiscal Year**

The following table provides information related to options granted to the Named Executive Officers during the fiscal year ended November 30, 2003.

Name	Individual Grants			Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(1)	
	Number of Securities Underlying Options Granted(2)	% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Sh)(3)		5% (\$)	10% (\$)
Terry S. Parker	50,000	17.62	5.45	January 31, 2013	171,374	434,295
A.S. Horng						
Robert A. Kaiser	50,000	17.62	5.45	January 31, 2013	171,374	434,295
Lawrence King						
Elaine Flud Rodriguez	50,000	17.62	5.45	January 31, 2013	171,374	434,295

- (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) 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; provided, however, that 100% of the shares shall become exercisable immediately upon the earlier to occur of (i) the successful completion of the divestiture of up to 70% of the equity ownership of the Company's operations in the People's Republic of China, Hong Kong, and Taiwan (the CellStar Asia Transaction), if the CellStar Asia Transaction yields to the Company proceeds of \$50.0 million or more in cash or cash equivalents, or (ii) if the Named Executive Officer's employment is terminated without cause. In the event of a change of control (as defined in the 1993 Plan), any unexercisable portion of the options will become immediately exercisable.
- (3) 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 to 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.

**Aggregated Option Exercises During 2003 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, 2003 and the number and value of options held on November 30, 2003. 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 2003.

Name	Shares		Number of Securities		Value of Unexercised In-the-Money Options at	
	Acquired on	Realized	Underlying Unexercised		FY-End \$(1)(3)	
	Exercise (#)(1)	(\$)(2)	Options at FY-End #(1)		Exercisable	Unexercisable
			Exercisable	Unexercisable	Exercisable	Unexercisable
Terry S. Parker			157,250	102,250	549,010	608,315
A.S. Horng			213,712	217,571	671,950	2,015,850
Robert A. Kaiser			20,000	110,000	184,600	972,800
Lawrence King			64,720	13,407	43,408	76,763
Elaine Flud Rodriguez			42,655	67,818	57,238	523,887

- (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 Stock Market on November 28, 2003, the last trading day of fiscal 2003, was \$13.83. The value of unexercised in-the-money options is calculated on the basis of the difference between the option exercise price and \$13.83 multiplied by the number of shares of Common Stock underlying the option.

**Equity Compensation Plan Information**

The following table sets forth information about the Company's equity compensation plans as of November 30, 2003:

Plan Category	Number of Securities		Weighted Average Exercise Price of	Number of Securities	
	to be Issued Upon Exercise of	Outstanding Options (1)		Remaining Available for Future Issuance (Excluding Securities Reflected in First Column)	Outstanding Options (1)
Equity compensation plans approved by security holders	1,666,458(2)		\$ 21.40		298,033(3)
Equity compensation plans not approved by security holders	160,000(4)(5)		\$ 5.44		0
Total	1,826,458				298,033

- (1) The Company does not have outstanding any warrants or rights to purchase Common Stock, with the exception of rights outstanding pursuant to its amended and restated stockholder rights plan, which rights are offered to all stockholders on a pro rata basis.

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- (2) Consists of 1,658,958 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 280,033 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 an executive officer. 25% of these options vested immediately upon grant, and the remainder vest in 25% increments thereafter beginning on the first anniversary of the grant date. The options expire on July 4, 2011, unless a termination of service occurs. In addition, the options become immediately vested upon the occurrence of certain events, including termination of employment by the Company without cause, Company Breach, or as a result of a change in control, as such terms are defined in the executive officer's employment agreement.

- (5) On September 10, 2002, the Company granted options to purchase 110,000 shares of Common Stock at an exercise price of \$3.25 per share to an executive officer. The options vest in 25% increments beginning on the first anniversary of the grant date, provided, however, that none of the shares become exercisable until the plan is approved by stockholders. The options expire on September 9, 2012, unless a termination of service occurs.

### Compensation of Directors

During the fiscal year ended November 30, 2003, each director of the Company who was not an officer or other employee of the Company 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 non-employee 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, 2003.

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 a non-employee director. Mr. Johnson received \$250,000 for his services as Chairman during fiscal 2003, in addition to director and retainer fees as described above.

Pursuant to the Directors' Plan, each non-employee director automatically receives an option (the Initial Option) to purchase 1,500 shares of Common Stock upon becoming a non-employee director. In addition to the Initial Option, each non-employee 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 non-employee 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. The Company expects to make similar grants of options under the 2003 Incentive Plan.

In addition to the Annual Option, and in recognition of the key roles the Company's directors have played in the CellStar Asia Transaction, each non-employee director was 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 \$50.0 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.

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.

Mr. Kamm was nominated to and elected by the Board of Directors on December 5, 2003. See Meetings of Directors and Committees Nominating Committee. Since the beginning of fiscal 2003, the Company has paid Mr. Kamm \$69,018 in consulting fees through his company, Asia Pacific Resources, Inc. Mr. Kamm's consulting agreement with the Company terminated in June 2003.

### **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, which may be increased by the Board of Directors. 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 CellStar Asia Transaction; provided, however, that in the event the market capitalization of the new entity formed to hold the Company's Asian operations (New CellStar Asia) at the time of the initial public offering of New CellStar Asia on the Stock Exchange of Hong Kong (as determined by CellStar, New CellStar Asia, and the underwriters) is \$250.0 million or greater, the success bonus will be increased to \$2.5 million. The Employment Agreement with Mr. Horng will terminate upon completion of 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 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. This amendment further reduced the amount payable in the event Mr. Kaiser is not so named to \$500,000. 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. Mr. Kaiser was named President and Chief Operating Officer on October 2, 2003. Pursuant to his Employment Agreement, as amended, the Company is obligated to pay Mr. Kaiser the sum of \$500,000 related to the timing of his promotion. The Company recorded this expense in its second fiscal quarter, however the amount has not been paid to Mr. Kaiser.

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 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) Corporation Ltd., 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 contendere 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 or her Employment Agreement that is not cured within 30 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 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 Employment Agreements of Messrs. Parker, Horng, and Kaiser

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.

*Separation Agreement and Release.* As of July 5, 2001, the Company entered into a Separation Agreement and Release with Alan H. Goldfield, the Company's former Chief Executive Officer and the holder of greater than five percent of the outstanding Common Stock, under which the Company may engage Mr. Goldfield to provide information or assistance in connection with all matters relating to or arising out of his former employment with the Company or pertaining to the general business operations of the Company. In return for this information and assistance, the Company pays Mr. Goldfield his pre-approved, reasonable, actual, out-of-pocket expenses plus the greater of \$1,500 per day or the highest per day amount then being paid to members of the Board for services other than services provided as a member of the Board. Under this Separation Agreement and Release and until July 5, 2006, the Company must also provide Mr. Goldfield with a \$5,000,000 term life insurance policy and disability insurance with an annual benefit of \$300,000 until age 65. The Company must also provide Mr. Goldfield and his spouse, Shirley M. Goldfield, with reimbursement of medical and dental expenses for the remainder of their respective lives, subject to certain conditions. For fiscal 2003, the Company paid premiums of \$48,384 related to term life insurance for Mr. Goldfield and \$44,503 related to disability insurance for Mr. Goldfield. In addition, the Company paid medical and dental insurance premiums of \$13,790.28 for Mr. and Mrs. Goldfield, \$3,810 of which the Company expects Mr. Goldfield to reimburse pursuant to the Separation Agreement and Release. For fiscal 2003, the Company paid Mr. Goldfield approximately \$56,000 in connection with services provided pursuant to his Separation Agreement and Release.

#### **Compensation Committee Interlocks and Insider Participation**

For fiscal 2003, 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. 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 a non-employee Director. Mr. Johnson received \$250,000 for his services as Chairman during fiscal 2002, in addition to director and retainer fees. 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 2003.

#### **Report of the Compensation Committee of the Board of Directors on Executive Compensation**

*General.* Subject to existing contractual obligations, the Compensation Committee of the Board of Directors is primarily responsible for evaluating and recommending the Company's executive compensation policies and practices. The Compensation Committee also has the power to administer the 1993 Plan, the 2003 Incentive Plan, the Incentive Plan, and the Directors' Plan. The Compensation Committee is currently composed of Messrs. J.L. Jackson (Chairman), James L. Johnson, and Jere W. Thompson.





*Compensation Philosophy.* The Company's philosophy of rewarding stockholders through executive compensation reflects its belief that the compensation of executives (i) should be linked to achievement of the Company's business and strategic goals; (ii) should be aligned with the interests of stockholders through awards of stock options and other stock-based compensation; (iii) should recognize individual contributions, as well as overall business results; and (iv) should have the ultimate result of attracting, motivating, and retaining highly-talented executives for the Company. To achieve these objectives, the Company's current compensation program consists of the following elements:

- Base salary
- Annual incentive compensation, the receipt of which is based on (i) the financial performance of the Company and its divisions from year to year and/or (ii) significant individual contributions
- Long-term incentive compensation, primarily in the form of stock options

*Chief Executive Officer's Fiscal 2003 Compensation.* Mr. Parker was appointed Chief Executive Officer of the Company in July 2001. Pursuant to Mr. Parker's Employment Agreement, the Company pays an annual base salary of \$850,000, which was based on competitive and comparable compensation for the position of responsibility as reviewed and recommended by an outside consulting firm hired by the Company. Beginning in fiscal 2002, Mr. Parker's base salary was increased to \$950,000. The increase in Mr. Parker's base salary was attributable to the recognition of the Company's performance in light of significant challenges with which it was faced in fiscal 2002, including the successful completion of the exchange offer for the Company's 5% Convertible Subordinated Notes due October 2002 (the Subordinated Notes) and the Reverse Split. Mr. Parker received this base salary of \$950,000 for fiscal 2003. In addition, Mr. Parker is eligible for an annual incentive bonus of a target of 50% of his annual base salary, as approved by the Board, based on the attainment of certain goals related to the creation, conservation, and effective use of cash by the Company; an increase in the Company's stock price; and other factors. The target may be increased to up to 100% of Mr. Parker's annual base salary based on annual performance and achievement of goals. Mr. Parker's bonus for fiscal 2003 has not been determined pending completion of the fiscal 2003 audit. However, for fiscal 2002, Mr. Parker received a bonus of \$380,000, or 40% of his annual base salary. Mr. Parker's bonus for fiscal 2002 was determined based on a number of factors, including developing and gaining Board approval for a strategic three-year plan to maximize shareholder value by achieving targeted returns on capital investment, eliminating the remainder of the Subordinated Notes and the Company's 5% Senior Convertible Notes due November 2002, and stock price appreciation. In addition, the bonus was awarded based on individual achievements that strengthened the Company, judged in the sole discretion of the Compensation Committee of the Board of Directors. These achievements included guiding the Company through a refinancing of the Company's principal credit facility, a reverse split of the Common Stock that avoided possible de-listing from the Nasdaq Stock Market, a reduction of the risk profile of the Company through the closing of the U.K. operations and the sale of the Peru and Argentina operations, and an overall reduction of the debt of the Company.

In recognition of the key role Mr. Parker has played in the CellStar Asia Transaction, he was granted an option to purchase 50,000 shares of Common Stock containing certain incentives for the completion of the CellStar Asia Transaction. This option was 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 option 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 \$50.0 million or more in cash or cash equivalents, or (ii) if Mr. Parker's employment is terminated without cause. This option will terminate if not exercised within 10 years from the grant date. It is currently anticipated that Mr. Parker will receive future stock option grants under the 2003 Incentive Plan similar to those received by the Company's Chief Executive Officer in past years.

*Compensation of Other Executive Officers.* For the fiscal year ended November 30, 2003, the compensation packages received by the other executives of the Company consist of base salary, stock options,

and bonus awards. Each element is consistent with the compensation philosophy set forth above, and the determinations regarding the appropriate form and level of executive compensation are based in part on the recommendations of management. Such recommendations reflect each individual's level of responsibility and experience and the assessment of the individual's contribution to the success of the Company's business. In recognition of the key roles certain of the Company's executive officers have played in the CellStar Asia Transaction, such executive officers were granted options to purchase shares of Common Stock containing certain incentives for the completion of the CellStar Asia Transaction. These 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 these 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 \$50.0 million or more in cash or cash equivalents or (ii) such person's employment is terminated without cause. These options will terminate if not exercised within 10 years from the grant date. It is currently anticipated that the Company's executive officers will receive future stock option grants under the 2003 Incentive Plan similar to those given to individuals holding the same positions in past years.

Although bonuses for fiscal 2003 have not been determined pending completion of the fiscal 2003 audit, bonuses paid to these executives for fiscal 2002 were based on corporate performance factors, such as the ability to create and manage cash effectively, the successful management of various key financial indicators, and the integrity and quality of financial results and reporting. In addition, a discretionary portion of the bonus was awarded for individual achievements that strengthened the Company. Bonus payments for executive officers other than the Chief Executive Officer were recommended by the Chief Executive Officer and approved by the Compensation Committee.

In approving the fiscal 2002 bonuses, the Compensation Committee of the Board of Directors reviewed key indicators, quality of results, and other accomplishments within each of eight areas: corporate accounting, corporate planning, corporate tax accounting, corporate treasury, corporate risk management, corporate human resources and employee services, information technology, and legal. The specific factors considered were numerous and varied from area to area, dependent on the activities, goals, and purposes of the given area. For example, some of the factors reviewed with respect to corporate accounting were inventory turns and obsolescence, bad debt expense, quality of financial reporting, and cash flow improvements, whereas some of the factors reviewed with respect to corporate human resources and employee services were benefit costs, voluntary turnover, workers' compensation mitigation efforts, and training and development initiatives.

