

CELLSTAR CORP  
Form 10-K  
February 26, 2004  
Table of Contents

Index to Financial Statements

---

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

Washington, D.C. 20549

---

**FORM 10-K**

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

For the fiscal year ended November 30, 2003

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number

0-22972

---

**CELLSTAR CORPORATION**

(Exact name of registrant as specified in its charter)

Edgar Filing: CELLSTAR CORP - Form 10-K

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

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

**1730 Briercroft Court**

**75006**

**Carrollton, Texas**  
(Address of principal

(zip code)

executive offices)

**Registrant's telephone**

**number including area**

**code: (972) 466-5000**

---

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

<b>Title of each class</b>	<b>Name of each exchange on</b>
<b>None</b>	<b>which registered</b>
	<b>N/A</b>

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

**Common Stock, par value \$0.01 per share**

(Title of Class)

**Rights to Purchase Series A Preferred Stock**

(Title of Class)

---

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

## Edgar Filing: CELLSTAR CORP - Form 10-K

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of May 31, 2003, the last business day of the Company's most recently completed second fiscal quarter, based on the closing sale price of \$5.18 as reported by the Nasdaq National Market on May 30, 2003, was approximately \$56,442,477. The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of February 20, 2004, based on the closing sale price of \$12.25 as reported by the Nasdaq National Market, was approximately \$157,583,461. (For purposes of determination of the above stated amounts, only directors, executive officers and 10% or greater stockholders have been deemed affiliates).

On February 20, 2004, there were 20,362,404 outstanding shares of common stock, \$0.01 par value per share.

### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the annual meeting of stockholders of the Company to be held during 2004 are incorporated by reference into Part III of this Form 10-K

---

**Table of Contents**

**Index to Financial Statements**

**CELLSTAR CORPORATION**

**INDEX TO FORM 10-K**

	<b>Page Number</b>
<b>PART I.</b>	
<u>Item 1.</u> Business	3
<u>Item 2.</u> Properties	17
<u>Item 3.</u> Legal Proceedings	18
<u>Item 4.</u> Submission of Matters to a Vote of Security Holders	18
<b>PART II.</b>	
<u>Item 5.</u> Market for Registrant's Common Equity and Related Stockholder Matters	19
<u>Item 6.</u> Selected Consolidated Financial Data	21
<u>Item 7.</u> Management's Discussion and Analysis of Financial Condition and Results of Operations	23
<u>Item 7(A).</u> Quantitative and Qualitative Disclosures About Market Risk	49
<u>Item 8.</u> Consolidated Financial Statements and Supplementary Data	50
<u>Item 9.</u> Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	50
<u>Item 9(A).</u> Controls and Procedures	51
<b>PART III.</b>	
<u>Item 10.</u> Directors and Executive Officers of the Registrant	53
<u>Item 11.</u> Executive Compensation	53
<u>Item 12.</u> Security Ownership of Certain Beneficial Owners and Management	53
<u>Item 13.</u> Certain Relationships and Related Transactions	53
<u>Item 14.</u> Principal Accountant Fees and Services	53
<b>PART IV.</b>	
<u>Item 15.</u> Exhibits, Financial Statement Schedules and Reports on Form 8-K	54
<u>Signatures</u>	59

**Table of Contents**

**Index to Financial Statements**

**PART I.**

**Item 1. Business**

*General*

CellStar Corporation (the Company or CellStar) is a leading global provider of distribution and value-added logistics services to the wireless communications industry, with operations in the Asia-Pacific, North American, and Latin American regions. The Company divested its operations in its European region in 2003. The Company facilitates the effective and efficient distribution of handsets, related accessories, and other wireless products from leading manufacturers to network operators, agents, resellers, dealers and retailers. The Company also provides activation services in some of its markets that generate new subscribers for wireless carriers.

The Company's Asia-Pacific Region consists of the People's Republic of China (the PRC), Hong Kong, Taiwan, Singapore, The Philippines and Korea. The Company's North American Region consists of the United States. The Company's Latin American Region consists of Mexico, Chile, Colombia and the Company's Miami, Florida operations.

The Company believes that the intrinsic value of its Asia-Pacific Region is not currently reflected in the market price of the Company's common stock. As a result, the Company engaged UBS Warburg to assist it in evaluating transactions that could result in recognizing the value that it believes is locked up in the Asia-Pacific Region. Those evaluations focused on a number of possible transactions including a possible initial public offering of all or a portion of the Asia-Pacific Region operations, a sale to outside investors or a management buyout. On March 14, 2003, the Company filed a preliminary proxy statement with the Securities and Exchange Commission (SEC), which included a proposal to divest up to 70% of its operations (the CellStar Asia Transaction) in the PRC, Hong Kong, and Taiwan (the Greater China Operations), including an initial public offering (IPO) of its Greater China Operations on the Stock Exchange of Hong Kong (the SEHK).

On May 1, 2003, the Company announced that it would delay the IPO and, consequently, the divestiture of its Greater China Operations due to the spread of severe acute respiratory syndrome (SARS), which negatively impacted the business environment and financial markets in Hong Kong and China, as well as limited the Company's ability to market the IPO. Due to the delay, during the year ended November 30, 2003, the Company expensed \$4.0 million of IPO costs, which included legal, accounting, tax, auditing, consulting and other costs related to the CellStar Asia Transaction.