In December of 2001, the Company appointed Robert Kaiser as its new Chief Financial Officer. The Company entered into an Employment Agreement with Mr. Kaiser effective December 12, 2001 providing for an annual base salary of \$450,000 and a potential annual incentive bonus as approved by the Board. Mr. Kaiser also received a signing bonus of \$300,000. In addition, Mr. Kaiser was granted options to purchase 400,000 shares of Common Stock at the time of his appointment, or 80,000 shares of Common Stock taking into account the subsequent Reverse Split, of which the exercise price was fixed at the closing sales price of the Common Stock on the date of the grant. The options vest at the rate of 25% per year beginning on the first anniversary of the grant date, unless Mr. Kaiser is terminated without cause, in which case the options will immediately vest. Mr. Kaiser did not receive any additional option grants in fiscal 2002. The Compensation Committee based Mr. Kaiser's compensation on his considerable past work experience and the significant challenges facing the Company, among other factors. Mr. Kaiser did receive an option grant to purchase 50,000 shares of Common Stock at \$5.45 per share in fiscal 2003. On October 2, 2003, Mr. Kaiser was promoted to President and Chief Operating Officer. Mr. Kaiser's Employment Agreement and the subsequent amendments thereto are discussed in more detail under the heading Executive Compensation Employment Contracts and Termination of Employment and Change in Control Arrangements.

In July of 2002, the Company entered into a new Employment Agreement with A.S. Horng, Chairman, Chief Executive Officer, and General Manager of CellStar Asia, providing for an annual base salary of \$900,000

and a potential annual incentive bonus as approved by the Board. Pursuant to the new Employment Agreement, Mr. Horng was granted options to purchase 200,000 shares of Common Stock, the exercise price of which was fixed at the closing sales price of the Common Stock on the date of the grant. The options vest at the rate of 25% per year beginning on the first anniversary of the grant date. Mr. Horng's Employment Agreement is discussed in more detail under the heading Executive Compensation Employment Contracts and Termination of Employment and Change in Control Arrangements. The Compensation Committee based Mr. Horng's compensation on the importance of Mr. Horng to the continued success of the Company's operations in the People's Republic of China, Hong Kong and Taiwan and to the successful completion of the CellStar Asia Transaction, among other factors.

The Company continues to place its emphasis on compensation that would more closely align the executives' interests with the stockholders' interests. Therefore, as with the Chief Executive Officer, a significant percentage of each executive's total compensation opportunity was tied to performance of the Company and individual achievement. Awards are made in the form of cash bonus and stock option grants.

Subject to achievement by the Company of specific performance targets, certain of the Company's executives are eligible to receive incentive bonuses under the Incentive Plan ranging from 33% to 100% of their base salaries. The percentage of the bonus amount awarded is based on the extent to which the Company is successful in creating, conserving, and effectively using cash, in addition to individual or operating unit performance factors.

In considering stock option grants to the Company's executives, the Compensation Committee reviewed recommendations of executive management, considering each executive's current and future ability to impact achievement of strategic goals and objectives. Emphasis on equity compensation through stock option grants is believed to be effective because it more closely aligns the interests of the executives and the Company's stockholders for both near and long-term. All options granted during fiscal 2003 to the Company's executives were granted at the fair market value on the date of grant. All of such options vest at a rate of 25% per year, beginning on the first anniversary of the date of grant, with the exception of the options granted with vesting that may accelerate due to completion of the Cellstar Asia Transaction. See Executive Compensation Option Grants During 2003 Fiscal Year. An executive will receive full benefits from the option grant only if the Company's stock price appreciates and only if the executive remains with the Company for the full term of vesting.

*Internal Revenue Code Section 162(m).* Section 162(m) of the Internal Revenue Code (the Code) provides for an annual \$1,000,000 limitation (the Deduction Limitation) on the deduction that an employer may claim for compensation of certain executives but also provides an exception to the Deduction Limitation for certain performance-based compensation. It is the intent of the Compensation Committee to ensure that executive compensation is deductible through such an exception or otherwise, provided that qualification is in the best interests of the Company. The Deduction Limitation was exceeded with respect to Mr. Parker's compensation for each of fiscal 2002 and 2003. The amounts in excess were \$150,000 and \$330,000 for 2002 and 2003, respectively. The Company has sufficient net operating loss carry forwards such that these excess amounts did not result in any additional cash expenditures by the Company.

John L. ( J.L. ) Jackson

James L. Johnson

Jere W. Thompson

## **Comparative Performance Graph**

The following chart compares the cumulative total stockholder return on the Common Stock with the cumulative total return on the stocks comprising The Nasdaq Market Value Index (the Nasdaq Index ) and the Electronics Wholesale Index over the period commencing November 30, 1998 and ending November 30, 2003. The comparison assumes \$100 was invested on November 30, 1998 in Common Stock and in each of the foregoing indices and assumes reinvestment of dividends. The stock performance graph is not necessarily indicative of future price performance.

### **Comparison of Cumulative Total Return of CellStar Corporation, Nasdaq Index, and Electronics Wholesale Index**

## **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act 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 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 2003, Mr. King, upon becoming an executive officer of the Company on February 24, 2003, did not timely file a Form 3; 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. 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.

### **INDEPENDENT AUDITORS**

The Board of Directors, upon the recommendation of its Audit Committee, has appointed Grant Thornton as the independent auditors of the Company for the fiscal year ending November 30, 2003. The Audit Committee has not yet met in fiscal 2004 to discuss the appointment of independent auditors for the current year. Representatives of Grant Thornton are expected to be present at the Meeting, will have an opportunity to make a statement if they desire to do so, and will be able to respond to appropriate questions..

### **STOCKHOLDER PROPOSALS**

Stockholders of the Company may submit proposals on matters appropriate for stockholder action at subsequent annual meetings of the Company consistent with Rule 14a-8 promulgated under the Exchange Act and the Company's Certificate of Incorporation. Rule 14a-8 provides that a proposal submitted by a stockholder for a regularly scheduled annual meeting should be received at the company's principal executive offices not less than 120 calendar days before the date the company first released its proxy statement to its stockholders in connection with the previous year's annual meeting. However, if the date of the company's annual meeting has been changed by more than 30 days from the date of the previous year's meeting, then the deadline is a reasonable time before the company begins to print and mail its proxy materials. The Company anticipates that it will have its next annual meeting no later than November 30, 2004, which would be outside the 30 day period referred to above. Therefore, any appropriate proposal submitted by a stockholder of the Company and intended to be presented at the 2003 annual meeting of stockholders must be received within a reasonable time before the Company begins to print and mail its proxy materials to be considered for inclusion in the Company's proxy statement and related proxy for the 2003 annual meeting.

Also, a stockholder proposal intended to be presented at the next annual meeting but not included in the Company's proxy statement for such meeting must be received by the Company at least 60 days in advance of the date of that meeting or, if the public announcement of the meeting is less than 70 days before the date of the meeting, on or before the tenth day following the date on which the meeting is first publicly announced. According to the Company's Certificate of Incorporation, a stockholder proposal received outside of this time period will be considered untimely. Management named in the Company's proxy form for the annual meeting will then have discretionary authority to vote shares represented by such proxies on the stockholder proposal, if presented at the meeting, without including information about the proposal in the Company's proxy materials. Even if a stockholder makes a timely notification, management named in the Company's proxy form for the annual meeting may still exercise discretionary voting authority under circumstances consistent with the proxy rules of the SEC.

The Company will inform the stockholders of any changes of the dates above in a timely manner and will provide notice of the new dates in a quarterly report on Form 10-Q.

The procedure for nominating a person for election to serve as a director is set forth under Meetings of Directors and Committees Nominating Committee. Any stockholder proposal must provide the information required by the Company's bylaws and Certificate of Incorporation and comply with any applicable laws and regulations. All submissions should be made to the Secretary of the Company at the Company's principal offices at 1730 Briercroft Court, Carrollton, Texas 75006.

### **HOUSEHOLDING**

As permitted by the Exchange Act, some brokers and other nominee record holders may deliver only one copy of this Proxy Statement to stockholders residing at the same address, unless such stockholders have notified the Company or their brokers or other nominee record holders of their desire to receive multiple copies of the



Proxy Statement. Upon oral or written request, the Company will promptly deliver a separate copy of the Proxy Statement to any stockholder residing at an address to which only one copy was mailed. Stockholders residing at the same address and currently receiving only one copy of the Proxy Statement may contact their respective brokers or other nominee record holders or the Company to request multiple copies in the future, and stockholders residing at the same address and currently receiving multiple copies of the Proxy Statement may contact their respective brokers or other nominee record holders or the Company to request a single copy in the future. All such requests of the Company should be sent to:

CellStar Corporation

1730 Briercroft Court

Carrollton, Texas 75006

Attention: Corporate Secretary

Phone: (972) 466-5000

#### **ANNUAL REPORT ON FORM 10-K**

WE WILL MAIL TO ANY STOCKHOLDER WITHOUT CHARGE, UPON WRITTEN REQUEST, A COPY OF OUR ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED NOVEMBER 30, 2002, INCLUDING THE FINANCIAL STATEMENTS, SCHEDULES AND LIST OF EXHIBITS INCLUDED THEREIN. REQUESTS SHOULD BE SENT TO THE ATTENTION OF INVESTOR RELATIONS, AT OUR EXECUTIVE OFFICES LOCATED AT 1730 BRIERCROFT COURT, CARROLLTON, TEXAS 75006.

#### **OTHER BUSINESS**

The Board of Directors knows of no matters other than those described herein that will be presented for consideration at the Meeting. However, should any other matter properly come before the Meeting or any adjournment thereof, it is the intention of the persons named in the accompanying Proxy to exercise their discretionary authority to vote in accordance with their best judgment.

#### **MISCELLANEOUS**

The entire cost of soliciting Proxies, including the costs of preparing, printing, and mailing this Proxy Statement and accompanying materials to stockholders, will be borne by the Company. In addition to solicitation by mail, directors, officers, and employees of the Company may solicit Proxies personally or by telephone or otherwise, without additional compensation. The Company may also make arrangements with brokerage houses and other custodians, nominees, and fiduciaries for forwarding of solicitation materials to the beneficial owners of shares of Common Stock held by such persons, and the Company may reimburse such brokerage houses and other custodians, nominees, and fiduciaries for reasonable expenses incurred in connection therewith.

By Order of the Board of Directors,



Elaine Flud Rodriguez  
*Senior Vice President, Secretary and General Counsel*

January 5, 2004

**CellStar Corporation**

**Nominating Committee Charter**

**I. The Committee's Purpose.** The Committee is appointed by the Board for the primary purposes of:

- A. identifying individuals qualified to become members of the Board;
- B. recommending to the Board when new members should be added to the Board;
- C. recommending to the Board individuals to fill vacant Board positions;
- D. recommending to the Board the director nominees for the next annual meeting of shareholders; and
- E. evaluation of the Board, its committees and its members.

**II. Membership on the Committee.** The Committee shall consist of at least three directors. Each member of the Committee shall satisfy the independence requirements set forth in the corporate governance and other listing standards of the Nasdaq Stock Market as in effect from time to time (the "Nasdaq Standards"). However, if the Nominating Committee is comprised of at least three members, one director who is not an Independent Director (as defined in the Second Amended and Restated Statement of Corporate Governance Principles (the "Corporate Governance Principles")) and who is not a current officer or employee or a Family Member of an officer or employee may be appointed to the Nominating Committee if the Board, under exceptional and limited circumstances, determines that such individual's membership on the Committee is required by the best interests of the Company and its shareholders. Such appointee may not serve longer than two years.

**III. The Committee's Duties and Responsibilities.** The Committee has the following duties and responsibilities:

**A. Board Vacancies.** When a vacancy occurs on the Board by reason of disqualification, resignation, retirement, death or an increase in the size of the Board, to present the Committee's recommendation of a replacement member to the Board.

**B. Director Criteria.** To consider, at a minimum, the following factors in recommending to the Board potential new Board members, or the continued service of existing members:

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1. the characteristics described in the Corporate Governance Principles (i.e., demonstrated character, judgment, relevant business, functional and industry experience, and degree of acumen);
2. whether the member/potential member assists in achieving a Board that represents an appropriate mix of background and specialized experience;
3. the member s/potential member s independence, as defined in the Corporate Governance Principles and pursuant to Nasdaq Standards;
4. whether the member/potential member would be considered a financial expert or financially literate as described in Nasdaq Standards, legislation or Audit Committee guidelines;
5. the extent of the member s/potential member s business experience, technical expertise, or specialized skills or experience;
6. whether the member/potential member, by virtue of particular experience relevant to the Company s current or future business, will add specific value as a Board member; and
7. any factors related to the ability and willingness of a new member to serve, or an existing member to continue his/her service.

**C. Board Committees.** At the first meeting of the Board following the annual meeting of stockholders, to propose to the Board appropriate members for all Board Committees. Each Committee member shall serve until the date of the next Annual Board Meeting, unless he or she resigns, is removed or replaced, or otherwise ceases to be a director or a member of the Committee prior to such date, in which event the Board shall appoint another director of the Company to fill the resulting vacancy for his or her unexpired term. Furthermore, if for any reason the Board does not elect the members to the Committee at an Annual Board Meeting, the directors who then comprise the Committee will continue to serve as members of the Committee until the Board takes action to elect new members of the Committee. The Board may remove or replace a member of the Committee at any time.

**D. Board Size.** To make recommendations to the Board about exercising the Board's authority to determine the number of its members.