As a result of the delay, and due to the decline in revenues in the Greater China Operations during the second and third quarters of 2003 as compared to prior year comparable quarters, the Company and its financial advisor, UBS Warburg, are re-evaluating alternatives for deriving the value which the Company believes is locked up in the Greater China Operations, including a possible spinoff of those operations to the Company's stockholders. The Company plans to proceed with the transaction that it believes will be most favorable to its stockholders as soon as practicable. If the Company proceeds with a transaction, it will file a proxy statement to describe the transaction and schedule a stockholders meeting to seek approval for such transaction.

## Edgar Filing: CELLSTAR CORP - Form 10-K

Although it is the Company's intent to pursue the transaction that it believes will be most favorable to its stockholders, there are a number of steps to be completed before any transaction can occur. Accordingly, there can be no assurance of the timing of a transaction or that any transaction will occur.

In 2003, the Company's European Region consisted of The Netherlands, which was sold in March of 2003, and Sweden, which was sold in October of 2003 (See Business European Region ). The divestiture of the European operations was completed as part of the Company's plan to reposition its operations, which began with the exit or divestiture of operations in the United Kingdom, Peru and Argentina in 2002. In addition, the Company evaluated the balance of its Latin American markets, excluding Mexico and Miami, during 2002. The Company decided to keep its operations in Chile, and negotiated with its major carrier customer in Colombia to shift its business to the Company's Miami export operations during the second quarter of 2003.

---

**Table of Contents**

**Index to Financial Statements**

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

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

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

Wireless communications technology encompasses wireless communications devices such as handsets, personal digital assistants, satellite dishes, instant messaging devices, pagers and two-way radios. The Company believes that handsets with color screens, picture messaging, polyphonic speakers and digital camera capabilities should increase consumer demand for new and replacement handsets. In addition, the Company believes that the emergence of new technologies, including handheld web devices and data products and services, should create opportunities in the wireless market as users continually strive to stay connected while remaining mobile.

From its inception in 1983, the wireless handset market grew rapidly until 2001, when overall growth in the industry slowed. In 2002, the Company was faced with a difficult economic environment in the wireless industry in general. During the second and third quarters of 2003, the Company's overall revenues were severely impacted by the spread of SARS in the Asia-Pacific region. However, demand for wireless products and services began increasing during the fourth quarter of 2003. According to UBS Investment Research ( UBS ), at the end of 2003 there were an estimated 1.27 billion wireless subscribers worldwide, an increase of 16.3% from 2002. Of those subscribers, approximately 178 million were added in 2003, which represented approximately 5% growth from 2002. Worldwide, UBS estimates the penetration rate for 2003 at 21.8%. While 2003 shows some growth in subscribers and handsets sold over 2002, dramatic growth is occurring in replacement handset sales. In 2003, UBS estimates that 284.6 million replacement handsets were sold worldwide, an increase of 61.2% over 2002. UBS expects double digit growth in replacement handsets in 2004 and 2005, 19.1% and 16.4%, respectively, even though it expects a slowdown in net subscriber additions for those years. According to research firm IDC, total handsets shipped for 2003 were 533.4 million.

The Company believes that future growth in the worldwide subscriber base, coupled with strong demand for replacement handsets in developed markets, should create significant new opportunities for growth. The Company believes that the convergence of existing and emerging technologies into a single multifunction handset enabling the user to connect to a wireless web and take and send digital photographs should provide





**Table of Contents**

**Index to Financial Statements**

ample incentive for wireless users who desire to upgrade their existing handsets. The Company believes that the wireless communications industry should continue to grow, although at a slower rate than in prior years, for a number of reasons, including strong replacement sales, multi-feature handsets, increased service availability, the lower cost of wireless service compared to conventional landline telephone systems and the availability of handsets with emerging technologies. The Company also believes that advanced digital technologies have led to increases in the number of network operators and resellers, which have promoted greater competition for subscribers and will continue to result in increased demand for wireless communications products.

CellStar's revenues decreased at a compound annual rate of 1.3% for the five fiscal years ended November 30, 2003 and decreased 13.1% for the year ended November 30, 2003, compared to the prior fiscal year. The Company generated 70.5% of its revenues in 2003 from operations conducted outside the United States.

*Cautionary Statements*

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

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

In addition to the factors listed above, threats of terrorist attacks, a decline in consumer confidence and continued economic weakness in the U.S. and throughout the countries in which the Company does business could have a material adverse impact on the Company.

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

*Asia-Pacific Region*

The Company believes that in the Asia-Pacific Region, primarily in China, demand for wireless communications services has been and should continue to be driven by an unsatisfied demand for basic phone service due to the lack of adequate landline service and limited wireless penetration. The Company believes that wireless systems in this region offer a more attractive alternative to landline systems because wireless

## Edgar Filing: CELLSTAR CORP - Form 10-K

systems do not require the substantial amount of time and investment in infrastructure (in the form of buried or overhead cables) associated with landline systems. In addition, declining tariffs and low-end handsets are expected to increase penetration in the future, as a larger proportion of the population will be able to afford to use wireless communication services. UBS estimates that total subscribers in the Pacific Rim, which includes China, Singapore, South Korea, Japan, India, and other countries in the region, will grow from 371.4 million at the end of 2002 to 610.6 million by 2005. This represents 37.9% of the total subscribers forecast worldwide. In addition, UBS estimates that 40% of net handsets sales in 2004 will occur in the region.

**Table of Contents**

**Index to Financial Statements**

In China, according to data provided by the Ministry of Information and Industry of the PRC (the MII), the number of subscribers in recent years has increased at a compound annual growth rate of 111%, from approximately 177,000 at the end of 1992 to approximately 207 million at the end of 2002. According to the MII, the number of mobile telephone subscribers in China as of December 31, 2003 was 269 million, up approximately 62 million from 2002. In November of 2003, UBS estimated that China's penetration rate at the end of 2003 would be approximately 13.5%, lower than their initial estimate of 20.1%. The reason for this lower penetration rate is that the total number of subscribers is generally based on the number of subscriber identity module (SIM) or user identity module (UIM) cards sold. UBS believes that many people in China have more than one SIM/UIM card, which they insert into their handsets to avoid paying costly roaming charges as they move between regions. Therefore, the number of new SIM/UIM cards does not accurately represent the number of handsets sold to new users. Because of this adjustment, UBS estimates that the replacement rate in China, approximately 19%, 21%, and 30% in 2003, 2004, and 2005, respectively, is higher than previous estimates. Based on these and other factors, as well as the large population base and economic growth in this region, the Company believes that phone users should increasingly use wireless systems, which should continue to create growth opportunities in the region.

In the Asia-Pacific Region, the Company offers wireless handsets and accessories manufactured by original equipment manufacturers (OEMs), such as Nokia, NEC, Motorola, Samsung and Siemens and aftermarket accessories manufactured by a variety of suppliers. Throughout the region, the Company acts as a wholesale distributor of wireless handsets to large and small volume purchasers.

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

Shanghai CellStar International Trading Co., Ltd. (CellStar Shanghai), a wholly-owned, limited liability foreign trade company established in Shanghai, commenced operations in the PRC in 1997 in the Shanghai Waigaiqiao Bonded Zone. CellStar Shanghai purchases wireless handsets manufactured by Nokia, NEC, Motorola and Siemens and wholesales those products to distributors and retailers located throughout China. CellStar Shanghai has also entered into cooperative arrangements with certain local distributors that allow them to establish wholesale and retail operations using CellStar's trademarks. Under the terms of these arrangements, CellStar Shanghai provides services, sales support, training and access to promotional materials for use in these distributors' operations. As a result of these cooperative arrangements, approximately 1700 retail points of sale in the PRC display the CellStar name and trademarks. In exchange, those distributors agree to purchase only from CellStar Shanghai those products sold by CellStar Shanghai.

CellStar Shanghai currently deals with numerous local distributors, including distributors located in the ten largest metropolitan areas in China. The Company has an extensive distribution network through its sales of products to 26 wholesale distributors located throughout China. The Company has a total of 73 wholesale customers in China.

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

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

## Edgar Filing: CELLSTAR CORP - Form 10-K

Additionally, carriers in China historically have not subsidized the sale of handsets in connection with activations as is frequently done in the U.S. market. As a result, the China market has begun to shift toward a preference for less expensive handsets as the market begins to mature. During 2003, the Company's operations in

---

**Table of Contents**

**Index to Financial Statements**

the PRC continued to be affected by market competition between the Company's suppliers and local manufacturers. In addition, throughout the second and early in the third quarters of 2003, the consumer markets in the PRC were affected by the spread of SARS. Consumer purchases of wireless handsets were impacted during the second and third quarters of 2003 as the effects of the SARS outbreak affected consumer behavior across the region. The combination of these factors resulted in excess inventory throughout the wireless handset distribution channel.

The Company's revenues in the PRC operations historically have been primarily from the sale of handsets supplied by Nokia and Motorola. Since mid-2002, Nokia and Motorola have lost significant market share to local Chinese manufacturers. Gartner, Inc. (Gartner), a technology research and advisory firm, estimates that as of January 2004, Chinese handset makers accounted for approximately 38% of the country's wireless market. In addition, Gartner expects one of the leading Chinese handset vendors to break into the worldwide top ten biggest phone manufacturers in 2004 based on number of handsets sold. Revenues in future periods will be significantly impacted by the Company's ability to obtain competitive handsets from its current suppliers or from new suppliers. There can be no assurance that the Company will be able to procure such handsets on favorable terms such that it can effectively compete in the PRC. The Company is working to increase its product offerings and to expand its supplier base with a viable partner that offers quality products at competitive prices. In January 2003, the Company entered into an agreement with NEC that has provided and is expected to continue to provide the Company with an expanded range of products from those offered by its current suppliers. Also, the Company recently began shipping product manufactured by Shanghai DBTEL Industry Co., Ltd (DBTEL). The Company does not have a formal contract with DBTEL and is currently buying from DBTEL on a purchase order basis.

For the year ended November 30, 2003, the five largest customers of the Asia-Pacific Region accounted for approximately 43% of the total revenues of the region. The Company's customers in the Asia-Pacific Region are not obligated, pursuant to any contractual commitments or otherwise, to purchase any minimum amount of the products distributed by its subsidiaries in the region. The region's principal competitors are other agents who distribute the same brands of mobile telephones as the Company, and increased sales by these competitors may directly decrease the sales of products carried by the Company's subsidiaries in the Asia-Pacific Region. Further, the Company expects competition to remain strong in the future, especially given the easing of restrictions on foreign entities engaging in wholesale distribution, which is anticipated in connection with China's entry into the World Trade Organization.