**E. Oversight of the Evaluation of the Board and Committees.** To be responsible for overseeing the evaluation of the Board and its committees in the following respects:

1. By annually reviewing the performance of the Board and each committee as a whole, and reporting the results of its review to the Board; and

2. By annually reviewing the performance of Board members who are expected to stand for election at the next annual meeting.

**F. Director Removal.** To recommend to the Board the removal of a Director where appropriate.

**G. Director Independence.** To recommend to the Board standards for Director independence.

**H. Other Activities.** To perform any other activities as the Committee deems appropriate, or as are requested by the Board, consistent with this Charter, the Company's bylaws and applicable law.

**I. This Charter.** To maintain and update, as appropriate, this Charter, which will be filed with the Company's annual proxy statement as appropriate, but at least once every three fiscal years.

**J. Stockholder Nominations.** To review and consider director nominations made by stockholders of the Company.

#### **IV. Operation of the Committee**

**A. Meetings.** The Committee shall meet as often as is appropriate, but not less than two times annually.

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**B. *Chairperson.*** The Board shall elect one of the members of the Committee to act as chairperson of the Committee (the *Chairperson* ). Such member shall act as Chairperson until the next Annual Board Meeting unless he or she resigns, is removed or replaced, or otherwise ceases to be a director or a member of the Committee prior to such date, in which event the Board shall appoint another member of the Committee to serve as Chairperson for his or her unexpired term. The Chairperson shall preside over all meetings of the Committee. In addition, the Chairperson shall periodically report the Committee's findings and conclusions to the Board. The Board may remove or replace the Chairperson at any time.

**V. *Authority to Retain Experts.*** The Committee has the authority to select, direct and, if appropriate, terminate any search firm used to identify candidates for Board membership (or to establish other procedures to develop potential candidates for consideration) as well as any such other experts as it deems necessary in the performance of its duties.

**VI. *Annual Performance Evaluation of the Committee.*** At least annually, the Committee will evaluate how well it has fulfilled its purpose during the previous year, and will report its findings to the full Board.

**CellStar Corporation****Audit Committee Charter**

The Audit Committee (the **Committee**) of CellStar Corporation (the **Company**) is a committee of the Board of Directors. Its primary purpose is to oversee the accounting and financial reporting processes of the Company and the audits of the financial statements of the Company. The Committee shall fulfill its oversight responsibilities by reviewing (i) the financial information which will be provided to the shareholders, potential shareholders, the investment community and others; (ii) reviewing areas of potential significant financial risk to the Company including the systems of internal controls and disclosure controls and procedures which management and the Board of Directors have established; (iii) monitoring the independence and performance of the Company's independent accountants and internal audit function; and (iv) reporting on all such matters to the Board of Directors.

**Meetings and Memberships**

1. In meeting its responsibilities, the Committee is expected to provide an open avenue of communication between the internal auditor, the independent accountant and the Board of Directors, including meeting with the internal auditor, the independent accountant and management in separate executive sessions to discuss any matters that the Committee or any of these persons believe should be discussed privately with the Committee.
2. The Committee should meet privately in executive session at least annually with internal audit services and the independent accountant to discuss any matters that the Committee believes should be discussed.
3. The Committee shall have at least three members, who shall serve at the pleasure of the Board of Directors. All members shall be independent directors. An independent director is a person other than an officer or employee of the Company or its subsidiaries or any other individual having a relationship, which in the opinion of the Company's Board of Directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. The following persons shall not be considered independent:
  - a. a director who accepts, directly or indirectly, any consulting, advisory or other compensatory fee from the Company or any of its subsidiaries, other than fees received by such director for service on the Board of Directors, the Committee or any other committee of the Board of Directors;
  - b. a director who is affiliated with the Company or any of its subsidiaries in any capacity, other than in such director's capacity as a member of the Board of Directors, the Committee or any other committee of the Board of Directors;
  - c. a director who is, or at any time during the past three years was, employed by the Company or by any parent or subsidiary of the Company;
  - d. a director who accepted any payments from the Company or any parent or subsidiary of the Company other than fees received by such director for service on the Board of Directors, the Committee or any other committee of the Board of Directors, or who has a Family Member who accepted any payments from the Company or any parent or subsidiary of the Company in excess of \$60,000 during the current or any of the past three fiscal years, other than the following:

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- i. compensation for board or board committee service;
- ii. payments arising solely from investments in the Company's securities;
- iii. compensation paid to a Family Member who is a non-executive employee of the Company or a parent or subsidiary of the Company;

- iv. benefits under a tax-qualified retirement plan, or non discretionary compensation; or
- v. loans permitted under Section 13(k) of the Securities Exchange Act of 1934 (the Act );
- e. a director who is a Family Member of an individual who is, or at any time during the past three years was, employed by the Company or by any parent or subsidiary of the Company as an executive officer;
- f. a director who is, or has a Family Member who is, a partner in, or a controlling shareholder or an executive officer of, any organization to which the Company made, or from which the Company received, payments for property or services in the current or any of the past three fiscal years that exceed 5% of the recipient's consolidated gross revenues for that year, or \$200,000, whichever is more, other than the following:
  - i. payments arising solely from investments in the Company's securities; or
  - ii. payments under non-discretionary charitable contribution matching programs;
- g. a director of the Company who is, or has a Family Member who is, employed as an executive officer of another entity where at any time during the past three years any of the Company's executive officers served on the compensation committee of such other entity; or
- h. a director who is, or has a Family Member who is, a current partner of the Company's outside auditor, or was a partner or employee of the Company's outside auditor who worked on the Company's audit at any time during any of the past three years.

Family Member means a person's spouse, parents, children and siblings, whether by blood, marriage or adoption, or anyone residing in such person's home.

- 4. All members of the Committee shall be financially literate and able to read and understand fundamental financial statements, including the Company's balance sheet, income statement and cash flow statement at the time of such member's appointment to the Committee. In addition, at least one member of the Committee shall have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in such person's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities. At least one member of the Committee shall, in the Board of Directors' judgment, qualify as an audit committee financial expert and possess the following attributes:
  - a. An understanding of generally accepted accounting principles ( GAAP ) and financial statements;
  - b. The ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;
  - c. Experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company's financial statements, or experience actively supervising one or more persons engaged in such activities;
  - d. An understanding of internal controls and procedures for financial reporting; and



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- e. An understanding of audit committee functions.
5. The Committee members and the Committee chairman shall be designated by the full Board of Directors upon the recommendation of the Nominating Committee of the Board of Directors. The duties and responsibilities of a member of the Committee are in addition to those duties set out for a member of the Board of Directors. In carrying out these responsibilities, the Committee believes its policies and

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procedures should remain flexible so that it can best react to changing conditions and environment and to assure the Board of Directors and shareholders that the Company accounting practices are in accordance with all requirements and are of the highest quality.

In meeting its responsibilities, the Committee is expected to:

**General**

1. Review and update the Committee's charter annually.
2. Inquire of management, the internal auditor and the independent accountant about significant risks or exposures and assess the steps management has taken to minimize such risk to the Company.
3. Consider with management and the independent accountant the rationale for employing audit firms other than the principal independent accountant.
4. Consider and review with management, the independent accountant and the internal auditor:
  - a. The adequacy of the Company's internal controls and disclosure controls and procedures, including the adequacy of controls and security for management information systems and other information technology.
  - b. Any related significant findings and recommendations of the independent accountant and internal audit together with management's responses thereto.
5. Review filings with the SEC and other published documents containing the Company's financial statements and consider whether the information contained in these documents is consistent with the information contained in the financial statements.
6. Review the Company's policies relating to compliance with laws and regulations; the Company's code of conduct; ethics; officers' expense accounts, perquisites, and use of corporate assets; conflict of interest and the investigation of misconduct or fraud. Determine the extent to which the planned audit scope of the internal auditor and independent accountant can be relied on to detect fraud.
7. Review legal and regulatory matters that may have a material impact on the financial statements, the Company's related compliance policies and programs and reports received from regulators.
8. Report actions of the Committee to the Board of Directors with such recommendations as the Committee may deem appropriate.
9. The Committee shall meet at least four times per year or more frequently as circumstances require. The Committee may ask members of management or others to attend the meeting and provide pertinent information as necessary.
10. The Committee shall have the power to conduct or authorize investigations into any matters within the Committee's scope of responsibilities.

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11. The Committee shall be empowered to retain independent counsel, accountants or other advisors as it deems necessary to carry out its duties.
  
12. The Company shall provide for appropriate funding, as determined by the Committee, for payment of:
  - (a) compensation to any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company;

- (b) compensation to any advisers employed by the Committee; and
  - (c) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.
13. Annually, prepare a report to the shareholders as required by the Securities and Exchange Commission. The report should be signed by the Chair of the Committee and included in the Company's annual Proxy Statement, and should state that the Company's Audit Committee has adopted a written charter.
  14. Provide a report of the Committee's activities to the Board at regular intervals.
  15. Review and approve all related-party transactions, or designate a comparable body of the Board of Directors to review and approve all related-party transactions.
  16. The Committee will perform such other functions as assigned by law, the Company's charter or bylaws, or the Board of Directors.

#### **Management**

1. Review Management's Discussion and Analysis (MD&A) included in Form 10-K.
2. Review with management the Company's policies and controls, including reporting controls over derivative transactions, including Foreign Currency exposures and hedging activities.

#### **Management and Independent Accountant**

1. Review quarterly results and related public release with management and independent accountant prior to release. Review with management, the independent accountant and the internal auditor Form 10-Q or Form 10-K before it is filed with the SEC.
2. Review with management and the Company's independent public accountants the applicability and impact of any new pronouncements (or exposure drafts) issued by the Financial Accounting Standards Board or other applicable regulatory agencies as well as any off-balance sheet structures used by the Company.
3. Discuss with the Company's CEO and CFO any significant deficiencies or material weaknesses uncovered in the design or operation of internal controls or disclosure controls and procedures during their certification process for the Form 10-Q or Form 10-K, and any fraud discovered involving management or other employees who have a significant role in the Company's internal controls.

#### **Independent Accountant and Internal Auditor**

1. Review with the internal auditor and independent accountant the appropriateness, not just the acceptability, of accounting principles and financial disclosure practices used or proposed by the Company and the related degree of aggressiveness or conservatism of its accounting principles and underlying estimates.

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2. Review services provided by the internal auditor and independent accountant periodically to ensure that no prohibited services are being provided by an accountant who is also performing an audit for the Company.
  
3. Pre-approve, prior to the completion of any audit, all audit services and permissible non-audit services. The Committee shall not be required to pre-approve non-audit services provided to the Company by the independent accountant if (i) the aggregate amount of all such non-audit services provided to the Company constitutes not more than five percent of the total amount of revenues paid by the Company to the auditor

during the fiscal year in which such non-audit services will be provided, (ii) such non-audit services were not recognized by the Company at the time of the accountant's engagement to be non-audit services, and (iii) such non-audit services are promptly brought to the attention of the Committee and approved by the Committee prior to the completion of the audit. The Committee may delegate the authority to grant such pre-approvals to one or more members of the Committee, provided that any approvals by less than the full Committee shall be presented to the full Committee at its next scheduled meeting.

4. If the Committee pre-approves any non-audit services to be provided to the Company by the independent accountant, such pre-approval shall be disclosed by the Company in its periodic reports, including the Committee's policies and procedures for pre-approval of services by the independent accountant as well as the percent of fees paid subject to the de minimis exception.

#### **Independent Accountant**

1. Confirm with the registered public accounting firm their ultimate accountability to the Board of Directors and the Committee, as representatives of the shareholders. The Committee shall be directly responsible for the appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged (including resolution of disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the listed issuer, and each such registered public accounting firm must report directly to the Committee.
2. Take action, or recommend that the full Board of Directors take action, to oversee the independence of the independent accountant by, among other things, (i) receiving from the independent accountant a formal written statement delineating all relationships between the accountant and the Company, consistent with Independence Standards Board Standard 1, and (ii) actively engaging in a dialogue with the accountant with respect to any disclosed relationships or services that may impact the objectivity and independence of the accountant.
3. Review scope of work planned by the independent accountant for the annual audit.
4. Review with the independent accountant at the completion of the annual examination:
  - a. The Company's annual financial statements and related footnotes to establish that the organization's financial statements constitute a full and meaningful report to its shareholders and creditors.
  - b. The independent accountant's audit of the financial statements and his or her report thereon.
  - c. Any significant changes required in the independent accountant's audit plan.
  - d. Any serious difficulties or disputes with management encountered during the course of the audit.
  - e. Other matters related to the conduct of the audit which are to be communicated to the Committee under generally accepted auditing standards or any other concerns.
  - f. The Company's compliance with its loan agreements.
  - g. The existence of significant estimates and the rationale behind those estimates as well as any significant changes in such estimates.

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- h. All fees paid to the auditors for the previous fiscal year.
- i. Any significant transactions that were not a normal part of the Company's business.
- j. Any change in accounting principles.
- k. Any prior period adjustments.

- l. The initial reporting of any significant loss or gain contingency (or significant change in the magnitude of any contingency).
    - m. The Management Letter from the independent accountants.
5. Periodically review with the independent accountant the following issues with respect to the Company's periodic filings:
  - a. All critical accounting policies and practices to be used.
  - b. All alternative treatments of the Company's financial information within GAAP that have been discussed with management, the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent accountant.
  - c. All other material written communications between the independent accountant and the Company's management, such as any management letter or schedule of unadjusted differences.
6. Discuss with the independent accountant the matters required to be discussed by Statement on Auditing Standards No. 61.

**Internal Auditor**

1. Review and concur in the appointment, replacement, reassignment or dismissal of the Director of Audit Services.
2. Confirm and assure the independence of the internal auditor.
3. Review with the Director of Audit Services the audit scope and plan, including the coordination of audit effort between the internal auditor and the independent accountant, to assure completeness of coverage, reduction of redundant efforts and the effective use of audit resources.
4. Consider and review with management and the internal auditor:
  - a. Significant findings during the year and management's responses thereto.
  - b. Any difficulties encountered in the course of their audits, including any restrictions on the scope of their work or access to required information.
  - c. Any changes required in the planned scope of their audit plan.
  - d. The internal auditing department budget and staffing.
  - e. The internal audit department charter.
  - f. The internal auditor's compliance with the Institute of Internal Auditors Standards for the Professional Practice of Internal Audits.



**Whistleblower Procedures**

1. Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters.
2. Establish procedures for the confidential, anonymous submission by the Company's employees of concerns regarding questionable accounting or audit matters.

**CELLSTAR CORPORATION**

**2003 LONG-TERM INCENTIVE PLAN**

The CellStar Corporation 2003 Long-Term Incentive Plan (the Plan) was adopted by the Board of Directors of CellStar Corporation, a Delaware corporation (the Company), effective as of March 13, 2003, subject to approval by the Company's stockholders.

**ARTICLE 1**

**PURPOSE**

The purpose of the Plan is to attract and retain key Employees, Nonemployee Directors and Advisors of the Company and its Subsidiaries and to provide such persons with a proprietary interest in the Company through the granting of Stock Options, Stock Appreciation Rights, Restricted Stock, and/or Cash Awards, whether granted singly, in combination, or in tandem. The Plan is designed to

- (a) increase the interest of such persons in the welfare of the Company and its Subsidiaries;
- (b) furnish an incentive to such persons to continue their services for the Company and/or its Subsidiaries; and
- (c) provide a means through which the Company and its Subsidiaries may attract able persons to enter their employ or serve as Advisors.

Unless otherwise specified by the Committee at the time of grant, with respect to Reporting Participants, the Plan and all transactions under the Plan are intended to comply with all applicable conditions of Rule 16b-3 promulgated under the Securities Exchange Act of 1934. To the extent any provision of the Plan or action by the Committee fails to so comply, it shall be deemed null and void *ab initio*, to the extent permitted by law and deemed advisable by the Committee.

**ARTICLE 2**

**DEFINITIONS**

For purposes of the Plan, unless the context requires otherwise, the following terms shall have the meanings indicated:

2.1 **Advisor** means any person performing advisory or consulting services for the Company or any Subsidiary, with or without compensation, to whom the Company chooses to grant an Award in accordance with the Plan, *provided that bona fide* services must be rendered by such person and such services shall not be rendered in connection with the offer or sale of securities in a capital raising transaction.

2.2 **Applicable Law** shall have the meaning set forth in Article 3 below.

2.3 **Award** means the grant under the Plan of any Stock Options, Stock Appreciation Rights, shares of Restricted Stock, or Cash Award, whether granted singly, in combination, or in tandem (sometimes individually referred to herein as an **Incentive** ).

2.4 **Award Agreement** means a written agreement between a Participant and the Company that sets out the terms of the grant of an Award.

2.5 **Award Period** means the period set forth in the Award Agreement during which one or more Incentives granted under an Award may be exercised, which shall commence on the Date of Grant and expire at the time set forth in the Award Agreement.

2.6 **Board** means the Board of Directors of the Company.

2.7 **Cash Award** means an Award granted pursuant to Article 9 of the Plan.

2.8 **Change of Control** means any of the following: (i) any consolidation, merger or share exchange of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of the Company's Common Stock would be converted into cash, securities or other property, other than a consolidation, merger or share exchange of the Company in which the holders of the Company's Common Stock immediately prior to such transaction have the same proportionate ownership of common stock of the surviving corporation immediately after such transaction; (ii) any sale, lease, exchange or other transfer (excluding transfer by way of pledge or hypothecation) in one transaction or a series of related transactions, of all or substantially all of the assets of the Company; (iii) approval by the stockholders of the Company of any plan or proposal for the liquidation or dissolution of the Company; (iv) the cessation of control (by virtue of their not constituting a majority of directors) of the Board by the individuals (the Continuing Directors) who (x) at the effective date of this Plan were directors or (y) become directors after the effective date of this Plan and whose election or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then in office who were directors at the effective date of this Plan or whose election or nomination for election was previously so approved; or (v) 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. To the extent that a Participant's Employment Agreement differs from the Plan with respect to the meaning of Change of Control, if such Employment Agreement has been approved by the Compensation Committee of the Board of Directors, the definition included in such Employment Agreement shall govern.

2.9 **Code** means the Internal Revenue Code of 1986, as amended.

2.10 **Committee** means the committee(s) appointed or designated by the Board to administer the Plan in accordance with Article 3 of this Plan.

2.11 **Common Stock** means the common stock, par value \$.01 per share, which the Company is currently authorized to issue or may in the future be authorized to issue or, in the event that the outstanding shares of such common stock are hereafter converted into or exchanged for shares of a different stock or security of the Company or another corporation pursuant to the terms of this Plan, such other stock or security.

2.12 **Company** means CellStar Corporation, a Delaware corporation, and any successor entity.

2.13 **Corporation** means any entity that (i) is defined as a corporation under Code Section 7701 and (ii) is the Company or is in an unbroken chain of corporations (other than the Company) beginning with the Company, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing a majority of the total combined voting power of all classes of stock in one of the other corporations in the chain. For purposes of clause (ii) hereof, an entity shall be treated as a corporation if it satisfies the definition of a corporation under Section 7701 of the Code.

2.14 **Date of Grant** means the effective date on which an Award is made to a Participant as set forth in the applicable Award Agreement; *provided, however, that* solely for purposes of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder, the Date of

Grant of an Award shall be the date of stockholder approval of the Plan if such date is later than the effective date of such Award as set forth in the Award Agreement.

- 2.15 **Employee** means any common law employee (as defined in accordance with the Regulations and Revenue Rulings then applicable under Section 3401(c) of the Code), including any employee who is also a director and/or officer, of the Company or a Subsidiary.
- 2.16 **Employment Agreement** means an agreement between the Company or any Subsidiary and a Participant, setting forth the terms and conditions of the Participant's employment by the Company or such Subsidiary. For purposes of the Plan, such term shall also be deemed to include any agreement between the Company or any Subsidiary and an Advisor, setting forth the terms and conditions of the Advisor's services for the Company or such Subsidiary.
- 2.17 **Exchange Act** means the Securities Exchange Act of 1934, as amended.
- 2.18 **Fair Market Value** of a share of Common Stock means, as of a particular date, (a) if the shares of Common Stock are listed on a national securities exchange, the closing sales price per share of Common Stock on the consolidated transaction reporting system for the principal securities exchange for the Common Stock on that date, or, if there shall have been no such sale so reported on that date, on the last preceding date on which such a sale was so reported, (b) if the shares of Common Stock are not so listed but are quoted on the Nasdaq National Market System, the closing sales price per share of Common Stock on the Nasdaq National Market System on that date, or, if there shall have been no such sale so reported on that date, on the last preceding date on which such a sale was so reported, (c) if the Common Stock is not so listed or quoted, the mean between the closing bid and asked quotations on that date, or, if there are no bid and asked quotations available for such date, on the last preceding date on which such bid and asked quotations shall be available, as reported by Nasdaq, or, if not reported by Nasdaq, by the National Quotation Bureau, Inc., or (d) if none of the above is applicable, such amount as may be determined by the Committee, in good faith, to be the fair market value per share of Common Stock. In no event shall **Fair Market Value** be less than the par value of the Common Stock.
- 2.19 **Incentive** shall have the meaning given it in Section 2.3 above.
- 2.20 **Incentive Stock Option** or **ISO** means an incentive stock option within the meaning of Section 422 of the Code, granted pursuant to this Plan.
- 2.21 **Mandated Restrictions** shall have the meaning set forth in Article 3 below.
- 2.22 **Nonemployee Director** means a member of the Board of Directors of the Company or any Subsidiary who is not an Employee.
- 2.23 **Non-qualified Stock Option** means a non-qualified stock option, granted pursuant to this Plan, to which Section 421 of the Code does not apply.
- 2.24 **Option Exercise Price** means the price that must be paid by a Participant upon exercise of a Stock Option to purchase a share of Common Stock.

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2.25 **Option Period** means the period set forth in the Stock Option Agreement commencing on the Date of Grant and expiring at the time set forth in the Stock Option Agreement.

2.26 **Participant** shall mean an Employee, Nonemployee Director or Advisor to whom an Award is granted under this Plan.

2.27 **Plan** means this CellStar Corporation 2003 Long-Term Incentive Plan, as amended from time to time.

2.28 **Reporting Participant** means a Participant who is subject to the reporting requirements of Section 16 of the Exchange Act.

- 2.29 **Restricted Stock** means shares of Common Stock issued or transferred to a Participant pursuant to this Plan, which shares are subject to the restrictions or limitations set forth in Article 7 of this Plan and in the related Restricted Stock Agreement.
- 2.30 **Restricted Stock Agreement** means a written agreement between the Company and a Participant with respect to an Award of Restricted Stock.
- 2.31 **Retirement** means Termination of Service at or after the Company's established retirement age, unless otherwise defined in a particular Award Agreement. To the extent that a Participant's Employment Agreement differs from the Plan with respect to the meaning of Retirement, if such Employment Agreement has been approved by the Compensation Committee of the Board of Directors, the definition included in such Employment Agreement shall govern.
- 2.32 **Rule 16b-3** means Rule 16b-3 promulgated under the Exchange Act, as amended from time to time.
- 2.33 **SAR Price** means the exercise price of each share of Common Stock covered by an SAR, which shall be at least the Fair Market Value of each share of Common Stock covered by the SAR, determined on the Date of Grant of the SAR.
- 2.34 **Section 162(m) Exception** means the exception under Section 162(m) of the Code and the regulations promulgated thereunder for qualified performance-based compensation.
- 2.35 **Stock Appreciation Right** or **SAR** means the right to receive a payment, in cash and/or Common Stock, equal to the excess of the Fair Market Value of a specified number of shares of Common Stock on the date the SAR is exercised over the SAR Price for such shares.
- 2.36 **Stock Appreciation Right Agreement** means an agreement between the Company and a Participant setting forth the terms and conditions of an Award of Stock Appreciation Rights.
- 2.37 **Stock Option** means a Non-qualified Stock Option or an Incentive Stock Option to purchase Common Stock.
- 2.38 **Stock Option Agreement** means a written agreement between the Company and a Participant setting forth the terms and conditions of an Award of Stock Options.
- 2.39 **Subsidiary** means (i) any corporation in an unbroken chain of corporations beginning with the Company, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing a majority of the total combined voting power of all classes of stock in one of the other corporations in the chain, (ii) any limited partnership, if the Company or any corporation described in item (i) above owns a majority of the general partnership interest and a majority of the limited partnership interests entitled to vote on the removal and replacement of the general partner, and (iii) any partnership or limited liability company, if the partners or members thereof are composed only of the Company, any corporation listed in item (i) above or any limited partnership listed in item (ii) above. **Subsidiaries** means more than one of any such corporations, limited partnerships, partnerships or limited liability companies.



2.40 Ten Percent Owner means a person who owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) stock possessing more than 10% of the total combined voting power of all classes of stock of the Company (or its parent (within the meaning of Section 424(e) of the Code) or Subsidiaries). Whether a person is a Ten Percent Owner shall be determined with respect to a Stock Option based on the facts existing immediately prior to the Date of Grant of such Stock Option.

2.41 **Termination of Service** occurs when a Participant who is an Employee or an Advisor shall cease to serve as an Employee or Advisor of the Company and its Subsidiaries, for any reason; or, when a Participant who is a Nonemployee Director shall cease to serve as a director of the Company and its Subsidiaries for any reason. Except as may be necessary or desirable to comply with applicable federal or state law, a

**Termination of Service** shall not be deemed to have occurred when a Participant changes his or her status as an Employee, Nonemployee Director or Advisor so long as after such change in status, the Participant is either an Employee, Nonemployee Director or Advisor. If, however, a Participant who is an Employee and who has an Incentive Stock Option ceases to be an Employee but does not suffer a Termination of Service, and if that Participant does not exercise the Incentive Stock Option within the time required under Section 422 of the Code upon ceasing to be an Employee, the Incentive Stock Option shall thereafter become a Non-qualified Stock Option.

2.42 **Total and Permanent Disability** of a Participant means that the Participant is qualified for long-term disability benefits under the Company's or a Subsidiary's disability plan or insurance policy; or, if no such plan or policy is then in existence or if the Participant is not eligible to participate in any such plan or policy, that the Participant, because of a physical or mental condition resulting from bodily injury, disease, or mental disorder, is unable to perform his or her duties of employment for a period of six (6) continuous months, as determined in good faith by the Committee, based upon medical reports or other evidence satisfactory to the Committee; *provided that*, with respect to any Incentive Stock Option, Total and Permanent Disability shall have the meaning given it under the rules governing Incentive Stock Options under the Code. With respect to any Award other than an Incentive Stock Option, to the extent that a Participant's Employment Agreement differs from the Plan with respect to the meaning of Total and Permanent Disability, if such Employment Agreement has been approved by the Compensation Committee of the Board of Directors, the definition included in such Employment Agreement shall govern.