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

The other countries in the Asia-Pacific Region in which the Company operates include Singapore, Taiwan, The Philippines and Korea. Although the Company's business in the Asia-Pacific Region is predominantly wholesale, retail operations are also conducted in Taiwan and Hong Kong. Revenues in Singapore and The Philippines are derived solely from wholesale customers. The Company's operations in Korea consist of a

**Table of Contents****Index to Financial Statements**

majority-owned (80%) subsidiary set up to locate and purchase product and to develop relationships with local handset manufacturers in the area.

The following table outlines CellStar's entry into the Asia-Pacific Region for countries in which operations were conducted in fiscal 2003:

<u>Country</u>	<u>Year Entered</u>	<u>Type of Operation</u>
		(as of November 30, 2003)
Hong Kong	1993	Wholesale and Retail
Singapore	1995	Wholesale
The Philippines	1995	Wholesale
Taiwan	1995	Wholesale and Retail
People's Republic of China	1997	Wholesale
Korea	2000	Purchasing

At November 30, 2003, the Company sold its products to over 450 wholesale customers in the Asia-Pacific Region, the ten largest of which accounted for approximately 29% of consolidated revenues. The operations in the Asia-Pacific Region were responsible for approximately 50% of the Company's revenues for fiscal 2003 and are highly dependent upon relationships with customers and vendors developed by A.S. Horng, the Chairman, Chief Executive Officer and General Manager of CellStar Asia, and other key employees in the Asia-Pacific Region. If Mr. Horng were to depart as Chief Executive Officer of CellStar Asia, the Company's operations in the Asia-Pacific Region could be materially adversely affected. The Company offers a broad product mix compatible with digital systems in the Asia-Pacific Region and anticipates that its product offerings will continue to expand with the evolution of new technologies as they become commercially viable.

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

The Company believes that the intrinsic value of its Asia-Pacific Region is not currently reflected in the market price of the Company's common stock. As a result, the Company engaged UBS Warburg to assist it in evaluating transactions that could result in recognizing the value that it believes is locked up in the Asia-Pacific Region. Those evaluations focused on a number of possible transactions including a possible initial public offering of all or a portion of the Asia-Pacific Region operations, a sale to outside investors or a management buyout. On March 14, 2003, the Company filed a preliminary proxy statement with the SEC, which included the CellStar Asia Transaction as a stockholder proposal.

On May 1, 2003, the Company announced that it would delay the IPO and, consequently, the divestiture of its Greater China Operations due to the spread of SARS, which negatively impacted the business environment and financial markets in Hong Kong and China, as well as limited the Company's ability to market the IPO. Due to the delay, during the year ended November 30, 2003, the Company expensed \$4.0 million of IPO costs, which included legal, accounting, tax, auditing, consulting and other costs related to the CellStar Asia Transaction.

## Edgar Filing: CELLSTAR CORP - Form 10-K

As a result of the delay, and due to the decline in revenues in the Greater China Operations during the second and third quarters of 2003 as compared to prior year comparable quarters, the Company and its financial advisor, UBS Warburg, are re-evaluating alternatives for deriving the value which the Company believes is locked up in the Greater China Operations, including a possible spinoff of those operations to the Company's stockholders. The Company plans to proceed with the transaction that it believes will be most favorable to its stockholders as soon as practicable. If the Company proceeds with a transaction, it will file a proxy statement to describe the transaction and schedule a stockholders meeting to seek approval for such transaction.

**Table of Contents**

**Index to Financial Statements**

Although it is the Company's intent to pursue the transaction that it believes will be most favorable to its stockholders, there are a number of steps to be completed before any transaction can occur. Accordingly, there can be no assurance of the timing of a transaction or that any transaction will occur.

As a result of its evaluation of a possible divestiture of some or all of the Greater China Operations, in the fourth quarter of 2002, the Company changed its historical accounting treatment on undistributed earnings in its Asia-Pacific Region and accrued \$42.2 million for potential U.S. Federal income taxes on the undistributed earnings of the Asia-Pacific Region. Previously, no amounts had been provided for U.S. taxes on the unremitted earnings, as the earnings were considered permanently reinvested.

No U.S. Federal income taxes on the undistributed earnings will be payable until such earnings are actually remitted back to the U.S. in the form of dividends or, in the case of a completed transaction such as the CellStar Asia Transaction, sale proceeds. As of November 30, 2003, the Company had net operating loss carryforwards in the U.S. of approximately \$64.5 million, a significant portion of which the Company believes it will be able to utilize to offset the taxes payable in the event that a transaction is completed. The Company therefore does not expect that the impact of the payment of any taxes associated with any such transaction will significantly impact the cash position of the Company at the time of such payment. Furthermore, the Company could potentially have cash proceeds from a completed transaction to fund the actual payment of such taxes. At November 30, 2003, the Company had accrued \$36.2 million of U.S. Federal income taxes on the undistributed earnings of the Asia Pacific Region. As a result, the Company will not recognize tax expense in future periods for financial statement purposes on any such future transaction up to the amount of the tax recognized on the undistributed earnings.