### ARTICLE 3

#### ADMINISTRATION

**3.1 In General.** Subject to the terms of this Article 3, the Plan shall be administered by the Board or by a committee of the Board appointed by the Board to administer the Plan (the Committee), consisting of at least two members of the Board; *provided that*, (i) with respect to any Award that is intended to satisfy the requirements of Rule 16b-3, such Award shall be granted and administered by the full Board or by a committee of the Board consisting of at least such number of directors as are required from time to time by Rule 16b-3, and each such Board or committee member shall meet such qualifications as are required by Rule 16b-3 from time to time; and (ii) with respect to any Award that is intended to satisfy the requirements of the Section 162(m) Exception, such Award shall be granted and administered by a committee of the Board consisting of at least such number of directors as are required from time to time to satisfy the Section 162(m) Exception, and each such committee member shall meet such qualifications as are required, from time to time, to satisfy the Section 162(m) Exception. Any member of the Committee may be removed at any time, with or without cause, by resolution of the Board. Any vacancy occurring in the membership of the Committee may be filled by appointment by the Board. If at any time there is no Committee to administer the Plan or the Committee fails to satisfy any applicable Mandated Restrictions, any references in this Plan to the Committee shall be deemed to refer to the Board.

The Committee shall select one of its members to act as its Chairman. A majority of the Committee shall constitute a quorum, and the act of a majority of the members of the Committee present at a meeting at which a quorum is present shall be the act of the Committee.

**3.2 Grants by the Committee.** Subject to the provisions of the Plan and except as provided in Section 3.3 below, the Committee shall have the sole discretion and authority to determine and designate from time to time the eligible persons to whom Awards will be granted and to determine and interpret the terms and provisions of each Award Agreement, including without limitation the Award Period, the Date of Grant, and such

other terms, provisions, limitations, and performance requirements, as are approved by the Committee, but not inconsistent with the Plan. The Committee shall determine whether an Award shall include one type of Incentive, two or more Incentives granted in combination, or two or more Incentives granted in tandem (that is, a joint grant where exercise of one Incentive results in cancellation of all or a portion of the other Incentive). Although the members of the Committee shall be eligible to receive Awards, no member of the Committee shall participate in any decisions regarding any Award granted hereunder to such member. All decisions with respect to any Award, and the terms and conditions thereof, to be granted under the Plan to any member of the Committee shall be made solely and exclusively by the other members of the Committee, or if such member is the only member of the Committee, by the Board.

**3.3 Delegation of Authority by Board.** Subject to the provisions of the Plan and notwithstanding Section 3.2 above, the Board may, in its discretion, from time to time delegate to the Chief Executive Officer of the Company (the "CEO") the authority, subject to such terms as the Board shall determine, to determine and designate from time to time the eligible persons to whom Awards may be granted and to perform other specified functions under the Plan; *provided, however, that* the CEO may not grant any Award to, or perform any function related to an Award to, himself or any individual (i) then subject to Section 16 of the Exchange Act or (ii) who is or, in the determination of the Board or the Committee, may become a "covered employee" as that term is defined in Section 162(m) of the Code, and any such grant or function relating to such individuals shall be performed solely by the Board or the Committee to ensure compliance with the applicable requirements of the Exchange Act and the Code.

Any such delegation of authority by the Board shall be by a resolution adopted by the Board and shall specify all of the terms and conditions of the delegation. The resolution of the Board granting such authority may authorize the CEO to grant Awards pursuant to Sections 6.1, 7.1, 8.1, and 9.1 of the Plan and may set forth the types of Awards that may be granted; *provided, however, that* the resolution shall (i) specify the maximum number of shares of Common Stock that may be awarded to any individual Participant and to all Participants during a specified period of time, (ii) specify the maximum amount of any Cash Award and any conditions, limitations, or restrictions to be imposed on Cash Awards, and (iii) specify the exercise price (or the method for determining the exercise price) of an Award, the Option Period, vesting schedule, and any other terms, conditions, or restrictions that may be imposed by the Board in its sole discretion. The resolution of the Board shall also require the CEO to provide the Board or the Committee, on at least a quarterly basis, a report that identifies the Awards granted and, with respect to each Award: the name of the Participant, the Date of Grant, the number of shares of Common Stock subject to such Award, the exercise price, and any other terms which are in the CEO's discretion as set forth in the resolution of the Board granting such authority.

**3.4 Interpretation of the Plan.** Subject to the provisions of the Plan, the Committee shall have sole discretion and authority to (i) interpret the Plan; (ii) prescribe, amend, and rescind any rules and regulations necessary or appropriate for the administration of the Plan; (iii) modify or amend any Award Agreement or waive any conditions or restrictions applicable to any Stock Option or SAR (or the exercise thereof) or to any shares of Restricted Stock; and (iv) make such other determinations and take such other action as it deems necessary or advisable in the administration of the Plan. Any interpretation, determination, or other action made or taken by the Committee shall be final, binding, and conclusive on all interested parties. The discretionary authority granted to the Committee hereunder shall not be limited or otherwise negated by any other provisions of the Plan.

The Committee may delegate to officers of the Company, pursuant to a written delegation, the authority to perform specified functions under the Plan. Any actions taken by any officers of the Company pursuant to such written delegation of authority shall be deemed to have been taken by the Committee.

With respect to restrictions ("Mandated Restrictions") in the Plan that are based on the requirements of Rule 16b-3, Section 422 of the Code, the Section 162(m) Exception, the rules of any exchange upon which the Company's securities are listed, or any other applicable law, rule or restriction (collectively, "Applicable Law"),

to the extent that any such Mandated Restrictions are no longer required by Applicable Law as determined by the Committee in the Committee's sole discretion, the Committee and the CEO, as applicable, shall have the authority to grant Awards that are not subject to such Mandated Restrictions and/or to waive any such Mandated Restrictions with respect to outstanding Awards.

#### ARTICLE 4

##### ELIGIBILITY

Any Employee, Nonemployee Director, or Advisor whose judgment, initiative, and efforts contributed or may be expected to contribute to the successful performance of the Company is eligible to participate in the Plan; *provided that* only Employees of a Corporation shall be eligible to receive Incentive Stock Options. The Committee, upon its own action, may grant, but shall not be required to grant, an Award to any Employee, Nonemployee Director, or Advisor. Awards may be granted by the Committee at any time and from time to time to new Participants, or to then Participants, or to a greater or lesser number of Participants, and may include or exclude previous Participants, as the Committee shall determine. Except as required by this Plan, Awards granted at different times need not contain similar provisions. The Committee's determinations under the Plan (including without limitation determinations of which persons, if any, are to receive Awards, the form, amount and timing of such Awards, the terms and provisions of such Awards and the agreements evidencing same) need not be uniform and may be made by it selectively among Employees, Nonemployee Directors and/or Advisors who receive, or are eligible to receive, Awards under the Plan.

#### ARTICLE 5

##### SHARES SUBJECT TO PLAN

**5.1 Number Available for Awards.** Subject to adjustment as provided in Articles 12 and 13, the maximum number of shares of Common Stock that may be issued pursuant to Awards granted under the Plan is 1,000,000 shares. Such shares of Common Stock may be made available from either authorized but unissued Common Stock, Common Stock held by the Company in its treasury or Common Stock purchased by the Company on the open market or otherwise. During the term of this Plan, the Company will at all times reserve and keep available a number of shares of Common Stock sufficient to satisfy the requirements of this Plan.

**5.2 Maximum Individual Grants.** No Participant may receive during any fiscal year of the Company, Awards in the form of shares of Common Stock, including Stock Options, SARs or Restricted Stock, covering an aggregate of more than 150,000 shares of Common Stock.

**5.3 Reuse of Shares.**

(a) Subject to Section 5.3(c), if, and to the extent, a Stock Option shall expire or terminate for any reason without having been exercised in full, or in the event that a Stock Option is exercised or settled in a manner such that some or all of the shares of Common Stock relating to the Stock Option are not issued to the Participant (or beneficiary) (including as the result of the use of shares for withholding taxes), the shares of Common Stock subject thereto which have not become outstanding shall (unless the Plan shall have sooner terminated) become available for issuance under the Plan; in addition, with respect to any share-for-share exercise pursuant to Section 6.6 or otherwise, only the net shares issued shall be deemed to have become outstanding for purposes of the Plan as a result thereof.

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(b) Subject to Section 5.3(c), if shares of Restricted Stock under the Plan are forfeited for any reason, such shares of Restricted Stock shall (unless the Plan shall have sooner terminated) become available for issuance under the Plan.

(c) In no event shall the number of shares of Common Stock subject to Incentive Stock Options exceed, in the aggregate, 1,000,000 shares of Common Stock plus shares subject to Incentive Stock Options which are forfeited or terminated, or expire unexercised.

## ARTICLE 6

### STOCK OPTIONS

**6.1 Grant of Stock Options.** The Committee may, in its sole discretion, grant Stock Options in accordance with the terms and conditions set forth in the Plan. Any Stock Option granted pursuant to this Plan must be granted within ten (10) years after the date of adoption of this Plan. The Plan shall be submitted to the Company's stockholders for approval; however, the Committee may grant Stock Options under the Plan prior to the time of stockholder approval. Any such Stock Option granted prior to such stockholder approval shall be made subject to such stockholder approval. The grant of a Stock Option to a Participant shall not be deemed either to entitle the Participant to, or to disqualify the Participant from, receipt of any other Award under the Plan.

The grant of a Stock Option shall, subject to Article III, be authorized by the Committee and shall be evidenced by a Stock Option Agreement setting forth the Date of Grant, the total number of shares purchasable pursuant to the Stock Option, the Option Exercise Price, the Option Period, the vesting schedule (if any), and such other terms, provisions, limitations and performance objectives, as are approved by the Committee, but not inconsistent with the Plan.

**6.2 Option Exercise Price.** The Option Exercise Price for any shares of Common Stock which may be purchased under a Stock Option shall be determined by the Committee and shall be at least equal to the Fair Market Value per share of Common Stock on the Date of Grant; *provided that*, with respect to any Incentive Stock Option that is granted to an Employee who is a Ten Percent Owner, the Option Exercise Price shall be at least 110% of the Fair Market Value of the Common Stock on the Date of Grant.

**6.3 Option Period.** The Option Period for any Stock Option shall be determined by the Committee and specified in the Stock Option Agreement. No Stock Option granted under the Plan may be exercised at any time after the end of its Option Period. The Option Period for any Stock Option shall be no more than ten (10) years from the Date of Grant or, with respect to any Incentive Stock Option that is granted to a Ten Percent Owner, the Option Period of such Incentive Stock Option (to the extent required by the Code at the time of grant) shall be no more than five (5) years from the Date of Grant.

**6.4 Maximum ISO Grants.** The Committee may not grant Incentive Stock Options under the Plan to any Employee which would permit the aggregate Fair Market Value (determined on the Date of Grant) of the Common Stock with respect to which Incentive Stock Options (under this and any other plan of the Company and its Subsidiaries or parent) are exercisable for the first time by such Employee during any calendar year to exceed \$100,000. To the extent any Stock Option granted under this Plan which is designated as an Incentive Stock Option exceeds this limit or otherwise fails to qualify as an Incentive Stock Option, such Stock Option (or any such portion thereof) shall be a Nonqualified Stock Option. In such case, the Committee shall designate which portion of the Stock Option will be treated as an Incentive Stock Option.

**6.5 Exercise of Stock Options.** Subject to the terms, conditions, and restrictions of the Plan, each Stock Option may be exercised in accordance with the terms of the Stock Option Agreement pursuant to which the Stock Option is granted. The Committee, in its sole discretion, may determine that a Stock Option will be immediately exercisable, in whole or in part, or that all or any portion may not be exercised until a date, or dates, subsequent to its Date of Grant, or until the occurrence of one or more specified events, subject in any case to the terms of the Plan. If a Stock Option is exercisable prior to the time it is vested, the Common Stock obtained on the exercise of the Stock Option shall be Restricted Stock which is subject to the applicable provisions of the Plan and the Award Agreement. If the Committee imposes conditions upon exercise of any Stock Option, the Committee may, in its sole discretion, accelerate the date on which all or any portion of the Stock Option may be exercised; *provided that*, the Committee shall not, without the Participant's consent, accelerate any Incentive Stock Option if such acceleration would disqualify such Stock Option as an Incentive Stock Option. Notwithstanding anything in the Plan to the contrary, to the extent required by Rule 16b-3, a Reporting Participant may not exercise a Stock Option or Stock Appreciation Right until at least six months have expired from the date of grant (within the meaning of Rule 16b-3).



Subject to such administrative regulations as the Committee may from time to time adopt, a Stock Option will be deemed exercised for purposes of the Plan when (i) written notice of exercise has been received by the Company at its principal office (which notice shall set forth the number of shares of Common Stock with respect to which the Stock Option is to be exercised and the date of exercise thereof, which shall be at least three (3) days after giving such notice, unless an earlier time shall have been mutually agreed upon) and (ii) payment of consideration with a value equal to the total Option Exercise Price of the shares to be purchased is received by the Company in accordance with Section 6.6 below; *provided that*, with respect to a cashless exercise of any Stock Option (in accordance with clause (c) of Section 6.6 below), such Stock Option will be deemed exercised for purposes of the Plan on the date of sale of the shares of Common Stock received upon exercise. No Stock Option may be exercised for a fractional share of Common Stock. The granting of a Stock Option shall impose no obligation upon the Participant to exercise that Stock Option.