*North American Region*

Wireless communications services in the United States were developed as an alternative to conventional landline systems and were among the fastest growing market segments in the communications industry. While total subscriber growth has not seen the double digit growth of earlier years, the number of total subscribers in the United States grew by an estimated 10.7% in 2003 compared to 2002, according to UBS. A study by the Telecommunications Industry Association predicts that the U.S. wireless subscriber base will continue to expand, but at a single digit instead of a double digit rate. Of an estimated 95.5 million handsets sold in the United States in 2003, approximately 84.3% were replacement handsets. The United States is a mature market, with a penetration rate of approximately 57.2% in 2003, according to UBS. As the market continues to mature and penetration rates continue to increase, the Company expects growth in replacement sales to continue.

On November 24, 2003, the Federal Communications Commission instituted local number portability, which allows wireless users to keep their current wireless phone number when switching to a different carrier. The industry did not experience the large spike in consumer demand that was projected as a result of this policy. Prior to the effective date in November, carriers began offering aggressive rate plans and focused on signing subscribers to one and two year contracts along with an offer for a new handset. Many wireless users postponed switching carriers early on due to some of the initial problems associated with the carriers completing the switch, as well as waiting for their current contracts to expire before switching.

The Company offers a broad product mix in the United States, and anticipates that the Company's product offerings will continue to expand with the evolution of new technologies as they become commercially viable. The Company distributes products through direct-to-retailer fulfillment, direct-to-consumer fulfillment and direct-to-distributor fulfillment of both handsets and accessories, as well as direct-to-distributor fulfillment of satellite dish systems. The Company also offers value-added services such as inventory management, inventory purchasing, warehousing, shipping, custom packaging and kitting, programming, one-off fulfillment, channel management systems, reverse logistics and repair, web-enabled systems solutions, and on-line ordering and reporting to its customers. In addition, the Company provides private labeling services



Edgar Filing: CELLSTAR CORP - Form 10-K

for handsets and accessories to several major carriers, and has agreements with certain big-box retailers to supply CellStar-branded accessories.

**Table of Contents**

**Index to Financial Statements**

The Company offers wireless handsets and accessories manufactured by OEMs, such as Motorola, Kyocera, LG, Nokia, and Sony Ericsson, and aftermarket accessories manufactured by a variety of suppliers. The Company's revenues in the North American Region are generated primarily from handset sales. The Company also offers satellite dish technology. The Company's distribution operations and value-added services complement the manufacturer distribution channels by allowing the manufacturers to distribute their products to smaller volume purchasers and retailers. At November 30, 2003, the Company sold its products to over 2,100 customers in the North American Region, the ten largest of which accounted for approximately 16% of consolidated revenues.

In the fourth quarter of 2002, the parent of one of the region's largest customers announced that some of its lenders under its vendor credit facilities had ceased funding new loan requests and that it was seeking new sources of financing and a restructuring of its outstanding indebtedness. In October of 2002, the Company entered into an agreement with the customer to convert its business relationship to a primarily consignment relationship. In April of 2003, the customer's parent company announced that it had filed for Chapter 11 bankruptcy protection. The Company has not incurred a loss on receivables from this customer during the bankruptcy proceedings. Revenues from this customer in 2003 decreased as the Company received fulfillment fees for the services provided pursuant to the agreement instead of product revenues. The impact on net income is dependent upon the volume of fulfillment activity and the amount of fulfillment fees received compared to the gross margin previously earned on product sales. The fulfillment fees received in 2003 under the new agreement did not equal historical gross profit. By converting to a primarily consignment relationship, however, the Company reduced its accounts receivable exposure. The Company also reduced working capital requirements since the Company was not required to purchase and hold inventory for that segment of the business relationship.

In January of 2004, the Company announced that it would cease providing fulfillment and logistics services for this customer as well as its indirect sales channels when the current agreement related to this service expires on February 25, 2004. Company management believes that the pricing requested by this customer going forward would not have met the Company's desired profitability. The Company had provided those services for the customer since 1998. Revenues from the customer and its indirect sales channels represented approximately 11% of the Company's consolidated revenues for fiscal 2002 and approximately 6% in 2003.

The Company continues to develop and enhance the functionality of its OrderStar<sup>®</sup> and CellStar net Xtreme<sup>®</sup> programs. These programs are proprietary, Internet-based order entry and supply-chain services software and systems designed to assist customers in the submission and tracking of orders and to allow customers to analyze their business activities with CellStar through the creation of customized reports. The OrderStar<sup>®</sup> system enhances the CellStar customer experience by offering faster product navigation and streamlined checkout procedures, private labeling capabilities, and marketing and advertising opportunities. Together, the OrderStar<sup>®</sup> and CellStar net Xtreme<sup>®</sup> systems greatly enhance a customer's ability to actively manage inventories and reduce supply-chain delays while reducing the cost to CellStar of fulfilling their orders. Today, over 85% of all orders CellStar receives in the U.S. are in electronic form via the OrderStar<sup>®</sup>, CellStar net Xtreme<sup>®</sup> systems, XML interconnect or electronic data interchange (EDI). In addition, the Company assists customers in developing e-commerce platforms and solutions designed to enhance sales and reduce product delivery and activation delays.

In the third quarter of 2003, the Company closed its last two remaining retail locations in Austin and Houston, Texas. As of November 30, 2003, the Company's business in the North American Region is wholly generated from wholesale revenues. The Company uses several marketing strategies throughout the North American Region, including trade shows, trade magazine advertising, direct mail, telemarketing, public relations, e-marketing, training programs and distributing product catalogs and service and program brochures.

*Latin American Region*

## Edgar Filing: CELLSTAR CORP - Form 10-K

As in the Asia-Pacific Region, the Company believes that demand for wireless communications services in the Latin American Region has been and should continue to be driven by an unsatisfied demand for basic phone

---

**Table of Contents**

**Index to Financial Statements**

service due to the lack of adequate landline service and limited wireless penetration. The Company believes that wireless systems in this region offer a more attractive alternative to landline systems because wireless systems do not require the substantial amount of time and investment in infrastructure (in the form of buried or overhead cables) associated with landline systems. However, political and economic instability in the region in recent years in certain of the countries in which the Company operates has caused the Company to formulate a strategy to reposition its operations in those areas. In 2002, in connection with this strategy, the Company divested its operations in Peru and Argentina to local management. In addition, the Company has completed the evaluation of the balance of its Latin American markets, excluding Mexico and Miami. The Company decided to continue its operations in Chile as these operations are expected to continue to be profitable and to generate cash. Currently, the Chile operations are expanding their repair and refurbishment capabilities in order to support the outsourcing of such services from the North American Region operations.

To reduce its in-country exposure in Colombia, the Company negotiated with its major carrier customer in Colombia and shifted the carrier customer's business to the Company's Miami export operations during the second quarter of 2003. However, since the third quarter of 2003, the major carrier customer has not been promoting Motorola product at historical levels, and is currently purchasing product directly from a Korean manufacturer. The Company believes if and when the major carrier customer begins promoting Motorola product, it is well positioned to meet such demand from its Miami facility. The Company continues to monitor the situation and has made a strategic decision to seek a high level of local ownership in Colombia. As a result, the Company recorded a \$4.0 million net asset impairment charge in the fourth quarter of 2003. The impairment charge included \$3.8 million for accumulated foreign currency translation adjustments as a result of the Company's pending liquidation of its investment and \$0.2 million for property and equipment.

The Company's Mexico operations derive their revenues primarily from wholesale purchasers and the activation of handsets. The Company's operations in Mexico accounted for approximately 61%, 54%, and 51% of the Latin America Region's revenues in 2001, 2002, and 2003, respectively. Over the last three years, the operations in Mexico have recognized operating losses of \$9.8 million, \$11.5 million, and \$3.0 million in 2001, 2002, and 2003, respectively. Despite the disappointing performance of the Mexico operations in recent years (See Management's Discussion and Analysis of Financial Condition and Results of Operations International Operations), the Company believes growth and profit potential exist in the Mexico market due to the size of this market. The Mexico operations have shown improvement in 2003, including operating profits of \$0.3 million and \$0.7 million for the third and fourth quarters of 2003. In 2003, the Company replaced the general manager and embarked on an aggressive reorganization of these operations, dramatically cutting costs and repositioning the business to recapture market share. Given the recent improvement in operations and the improved relationship with the largest wireless carrier in Mexico, the Company is now committed to staying in Mexico.

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

The Company's business in the Latin American Region is predominantly wholesale and value-added fulfillment services, including handset programming and software upgrades, preparation and configuration of handsets, packing, kitting, one-off shipping, warehousing, and distribution. In addition, the Company conducts retail operations in all countries in which it operates in this region, with the exception of the Miami operations. At November 30, 2003, CellStar operated 66 retail locations (including kiosks) in the Latin American Region, 9 of which are located in Chile, 43 of which are located in Colombia, and 14 of which are located in Mexico. The Company also sells private label products to its major carrier customer in Colombia and to all major carriers in Mexico. Historically, the Company has acted primarily through wholly-owned subsidiaries in each of the countries in this region.

**Table of Contents****Index to Financial Statements**

The following table outlines CellStar's entry into the Latin American Region for countries in which operations were conducted in fiscal 2003:

<u>Country</u>	<u>Year Entered</u>	<u>Type of Operation</u>
		<b>(as of November 30, 2003)</b>
Mexico	1991	Wholesale and Retail
Chile	1993	Wholesale and Retail
Colombia	1994	Wholesale and Retail

As of November 30, 2003, the Company sold its products to approximately 500 wholesale customers, including subagents, in the Latin American Region. The ten largest customers accounted for approximately 12% of the Company's consolidated revenues in fiscal 2003. The Company offers a broad product mix in the Latin American Region compatible with digital systems and anticipates that its product offerings will continue to expand in the countries in which the Company continues to operate with the evolution of new technologies as such products become commercially viable.

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

*European Region*

In the latter half of 2002, the Company completed its evaluations of its operations in the European Region. In Sweden and The Netherlands, the market is highly competitive and highly penetrated. The operations in Sweden and The Netherlands did not present significant growth opportunities without investment of additional capital, which the Company was not willing to make.