**6.6 Payment of Option Exercise Price.** The Option Exercise Price is payable as provided in the Stock Option Agreement, which may provide for payment in one or more of the following ways: (a) in cash or by certified check, bank draft, or money order payable to the order of the Company, (b) with Common Stock (including Restricted Stock) owned by the Participant and valued at its Fair Market Value on the date of exercise, and which the Participant has not acquired from the Company within six (6) months prior to the date of exercise, (c) by delivery (including by FAX) to the Company or its designated agent of an executed irrevocable option exercise form together with irrevocable instructions from the Participant 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 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 Committee in its sole discretion. In the event that shares of Restricted Stock are tendered as consideration for the exercise of a Stock Option, a number of shares of Common Stock issued upon the exercise of the Stock Option, equal to the number of shares of Restricted Stock used as consideration therefor, shall be subject to the same restrictions and provisions as the Restricted Stock so tendered.

Except as otherwise provided in the applicable Stock Option Agreement, upon payment of all amounts due from the Participant, the Company shall cause certificates for the Common Stock then being purchased to be delivered to the Participant (or the person exercising the Participant's Stock Option in the event of his death) at its principal business office or other mutually agreed upon location within ten (10) business days after the exercise.

Except as may be otherwise provided in a Stock Option Agreement, if the Participant fails to pay for any of the Common Stock specified in such notice or fails to accept delivery thereof, that portion of the Participant's Stock Option and right to purchase such Common Stock may be forfeited by the Company.

**6.7 Limitation on Incentive Stock Option Characterization.** To the extent that any Stock Option fails to qualify as an Incentive Stock Option, such Stock Option will be considered a Non-qualified Stock Option.

**6.8 Termination of Service.** Unless otherwise permitted by the Committee, in its sole discretion, in the event of Termination of Service of a Participant, any Stock Options held by such Participant shall be exercisable as follows:

(a) *Termination Due to Death or Total and Permanent Disability.* In the event of a Participant's Termination of Service due to death or Total and Permanent Disability, such Participant's Stock Options may be exercised, to the extent such Stock Options could have been exercised by the Participant on the date of the Participant's death or Total and Permanent Disability (as applicable), for a period of twelve (12) months after the Participant's death or Total and Permanent Disability (as applicable) or until the expiration of the original Option Period (if sooner).

(b) *Termination Due to Retirement.* In the event of a Participant's Termination of Service due to Retirement, such Participant's Stock Options may be exercised, to the extent such Stock Options could have





been exercised by the Participant on the date of the Participant's Retirement, for a period of three (3) months after the date of the Participant's Retirement or until the expiration of the original Option Period (if sooner).

(c) *Termination for Reasons Other than Death, Total and Permanent Disability, or Retirement.* In the event of a Participant's Termination of Service for any reason other than death, Total and Permanent Disability, or Retirement, such Participant's Stock Options may be exercised, to the extent such Stock Options could have been exercised by the Participant on the date of such Termination of Service, for a period of thirty (30) days after the date of such Termination of Service or until the expiration of the original Option Period (if sooner).

## **6.9 Transferability of Stock Options.**

(a) *Incentive Stock Options.* Incentive Stock Options may not be transferred, assigned, pledged, hypothecated or otherwise conveyed or encumbered other than by will or the laws of descent and distribution and may be exercised during the lifetime of the Participant only by the Participant or the Participant's legally authorized representative, and each Stock Option Agreement in respect of an Incentive Stock Option shall so provide. The designation by a Participant of a beneficiary will not constitute a transfer of the Stock Option.

The Committee may waive or modify any limitation contained in this Section 6.9(a) that is not required for compliance with Section 422 of the Code.

(b) *Non-qualified Stock Options.* Except as otherwise provided herein, Non-qualified Stock Options may not be transferred, assigned, pledged, hypothecated or otherwise conveyed or encumbered other than by will or the laws of descent and distribution. The designation by a Participant of a beneficiary will not constitute a transfer of the Stock Option.

(1) *Participants Other Than Reporting Participants.* With respect to Non-qualified Stock Options granted hereunder to any Participant who is not a Reporting Participant, the Committee may, in its sole discretion, provide in any Stock Option Agreement (or in an amendment to any existing Stock Option Agreement) such provisions regarding transferability of the Non-qualified Stock Options as the Committee, in its sole discretion, deems appropriate.

(2) *Reporting Participants.* The Committee may, in its sole discretion, provide in any Stock Option Agreement (or in an amendment to any existing Stock Option Agreement) that Non-qualified Stock Options granted hereunder to a Reporting Participant may be transferred to (i) the spouse (or former spouse), children or grandchildren of the Participant ( Immediate Family Members ), (ii) a trust or trusts for the exclusive benefit of the Participant and/or such Immediate Family Members, (iii) a partnership in which the only partners are the Participant, such Immediate Family Members and/or entities which are controlled by the Participant and/or such Immediate Family Members, (iv) an entity exempt from federal income tax pursuant to Section 501(c)(3) of the Code or any successor provision, or (v) a split interest trust or pooled income fund described in Section 2522(c)(2) of the Code or any successor provision, *provided that* (x) there shall be no consideration for any such transfer, (y) the Stock Option Agreement pursuant to which such Non-qualified Stock Option is granted must be approved by the Committee and must expressly provide for transferability in a manner consistent with this Section, and (z) subsequent transfers of transferred Non-qualified Stock Options shall be prohibited except those by will or the laws of descent and distribution.

Following any transfer, any such Non-qualified Stock Option shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer, *provided that* for purposes of Sections 6.5 and 6.6, and Articles 10, 12, 13, 14 and 16 hereof the term Participant shall be deemed to include the transferee. The events of Termination of Service shall continue to be applied with respect to the original Participant, following which the Non-qualified Stock Option shall be exercisable by the transferee only to the extent and for the periods

specified in the Stock Option

Agreement. The Committee and the Company shall have no obligation to inform any transferee of a Non-qualified Stock Option of any expiration, termination, lapse or acceleration of such Stock Option. The Company shall have no obligation to register with any federal or state securities commission or agency any Common Stock issuable or issued under a Non-qualified Stock Option that has been transferred by a Participant under this Section 6.9(b)(2).

The Committee may waive or modify any limitation contained in this Section 6.9(b)(2) that is not required for compliance with Rule 16b-3.

## ARTICLE 7

### RESTRICTED STOCK

**7.1 Grant of Restricted Stock.** The Committee may, in its sole discretion, grant an Award of Restricted Stock in accordance with the terms and conditions set forth in the Plan. Any Award of Restricted Stock granted pursuant to this Plan must be granted within ten (10) years after the date of adoption of this Plan. The Plan shall be submitted to the Company's stockholders for approval; however, the Committee may grant Awards of Restricted Stock under the Plan prior to the time of stockholder approval. Any such Award of Restricted Stock granted prior to such stockholder approval shall be made subject to such stockholder approval. The grant of an Award of Restricted Stock to a Participant shall not be deemed either to entitle the Participant to, or to disqualify the Participant from, receipt of any other Award under the Plan.

The grant of an Award of Restricted Stock shall be evidenced by a Restricted Stock Agreement setting forth (i) the Date of Grant, (ii) the number of shares of Restricted Stock awarded, (iii) the price, if any, to be paid by the Participant for such Restricted Stock and the method of payment of the price, (iv) the time or times within which such Award may be subject to forfeiture, (v) specified performance goals of the Company, a Subsidiary, any division thereof or any group of Employees of the Company or any Subsidiary, or other criteria, if any, that the Committee determines must be met in order to remove any restrictions (including vesting) on such Award, and (vi) such other terms, limitations, restrictions and conditions of the Restricted Stock as are consistent with the Plan. The provisions of Awards of Restricted Stock need not be the same with respect to each Participant. If the Committee establishes a purchase price for an Award of Restricted Stock, the Participant must accept such Award within a period of thirty (30) days (or such shorter period as the Committee may specify) after the Date of Grant by executing the applicable Restricted Stock Agreement and paying such purchase price.

**7.2 Restrictions and Conditions.** Each Award of Restricted Stock shall confer upon the recipient thereof the right to receive a specified number of shares of Common Stock in accordance with the terms and conditions of each Participant's Restricted Stock Agreement and the restrictions and conditions set forth below:

(a) The shares of Common Stock awarded hereunder to a Participant shall be restricted for a period of time (the *Restriction Period*) to be determined by the Committee for each Participant at the time of the Award. The restrictions shall prohibit the sale, transfer, pledge, assignment or other encumbrance of such shares and shall provide for possible reversion thereof to the Company in accordance with subparagraph (f) during the Restriction Period. The Restriction Period shall commence on the Date of Grant or the date of exercise of an Award, as specified in the Restricted Stock Agreement, and, unless otherwise established by the Committee in the Restricted Stock Agreement, shall expire upon satisfaction of the conditions set forth in the Restricted Stock Agreement, which conditions may provide for vesting based on (i) length of continuous service, (ii) achievement of specific business objectives, (iii) increases in specified indices, (iv) attainment of specified growth rates, or (v) any other measurements of Company performance, as determined by the Committee in its sole discretion. The Committee may, in its sole discretion, remove any or all of the restrictions on such Restricted Stock whenever it may determine that, by reason of changes in applicable laws or other changes in circumstances arising after the date of the Award, such action is appropriate.

(b) Except as provided in subparagraph (a) above or in the applicable Restricted Stock Agreement, from the Date of Grant of an Award of Restricted Stock, the Participant shall have, with respect to his or her shares of Restricted Stock, all of the rights of a stockholder of the Company, including the right to vote the shares, and the right to receive any dividends thereon, subject to forfeiture of such rights, as provided in subparagraph (f) below.

(c) Each Participant who is awarded or receives Restricted Stock shall be issued a stock certificate or certificates in respect of such shares of Common Stock, which shall be registered in the name of the Participant, but shall be delivered by the Participant to the Company together with a stock power endorsed in blank. Each such certificate shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock, substantially in the form provided in Section 16.8.

Each Restricted Stock Agreement shall require that (i) each Participant, by his or her acceptance of Restricted Stock, shall irrevocably grant to the Company a power of attorney to transfer any shares so forfeited to the Company and agrees to execute any documents requested by the Company in connection with such forfeiture and transfer, and (ii) such provisions regarding returns and transfers of stock certificates with respect to forfeited shares of Common Stock shall be specifically performable by the Company in a court of equity or law.

(d) Upon the lapse of a Restriction Period without forfeiture or upon expiration of any other restrictions imposed on such shares of Common Stock by the applicable Restricted Stock Agreement or other agreement, the Company will return the stock certificates representing shares of Common Stock with respect to which the restrictions have lapsed to the Participant or his or her legal representative, and pursuant to the instruction of the Participant or his or her legal representative will issue a certificate for such shares that does not bear the legend set forth in subparagraph (c) above.

(e) Any other securities or assets (other than ordinary cash dividends) that are received by a Participant with respect to shares of Restricted Stock awarded to such Participant, which shares are still subject to restrictions established in accordance with subparagraph (a) above, will be subject to the same restrictions and will be delivered by the Participant to the Company as provided in subparagraph (c) above.

(f) Subject to the provisions of the particular Restricted Stock Agreement, and unless otherwise permitted by the Committee in its sole discretion, upon Termination of Service for any reason during the Restriction Period, any nonvested shares of Restricted Stock held by such Participant shall be forfeited by the Participant. In the event a Participant has paid any consideration to the Company for such forfeited Restricted Stock, the Company shall, as soon as practicable after the event causing forfeiture (but in any event within five (5) business days), pay to the Participant, in cash, an amount equal to the lesser of the total consideration paid by the Participant for such forfeited shares or the Fair Market Value of such forfeited shares as of the date of Termination of Service. Upon any forfeiture, all rights of a Participant with respect to the forfeited shares of Restricted Stock shall cease and terminate, without any further obligation on the part of the Company.

**7.3 Notice to Company of Section 83(b) Election.** Any Participant who exercises an election under Section 83(b) of the Code to have his or her receipt of shares of Restricted Stock taxed currently, without regard to restrictions, must give notice to the Company of such election immediately upon making such election. Any such election must be made within thirty (30) days after the effective date of issuance and cannot be revoked except with the consent of the Internal Revenue Service.

## ARTICLE 8

### STOCK APPRECIATION RIGHTS

**8.1 Grants of SARs.** The Committee may, in its sole discretion, grant Stock Appreciation Rights in accordance with the terms and conditions set forth in the Plan. Any SARs granted pursuant to this Plan must be granted within ten (10) years after the date of adoption of this Plan. The Plan shall be submitted to the

Company's stockholders for approval; however, the Committee may grant SARs under the Plan prior to the time of stockholder approval. Any such SARs granted prior to such stockholder approval shall be made subject to such stockholder approval. The grant of an SAR to a Participant shall not be deemed either to entitle the Participant to, or to disqualify the Participant from, receipt of any other Award under the Plan.

Each Stock Appreciation Right Agreement may contain such additional terms and conditions, not inconsistent with the terms of the Plan, as are determined by the Committee in its sole discretion. An SAR may be granted in combination with, in addition to, or completely independent of, a Stock Option or any other Award. An SAR shall entitle a Participant at his election to surrender to the Company all or a portion of the SAR, as the Participant shall choose, and to receive from the Company in exchange therefor an amount equal to the excess (if any) of the Fair Market Value of a share of Common Stock on the date of exercise over the SAR Price, multiplied by the total number of shares of Common Stock with respect to which the SAR shall have been exercised.

**8.2 SAR Price.** The SAR Price for any share of Common Stock subject to an SAR shall be at least equal to the Fair Market Value of the share on the Date of Grant.