On March 21, 2003, the Company completed the sale of its Netherlands operations to a group which included local management. The purchase price was \$2.1 million in cash. In conjunction with the transaction, the Company recorded an impairment charge of \$0.8 million for the three months ended February 28, 2003 to reduce the carrying value of the net assets of its Netherlands operations to the estimated net realizable value. In October 2003, the Company sold its Sweden operations to AxCom AB. The purchase price was \$10.9 million in cash, of which \$8.6 million had been received as of November 30, 2003, and \$1.7 million received in December 2003. In conjunction with the sale of its Sweden operations, the Company recorded a pre-tax gain of \$0.8 million and reduced its provision for taxes on undistributed foreign earnings by \$2.0 million for the three months ended November 30, 2003.

The Company's business in the European Region was predominantly wholesale. The Company had historically acted through wholly-owned subsidiaries in each of the countries in this region. The following table outlines the Company's entrance and divestiture from the European Region for countries in which operations were conducted in fiscal 2003:

<u>Country</u>	<u>Year Entered</u>	<u>Type of Operation</u>
----------------	---------------------	--------------------------

		(as of November 30, 2003)
Sweden	1998	Wholesale (Sold in October 2003)
The Netherlands	1999	Wholesale and Retail (Sold in March 2003)

*Industry Relationships*

The Company has established strong relationships with leading wireless equipment manufacturers and wireless service carriers. Although the Company purchased its products from more than 20 suppliers in fiscal

**Table of Contents**

**Index to Financial Statements**

2003, 75.0% of the Company's purchases were from Nokia, Motorola, Kyocera and NEC. For the year ended November 30, 2003, Nokia and Motorola accounted for approximately 60.1% of the Company's product purchases.

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

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

The Company is required, pursuant to certain supplier agreements, to submit forecasts on either a monthly or a three-month rolling basis. Such estimates are on a best efforts basis. Some suppliers base pricing on volume commitments achieved by the Company.

The Company does not have agreements with the majority of its customers. The Company's agreements with its customers generally have terms ranging from one to four years, and are extended for successive one year terms thereafter. Most agreements can be terminated by either party without cause by the terminating party giving notice within periods ranging from 60 to 90 days prior to such termination. While the Company believes its customer relations are good, there can be no assurance that the Company will retain its current customer base.

In the past, the Company's expansion has been due to several factors, one of which is its relationship with Motorola, historically one of the largest manufacturers of wireless products in the world and the Company's largest supplier in the North American Region. In July 1995, Motorola purchased a split-adjusted 417,862 shares of the outstanding common stock of the Company, currently approximately 2% of the Company's total shares outstanding. The Company believes that its relationship with Motorola and its other suppliers should enable it to continue to offer a wide variety of wireless communications products in all markets in which it operates. In addition, strong relationships with Nokia, the Company's largest supplier in fiscal 2003, have helped to solidify the Company's position in foreign markets. While the Company believes that its relationship with Motorola, Nokia and other significant vendors are satisfactory, there can be no assurance that these relationships will continue.

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

*Asset Management*

## Edgar Filing: CELLSTAR CORP - Form 10-K

The Company continues to invest in and focus on technology to improve financial and information systems. The Company expanded and extended its technology tools and infrastructure during 2003 in the following areas: (i) further expansion of EDI processing for both customer and vendor relationships; (ii) building Internet-based infrastructure in the PRC connecting multiple level distribution operations under which purchase orders, sales, and inventory monitoring activities are all incorporated into one system, Cellnet, which currently, 19 of the



**Table of Contents**

**Index to Financial Statements**

Company's 26 wholesale distributors in the PRC have installed in various degrees; (iii) expansion of the Company's supply chain management system by initiating a reverse logistics project; (iv) increased integration of XML electronic order interconnection; (v) initial development of customer web-based portals to enhance and streamline the customer experience; and (vi) continued development of redundant data processing capabilities to improve business continuity/disaster recovery response. One result of the Company's technology investment is that e-commerce tools process over 85% of all U.S. orders and virtually all orders in the PRC. The Company believes these initiatives will continue to position the Company to take advantage of the market trends with Internet-based commerce and further provide opportunities to integrate its systems with those of its customers.

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

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

Accounts receivable management is important to the Company's ability to control its bad debt expense and working capital. The Company uses credit management tools, which include credit scoring services, to manage its accounts receivable exposure.

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

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

The market for wireless products is characterized by rapidly changing technology and frequent new product introductions, often resulting in product obsolescence or short product life cycles. The Company's success depends in large part upon its ability to anticipate and adapt its business to such technological changes. There can be no assurance that the Company will be able to identify, obtain and offer products necessary to remain competitive or that competitors or manufacturers of wireless communications products will not market products that have perceived

advantages over the Company's products or that render the products sold by the Company

## **Table of Contents**

### **Index to Financial Statements**

obsolete or less marketable. The Company maintains a significant investment in its product inventory and, therefore, is subject to the risks of inventory obsolescence and excessive inventory levels. The Company attempts to limit these risks by managing inventory turns and by entering into arrangements with its vendors, including price protection credits and return privileges for slow-moving products. The Company's significant inventory investment in its international operations exposes it to certain political and economic risks. See *Business Cautionary Statements* and *Management's Discussion and Analysis of Financial Condition and Results of Operations International Operations*. Typically, the Company ships its products within one business day of receipt of customer orders and, therefore, backlog is not considered material to the Company's business.

### *Significant Trademarks*

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

### *Competition*

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

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

### *Seasonality and Cyclicity*

The effects of seasonal fluctuations have not historically been apparent in the Company's operating results due to a number of seasonal factors in the different countries and markets in which it operates, including the purchasing patterns of customers in different markets, product promotions of competitors and suppliers, availability of distribution channels, and product supply and pricing. The Company's sales are also influenced by cyclical economic conditions in the different countries and markets in which it operates. An economic downturn in one of the Company's principal markets could have a materially adverse effect on the Company's operating results.

*Employees*

As of November 30, 2003, the Company had approximately 1,050 employees worldwide. In Mexico, certain of the Company's employees are subject to labor agreements. The Company has never experienced any material labor disruption and is unaware of any efforts or plans to organize additional employees. Management believes that its labor relations are satisfactory.

**Table of Contents****Index to Financial Statements***Executive Officers of the Registrant*

The following table sets forth certain information concerning the executive officers of the Company as of November 30, 2003:

Terry S. Parker	58	Chief Executive Officer
A.S. Horng	46	Chairman, Chief Executive Officer and General Manager of CellStar (Asia) Corporation Limited
Robert A. Kaiser	50	President, Chief Operating Officer
Lawrence King	36	President and Chief Operating Officer of the Asia-Pacific Region
Elaine Flud Rodriguez	47	Senior Vice President, General Counsel and Secretary
Paul C. Samek	51	Senior Vice President, Chief Financial Officer
Raymond L. Durham	41	Vice President and Corporate Controller

Terry S. Parker has served as Chief Executive Officer of the Company since July 2001, as a director of the Company since March 1995 and as President and Chief Operating Officer of the Company from March 1995 through July 1996. Mr. Parker served as Senior Vice President of GTE Corporation and President of GTE's Personal Communications Services, GTE's wireless division, from October 1993 until he joined the Company. From 1991 to 1993, Mr. Parker served as President of GTE Telecommunications Products and Services. Before 1991, Mr. Parker served as President of GTE Mobile Communications. Mr. Parker serves as an officer of the Company pursuant to his employment agreement.

A.S. Horng has served as Chairman of CellStar Asia since January 1998 and has also served as Chief Executive Officer of CellStar Asia since April 1997 and General Manager since 1993. From April 1997 until January 1998, Mr. Horng served as Vice Chairman of CellStar Asia, and from April 1997 until October 1997, Mr. Horng served as President of CellStar Asia. From 1991 to 1993, Mr. Horng was President of C-Mart USA Corporation, a distributor and manufacturer of aftermarket wireless phone accessory products. Mr. Horng serves the Company pursuant to his employment agreement.

Robert A. Kaiser has served as President and Chief Operating Officer since October of 2003. Mr. Kaiser was promoted to such position from his former title of Senior Vice President, Chief Financial Officer and Treasurer, which he held since joining the Company in December of 2001. Prior to joining CellStar, Mr. Kaiser served as President and Chief Executive Officer of MobileStar Network Corporation, a provider of broadband wireless Internet access, from May 2001 to December 2001. Prior to joining MobileStar, Mr. Kaiser served as Chief Executive Officer of WorldCom Broadband Solutions Group from August 2000 to May 2001. Mr. Kaiser served as Chief Executive Officer and Chief Financial Officer of SkyTel from January 2000 to August 2000 and as Chief Financial Officer from August 1996 to December 1999. Mr. Kaiser served as Chief Financial Officer of Southwestern Bell's Mobile Systems from March 1987 to August 1996. Mr. Kaiser serves as an officer of the Company pursuant to his employment agreement.

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

## Edgar Filing: CELLSTAR CORP - Form 10-K

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

**Table of Contents**

**Index to Financial Statements**

Paul C. Samek has served as Senior Vice President and Chief Financial Officer since joining the Company in October of 2003. From December 1999 to May 2002, Mr. Samek served as Vice President and Chief Financial Officer of The Spectranetics Corporation, a publicly held company that develops, manufactures, markets and distributes medical devices. From April 1998 to May 1999, Mr. Samek served as Chief Financial Officer for The Nash Engineering Company, which designs, manufactures and services vacuum pumping systems, with manufacturing locations in Brazil, Korea, China, Canada and the U.S. Prior to joining The Nash Engineering Company, from February 1994 to June 1997, Mr. Samek was Vice President, Finance and Administration, and Chief Financial Officer for Allsteel, Inc., a multi-plant manufacturer of office furniture solutions for global commercial and consumer markets. Prior to joining Allsteel, Mr. Samek held senior management positions with Motorola, Inc. and Deloitte & Touche LLP. Mr. Samek serves as an officer of the Company pursuant to his employment agreement.

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

The Company's success is dependent on the efforts of its executive officers and key employees including Terry S. Parker, Chief Executive Officer, and A.S. Horng, the Chairman, Chief Executive Officer and General Manager of CellStar Asia. The operations in the Asia-Pacific Region were responsible for approximately 50% of the Company's revenues for fiscal 2003 and are highly dependent upon relationships with customers and vendors developed by Mr. Horng and other key employees in the Asia-Pacific Region. If Mr. Horng were to depart as Chief Executive Officer of CellStar Asia, the Company's operations in the Asia-Pacific Region could be materially adversely affected. Although the Company has entered into employment agreement