**8.3 Award Period.** Subject to Section 8.9 below, the Award Period for any Stock Appreciation Right shall be determined by the Committee and specified in the Stock Appreciation Right Agreement. No SAR granted under the Plan may be exercised at any time after the end of its Award Period. The Award Period for any Stock Appreciation Right shall be no more than ten (10) years from its Date of Grant.

**8.4 Form of Payment.** In the discretion of the Committee, the Company may satisfy its payment obligation upon a Participant's exercise of an SAR (i) in cash, (b) in shares of Common Stock having an aggregate Fair Market Value on the date of exercise equal to the amount of cash otherwise payable to the Participant, with a cash settlement to be made for any fractional share interests, or (c) in part with cash and in part with shares of Common Stock.

**8.5 Exercise of SARs.** Subject to the following paragraph, each Stock Appreciation Right shall be exercisable in accordance with the terms of the Stock Appreciation Rights Agreement pursuant to which the Stock Appreciation Right is granted. Subject to the conditions of this Section 8.5 and such administrative regulations as the Committee may from time to time adopt, an SAR may be exercised by the delivery (including by FAX) of written notice to the Committee setting forth the number of shares of Common Stock with respect to which the SAR is to be exercised and the date of exercise thereof, which shall be at least three (3) days after giving such notice unless an earlier time shall have been mutually agreed upon. On the date of exercise, the Participant shall receive from the Company in exchange therefor payment in an amount equal to the excess (if any) of the Fair Market Value (as of the date of the exercise of the SAR) of one share of Common Stock over the SAR Price per share specified in such SAR, multiplied by the total number of shares of Common Stock of the SAR being surrendered. In the discretion of the Committee, the Company may satisfy its obligation upon exercise of a SAR by the distribution of that number of shares of Common Stock having an aggregate Fair Market Value (as of the date of the exercise of the SAR) equal to the amount of cash otherwise payable to the Participant, with a cash settlement to be made for any fractional share interests, or the Company may settle such obligation in part with shares of Common Stock and in part with cash.

**8.6 Effect on Stock Options and Vice-Versa.** Whenever a Stock Appreciation Right is granted in tandem with a Stock Option and the exercise of one affects the right to exercise the other, the right of the Participant to exercise one shall be canceled if, and to the extent, the other is exercised. For example, if a Stock Option and an SAR are issued in a tandem Award, and the Participant exercises the SAR with respect to 100 shares of Common Stock, the right of the Participant to exercise the related Stock Option shall be canceled to the extent of 100 shares of Common Stock.

**8.7 Termination of Employment or Service.** Unless otherwise permitted by the Committee, in its sole discretion, in the event of Termination of Service of a Participant, any Stock Appreciation Rights held by such





Participant shall be exercisable as set forth below; *provided that*, whenever a Stock Appreciation Right is granted in relation to a Stock Option and the exercise of one affects the right to exercise the other, the Stock Appreciation Right may be exercised only during the period, if any, within which the Stock Option to which it relates may be exercised.

(a) *Termination Due to Death or Total and Permanent Disability.* In the event of a Participant's Termination of Service due to death or Total and Permanent Disability, such Participant's Stock Appreciation Rights may be exercised, to the extent such Stock Appreciation Rights could have been exercised by the Participant on the date of the Participant's death or Total and Permanent Disability (as applicable), for a period of twelve (12) months after the Participant's death or Total and Permanent Disability (as applicable) or until the expiration of the original Award Period (if sooner).

(b) *Termination Due to Retirement.* In the event of a Participant's Termination of Service due to Retirement, such Participant's Stock Appreciation Rights may be exercised, to the extent such Stock Appreciation Rights could have been exercised by the Participant on the date of the Participant's Retirement, for a period of three (3) months after the date of the Participant's Retirement or until the expiration of the original Award Period (if sooner).

(c) *Termination for Reasons Other than Death, Total and Permanent Disability, or Retirement.* In the event of a Participant's Termination of Service for any reason other than death, Total and Permanent Disability, or Retirement, such Participant's Stock Appreciation Rights may be exercised, to the extent such Stock Appreciation Rights could have been exercised on the date of such Termination of Service, for a period of thirty (30) days after the date of such Termination of Service or until the expiration of the original Award Period (if sooner).

**8.8 Transferability of Stock Appreciation Rights.** Except as otherwise provided herein, SARs may not be transferred, assigned, pledged, hypothecated or otherwise conveyed or encumbered other than by will or the laws of descent and distribution. The designation by a Participant of a beneficiary will not constitute a transfer of the SAR.

(a) *Participants Other Than Reporting Participants.* Subject to Section 8.9 below, with respect to SARs granted hereunder to any Participant who is not a Reporting Participant, the Committee may, in its sole discretion, provide in any Stock Appreciation Rights Agreement (or in an amendment to any existing Stock Appreciation Rights Agreement) such provisions regarding transferability of the SARs as the Committee, in its sole discretion, deems appropriate.

(b) *Reporting Participants.* Subject to Section 8.9 below, the Committee may, in its sole discretion, provide in any Stock Appreciation Rights Agreement (or in an amendment to any existing Stock Appreciation Rights Agreement) that Stock Appreciation Rights granted hereunder to a Reporting Participant may be transferred to (i) the spouse (or former spouse), children or grandchildren of the Participant ( Immediate Family Members ), (ii) a trust or trusts for the exclusive benefit of the Participant and/or such Immediate Family Members, (iii) a partnership in which the only partners are the Participant, such Immediate Family Members and/or entities which are controlled by the Participant and/or such Immediate Family Members, (iv) an entity exempt from federal income tax pursuant to Section 501(c)(3) of the Code or any successor provision, or (v) a split interest trust or pooled income fund described in Section 2522(c)(2) of the Code or any successor provision, *provided that* (x) there shall be no consideration for any such transfer, (y) the Stock Appreciation Rights Agreement pursuant to which such Stock Appreciation Right is granted must be approved by the Committee and must expressly provide for transferability in a manner consistent with this Section, and (z) subsequent transfers of transferred Stock Appreciation Rights shall be prohibited except those by will or the laws of descent and distribution.

Following any transfer, any such Stock Appreciation Right shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer, *provided that* for purposes of Sections 8.4 and 8.5, and Articles 10, 12, 13, 14 and 16 hereof the term Participant shall be deemed to include the transferee. The events of Termination of Service shall continue to be applied with respect to the



original Participant, following which the SAR shall be exercisable by the transferee only to the extent and for the periods specified in the Stock Appreciation Rights Agreement. The Committee and the Company shall have no obligation to inform any transferee of an SAR of any expiration, termination, lapse or acceleration of such SAR. The Company shall have no obligation to register with any federal or state securities commission or agency any Common Stock issuable or issued under an SAR that has been transferred by a Participant under this Section 8.8(b).

The Committee may waive or modify any limitation contained in this Section 8.8(b) that is not required from compliance with Rule 16b-3.

**8.9 Tandem Incentive Stock Option Stock Appreciation Right.** Whenever an Incentive Stock Option and a Stock Appreciation Right are granted together and the exercise of one affects the right to exercise the other, the following requirements shall apply:

- (a) The Stock Appreciation Right shall expire no later than the expiration of the underlying Incentive Stock Option;
- (b) The Stock Appreciation Right may be for no more than the difference between the Stock Option Exercise Price of the underlying Incentive Stock Option and the Fair Market Value of the Common Stock subject to the underlying Incentive Stock Option at the time the SAR is exercised;
- (c) The Stock Appreciation Right is transferable only when the underlying Incentive Stock Option is transferable, and under the same conditions;
- (d) The Stock Appreciation Right may be exercised only when the underlying Incentive Stock Option is eligible to be exercised; and
- (e) The Stock Appreciation Right may be exercised only when the Fair Market Value of the Common Stock subject to the underlying Incentive Stock Option exceeds the Option Exercise Price of the underlying Incentive Stock Option.

## ARTICLE 9

### CASH AWARDS

**9.1 Grant of Cash Awards.** The Committee may, in its sole discretion, grant Cash Awards in accordance with the terms and conditions set forth in the Plan. Each related Award Agreement shall set forth (i) the amount of the Cash Award, (ii) the time or times within which such Award may be subject to forfeiture, if any, (iii) specified performance goals, or other criteria, if any, as the Committee may determine must be met in order to remove any restrictions (including vesting) on such Award, and (iv) any other terms, limitations, restrictions, and conditions of the Incentive that are consistent with this Plan.

The Award Agreement shall also set forth the vesting period for the Cash Award, if any, which shall commence on the Date of Grant and, unless otherwise established by the Committee in the Award Agreement, shall expire upon satisfaction of the conditions set forth in the Award Agreement. Such conditions may provide for vesting based on (i) length of continuous service, (ii) achievement of specific business objectives,

(iii) increases in specified indices, (iv) attainment of specified growth rates, or (v) other comparable measurements of Company performance, as may be determined by the Committee in its sole discretion.

**9.2 Termination of Service.** Subject to the provisions of the particular Award Agreement, and unless otherwise permitted by the Committee, in its sole discretion, upon Termination of Service for any reason during a vesting period (if any), the nonvested portion of a Cash Award shall be forfeited by the Participant. Upon any forfeiture, all rights of a Participant with respect to the forfeited Cash Award shall cease and terminate, without any further obligation on the part of the Company.

**9.3 Form of Payment.** In the sole discretion of the Committee, the Company may satisfy its obligation under a Cash Award by the distribution of that number of shares of Common Stock or Restricted Stock, or any combination thereof, having an aggregate Fair Market Value (as of the date of payment) equal to the amount of cash otherwise payable to the Participant, and/or by the distribution of Stock Options having an aggregate fair value (as determined by the Committee, in its sole discretion, in good faith) equal to the amount of cash otherwise payable to the Participant, with a cash settlement to be made for any fractional share interests, or the Company may settle such obligation in part with shares of Common Stock and in part with cash. If required by Rule 16b-3 at the time of distribution, any shares of Common Stock distributed to a Reporting Participant must be held by such Participant for at least six (6) months from the date of distribution.

## ARTICLE 10

### AMENDMENT OR DISCONTINUANCE

Subject to the limitations set forth in this Article 10, the Board, or, if the Board has specifically delegated this authority to the Committee, the Committee, may at any time and from time to time, without the consent of the Participants, alter, amend, revise, suspend, or discontinue the Plan in whole or in part; *provided that* no amendment shall be made without approval of the stockholders of the Company if such approval is required in order for the Plan and Incentives awarded under the Plan to continue to comply with Sections 162(m), 421 and 422 of the Code, including any successors to such Sections or if required by any law, regulation or stock exchange or inter-dealer quotation system on which the shares of Common Stock to be issued pursuant to an Incentive are listed or quoted. Any such amendment shall, to the extent deemed necessary or advisable by the Board or Committee, be applicable to any outstanding Incentives theretofore granted under the Plan, notwithstanding any contrary provisions contained in any Award Agreement. In the event of any such amendment to the Plan, the holder of any Incentive outstanding under the Plan shall, upon request of the Committee and as a condition to the exercisability thereof, execute a conforming amendment in the form prescribed by the Committee to any Award Agreement relating thereto. In addition, unless required by law, no termination or amendment of the Plan may, without the consent of the Participant to whom any Incentive has theretofore been granted, adversely affect the rights of such Participant or obligations of the Company to such Participant with respect to such Incentive.

## ARTICLE 11

### TERM

The Plan shall be effective from the date that this Plan is approved by the Board. Unless sooner terminated by action of the Board, the Plan will terminate on March 12, 2013, but Incentives granted before that date will continue to be effective in accordance with their terms and conditions.

## ARTICLE 12

### CAPITAL ADJUSTMENTS

If at any time while the Plan is in effect, or while unexercised Stock Options or SARs or unvested shares of Restricted Stock are outstanding, there shall be any increase or decrease in the number of issued and outstanding shares of Common Stock resulting from any dividend or other distribution (whether in the form of Common Stock, other securities, or other property), recapitalization, stock split, reverse stock split, rights offering, reorganization, merger, consolidation, split-up, split-off, combination, subdivision, repurchase, or exchange of Common Stock or other securities of the Company, issuance of warrants or other rights to purchase Common Stock or other securities of the Company, or other similar corporate transaction or event affecting the Common Stock, then and in such event:

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(a) An appropriate adjustment shall be made in the maximum number of shares of Common Stock that may be awarded under the Plan and in the maximum number of shares of Common Stock that may be

awarded to a Participant, to the end that the same proportion of the Company's issued and outstanding shares of Common Stock shall continue to be subject to being so awarded;

(b) Appropriate adjustments shall be made in the number of shares of Common Stock purchasable under outstanding, unexercised Stock Options and the Option Exercise Price therefor, to the end that the same proportion of the Company's issued and outstanding shares of Common Stock in each such instance shall remain subject to purchase at the same aggregate Option Exercise Price;

(c) Appropriate adjustments shall be made in the number of shares of Common Stock subject to outstanding, unexercised SARs and the SAR Price therefor, to the end that the same proportion of the Company's issued and outstanding shares of Common Stock in each instance shall remain subject to exercise at the same aggregate SAR Price; and

(d) Appropriate adjustments shall be made in the number of outstanding shares of Restricted Stock with respect to which restrictions have not yet lapsed prior to any such change.

Notwithstanding any adjustments made hereunder, the number of shares of Common Stock (or other securities or property) subject to any Award shall always be a whole number. In lieu of the foregoing, if deemed appropriate, the Committee may make provision for a cash payment to the holder of an outstanding Award. Notwithstanding the foregoing, no such adjustment or cash payment shall be made or authorized to the extent that such adjustment or cash payment would cause the Plan or any Stock Option to violate Code Section 422. Furthermore, no such adjustment or cash payment shall be made under this Article 12 for the issuance of Common Stock or any other security for consideration, not less than the par value thereof, as may be determined by the Board. Such adjustments shall be made in accordance with the rules of any securities exchange, stock market, or stock quotation system to which the Company is subject.

Upon the occurrence of each event requiring an adjustment or cash payment with respect to Stock Options, SARs, or shares of Restricted Stock, the Company shall mail to each affected Participant its computation of such adjustment or cash payment which shall be conclusive and shall be binding upon each such Participant.

## ARTICLE 13

### RECAPITALIZATION, MERGER AND CONSOLIDATION

**13.1 No Effect on Company's Authority.** The existence of this Plan and Incentives granted hereunder shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations, or other changes in the Company's capital structure and its business, or any merger or consolidation of the Company, or any issue of bonds, debentures, preferred or preference stocks ranking prior to or otherwise affecting the Common Stock or the rights thereof (or any rights, options, or warrants to purchase same), or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

**13.2 Conversion of Incentives Where Company Survives.** Subject to any required action by the stockholders, if the Company shall be the surviving or resulting corporation in any merger, consolidation or share exchange, any Incentive granted hereunder shall pertain to and apply to the securities or rights (including cash, property, or assets) to which a holder of the number of shares of Common Stock subject to the Incentive would have been entitled.

**13.3 Exchange or Cancellation of Incentives Where Company Does Not Survive.** In the event of any merger, consolidation or share exchange pursuant to which the Company is not the surviving or resulting corporation, there shall be substituted for each share of Common Stock subject to the unexercised or unvested portions of outstanding Incentives, that number of shares of each class of stock or other securities or that amount



of cash, property, or assets of the surviving, resulting or consolidated company that were distributed or distributable to the stockholders of the Company in respect to each share of Common Stock held by them, such outstanding Incentives to be thereafter exercisable for such stock, securities, cash, or property in accordance with their terms (subject to Section 13.4 below).

Notwithstanding the foregoing, however, all such Incentives may be canceled by the Company, in its sole discretion, as of the effective date of any such reorganization, merger, consolidation or share exchange, or of any proposed sale of all or substantially all of the assets of the Company, or of any dissolution or liquidation of the Company, by either:

(a) giving notice to each holder thereof or his personal representative of its intention to do so and by permitting the exercise during the thirty (30) day period next preceding such effective date of any outstanding Stock Options or SARs, whether or not vested in accordance with their original terms, and by waiving all restrictions on outstanding shares of Restricted Stock; or

(b) paying the holder thereof an amount equal to a reasonable estimate of the difference between the net amount per share payable in such transaction or as a result of such transaction, and the exercise price per share of such Stock Option (hereinafter the Spread ), multiplied by the number of shares subject to the Stock Option. In cases where the shares constitute, or would after exercise, constitute Restricted Stock, the Company, in its discretion may include some or all of those shares in the calculation of the amount payable hereunder. In estimating the Spread, appropriate adjustments to give effect to the existence of the Stock Options shall be made, such as deeming the Stock Options to have been exercised, with the Company receiving the exercise price payable thereunder, and treating the shares receivable upon exercise of the Options as being outstanding in determining the net amount per share. In cases where the proposed transaction consists of the acquisition of assets of the Company, the net amount per share shall be calculated on the basis of the net amount receivable with respect to shares of Common Stock upon a distribution and liquidation by the Company after giving effect to expenses and charges, including but not limited to taxes, payable by the Company before such liquidation could be completed.

An Award that by its terms would be fully vested or exercisable upon such a reorganization, merger, consolidation, share exchange, proposed sale of all or substantially all of the assets of the Company or dissolution or liquidation of the Company will be considered vested or exercisable for purposes of subparagraph (a) hereof.

## ARTICLE 14

### LIQUIDATION OR DISSOLUTION

Subject to Section 13.3, in case the Company shall, at any time while any Incentive under this Plan shall be in force and remain unexpired, (i) sell all or substantially all of its property, or (ii) dissolve, liquidate, or wind up its affairs, then each Participant may thereafter receive upon exercise of any Option or SAR (in lieu of each share of Common Stock of the Company which such Participant would have been entitled to receive) the same kind and amount of any securities or assets as may be issuable, distributable, or payable upon any such sale, dissolution, liquidation, or winding up with respect to each share of Common Stock as if such award had been exercised immediately prior to such sale, dissolution, liquidation or winding up. If the Company shall, at any time prior to the expiration of any Incentive, make any partial distribution of its assets, in the nature of a partial liquidation, whether payable in cash or in kind (but excluding the distribution of a cash dividend payable out of earned surplus and designated as such), then in such event the exercise prices then in effect with respect to any outstanding Stock Options or SARs shall be reduced, on the payment date of such distribution, in proportion to the percentage reduction in the tangible book value of the shares of the Company's Common Stock (determined in accordance with generally accepted accounting principles) resulting by reason of such distribution.

**ARTICLE 15**

**INCENTIVES IN SUBSTITUTION FOR  
INCENTIVES GRANTED BY OTHER CORPORATIONS**

Stock Options, SARs and shares of Restricted Stock may be granted under the Plan from time to time in substitution for similar options, stock appreciation rights or shares of restricted stock held by employees or directors of a corporation, partnership or limited liability company who become or are about to become Employees or Nonemployee Directors of the Company or any Subsidiary as a result of a merger or consolidation of the employing corporation with the Company or any Subsidiary, the acquisition by the Company or any Subsidiary of equity of the employing entity, or any other similar transaction pursuant to which the Company or a Subsidiary becomes the successor employer. The terms and conditions of the substitute Incentives so granted may vary from the terms and conditions set forth in this Plan to such extent as the Board at the time of grant may deem appropriate to conform, in whole or in part, to the provisions of the options, stock appreciation rights or shares of restricted stock in substitution for which they are granted.

**ARTICLE 16**

**MISCELLANEOUS PROVISIONS**

**16.1 Investment Intent.** The Company may require that there be presented to and filed with it by any Participant under the Plan, such evidence as it may deem necessary to establish that the Incentives granted or the shares of Common Stock to be purchased or transferred are being acquired for investment and not with a view to their distribution.

**16.2 No Right to Continued Employment.** Neither the Plan nor any Incentive granted under the Plan shall confer upon any Participant any right with respect to continuance of employment by the Company or any Subsidiary.

**16.3 Indemnification of Board and Committee.** No member of the Board or the Committee, nor any officer or Employee of the Company acting on behalf of the Board or the Committee, shall be personally liable for any action, determination, or interpretation taken or made in good faith with respect to the Plan, and all members of the Board or the Committee and each and any officer or Employee of the Company acting on behalf of the Board or the Committee shall, to the extent permitted by law, be fully indemnified and protected by the Company in respect of any such action, determination, or interpretation.

**16.4 Effect of the Plan.** Neither the adoption of this Plan nor any action of the Board or the Committee shall be deemed to give any person any right to be granted an Award or any other rights except as may be evidenced by an Award Agreement, or any amendment thereto, duly authorized by the Committee and executed on behalf of the Company, and then only to the extent and upon the terms and conditions expressly set forth therein.

**16.5 Compliance With Securities Laws and other Rules and Regulations.** The Plan, the grant and exercise of Incentives hereunder, and the obligation of the Company to sell and deliver shares of Common Stock, shall be subject to all applicable federal and state laws, rules and regulations and to such approvals by any government or regulatory agency as may be required. Notwithstanding anything herein to the contrary, the Company shall have no obligation to sell or issue shares of Common Stock under any Incentive if the Committee determines, in its sole discretion, (i) that issuance thereof would constitute a violation by the Participant or the Company of any provisions of any law or regulation of any governmental authority or any national securities exchange or inter-dealer quotation system or other forum in which shares of Common Stock are quoted or traded (including without limitation Section 16 of the Exchange Act and Section 162(m) of the Code), or (ii) if a necessary

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listing or quotation of the shares of Common Stock on a stock exchange or inter-dealer quotation system or any registration under state or federal securities laws required under the circumstances has not been

accomplished; and, as a condition of any sale or issuance of shares of Common Stock under an Incentive, the Committee may require such agreements or undertakings, if any, as the Committee may deem necessary or advisable to assure compliance with any such law or regulation.

**16.6 Withholding; Notice of Disposition of Stock Prior to Expiration of ISO Holding Period.**

(a) *Condition Precedent.* The Company or, if applicable, any Subsidiary (for purposes of this Section 16.6, the term "Company" shall be deemed to include any applicable Subsidiary), shall have the right to deduct from all amounts paid in cash or other form in connection with the Plan, any Federal, state, local, or other taxes required by law to be withheld in connection with an Award granted under this Plan. Whenever shares of Common Stock are to be issued pursuant to an Award, the Company may, in its sole discretion, require the Participant to remit to the Company an amount sufficient to satisfy federal, state, local or other withholding tax requirements prior to the delivery of any certificate or certificates for such shares of Common Stock.

(b) *Manner of Satisfying Withholding Obligation.* When a Participant is required to pay to the Company an amount required to be withheld under applicable tax laws in connection with an Award, such payment may be made (i) in cash, (ii) by check, (iii) if permitted by the Committee, by delivery to the Company of shares of Common Stock already owned by the Participant that the Participant has not acquired from the Company within six (6) months prior to the date of exercise having an aggregate Fair Market Value on the date the amount of tax to be withheld is to be determined (the "Tax Date") equal to the amount required to be withheld, (iv) with respect to Stock Options, through the withholding by the Company ("Company Withholding") of a portion of the shares of Common Stock acquired upon the exercise of the Stock Options (*provided that*, with respect to any Stock Option held by a Reporting Participant, at least six (6) months has elapsed between the Date of Grant of such Stock Option and the exercise involving tax withholding) having an aggregate Fair Market Value on the Tax Date equal to the amount required to be withheld, or (v) in any other form of valid consideration, as permitted by the Committee in its discretion; *provided that* a Reporting Participant shall not be permitted to satisfy his or her withholding obligation through Company Withholding unless required to do so by the Committee, in its sole discretion. The Company may, in its sole discretion, withhold any such taxes from any other cash remuneration otherwise paid by the Company to the Participant. The Committee may in the Award Agreement impose any additional tax requirements or provisions that the Committee deems necessary or desirable. The Committee may waive or modify any limitation contained in this Section that is not required for compliance with Rule 16b-3.

(c) *Notice of Disposition of Stock Acquired Pursuant to Incentive Stock Options.* If shares of Common Stock acquired upon exercise of an Incentive Stock Option are disposed of by a Participant prior to the expiration of either two (2) years from the Date of Grant of such Stock Option or one (1) year from the transfer of shares of Common Stock to the Participant pursuant to the exercise of such Stock Option, or in any other disqualifying disposition within the meaning of Section 422 of the Code, such Participant shall notify the Company in writing of the date and terms of such disposition. A disqualifying disposition by a Participant shall not affect the status of any other Stock Option granted under the Plan as an Incentive Stock Option within the meaning of Section 422 of the Code.

**16.7 Use of Proceeds.** Proceeds from the sale of shares of Common Stock pursuant to Incentives granted under this Plan shall constitute general funds of the Company.

**16.8 Legend.** Each certificate representing shares of Restricted Stock issued to a Participant pursuant to the Plan shall bear the following legend, or a similar legend deemed by the Company to constitute an appropriate notice of the provisions hereof and the applicable security laws (any such certificate not having such legend shall be surrendered upon demand by the Company and so endorsed):

On the face of the certificate:

Transfer of this stock is restricted in accordance with conditions printed on the reverse of this certificate.



**PROXY**

**CELLSTAR CORPORATION**

1730 Briercroft Court

Carrollton, Texas 75006

**This Proxy is Solicited on Behalf of the Board of Directors.**

The undersigned hereby appoints Terry S. Parker and Elaine Flud Rodriguez, or either of them, as Proxies, each with the power to appoint his or her substitute, and hereby authorizes them to represent and to vote, as designated below, all the shares of common stock of CellStar Corporation held of record by the undersigned on December 18, 2003 at the Annual Meeting of Stockholders to be held on February 10, 2004 or any adjournment thereof.

**This Proxy, when properly executed, will be voted in the manner directed herein by the undersigned stockholder. If no direction is made, this Proxy will be voted FOR Proposals 1 and 2. PLEASE MARK, SIGN, DATE AND RETURN THE PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE.**

**The Board of Directors recommends that the stockholders vote FOR each of the proposals. Please review carefully the Proxy Statement delivered with this Proxy.**

1. Proposal to elect **James L. Johnson and John L. ( J.L. ) Jackson** as directors for a term of **three** years and, in each case, until their successors are elected and qualified.

FOR all nominees listed above  
(except as marked to the contrary below)

WITHHOLD AUTHORITY  
to vote for all nominees listed above

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**(Instructions: To withhold authority to vote for any individual nominee, write that nominee's name in the space provided above.)**

2. Proposal to approve the CellStar Corporation 2003 Long-Term Incentive Plan.

FOR

AGAINST

ABSTAIN

The Proxies are authorized to vote, in their discretion, upon such other business as may properly come before the meeting.

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Signature

Dated: \_\_\_\_\_, 2004

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Signature if held jointly

Please sign exactly as name appears below. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee, or guardian, please give full title as such. If a corporation, please sign in full corporate name by the President or other authorized officer. If a partnership, please sign in partnership name by an authorized person.