CELLSTAR CORP
Form 10-K
February 28, 2002

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

OR

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

For the Fiscal Year Ended November 30, 2001	Commission File Number 0-22972

CELLSTAR CORPORATION
(Exact name of registrant as specified in its charter)

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

1730 Briercroft Court
Carrollton, Texas 75006
Telephone (972) 466-5000
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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

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

Common Stock, par value $0.01 per share
(Title of Class)

Rights to Purchase Series A Preferred Stock
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [x] No [ ]

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

On February 22, 2002, the aggregate market value of the voting stock held by nonaffiliates of the Company was approximately $27,996,018, based on the closing

sale price of $3.50 as reported by the NASDAQ/NMS. (For purposes of determination of the above stated amount, only directors, executive officers and 10% or greater stockholders have been deemed affiliates).

On February 22, 2002, there were 12,028,425 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 the second quarter of 2002 are incorporated by reference into Part III of this Form 10-K.

CELLSTAR CORPORATION

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PART I.

Item 1. Business

General

CellStar Corporation (the "Company" or "CellStar") is a leading global provider of distribution and value-added logistics services to the wireless

communications industry, with operations in Asia-Pacific, North America, Latin America and Europe. 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. In many of the Company's markets, the Company provides activation services that generate new subscribers for its wireless carrier customers.

The Company's "Asia-Pacific Region" consists of Taiwan, Singapore, The Philippines, Malaysia, Korea and the People's Republic of China, including Hong Kong. During 2001, the Company closed its Japan operation. The Company is in the process of divesting its 49% ownership in its Malaysia joint venture. The Company's "Latin American Region" consists of Mexico, Chile, Peru, Colombia, Argentina and the Company's Miami, Florida operations. Venezuela was included in the Latin American Region until the operations were sold on December 26, 2000. The Company's "European Region" consists of the United Kingdom, Sweden and The Netherlands. The Company's "North American Region" consists of the United States.

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 (AOS On-Line(SM)), internet-based tracking and reporting, inventory management, marketing, prepaid wireless, product fulfillment, kitting and customized packaging, private labeling, light assembly, accounts receivable management and end-user support services. The Company also provides wireless activation services and operates retail locations in certain markets from which wireless communications products and accessories are marketed to the public.

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

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

Wireless communications technology encompasses wireless communications devices such as handheld, mobile and transportable handsets, pagers and two-way radios. Since its inception in 1983, the wireless handset market had grown rapidly until 2001. Future growth in the worldwide subscriber base and the convergence of existing and emerging technologies into a single multifunction handset connected to a wireless web should create significant new opportunities for the Company. 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 the following: increased service availability, the lower cost of wireless service compared to conventional landline telephone systems,

and future economic growth. 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, we believe, have resulted in increased demand for wireless communications products.

CellStar's revenues grew at a 20.8% compound annual rate for the five fiscal years ended November 30, 2001, and decreased 1.7% for the year ended November 30, 2001, compared to the prior fiscal year. The Company generated 76.2% of its revenues in 2001 from operations conducted outside the United States.

Cautionary Statements

The Company's success will depend upon, among other things, economic conditions, wireless market conditions, 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 growth (including monitoring operations, controlling costs, maintaining adequate information systems and effective inventory and credit controls), manage operations that

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are geographically dispersed, achieve significant penetration in existing and new geographic markets, and hire, train and retain qualified employees who can effectively manage and operate its business.

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 related to foreign ownership of businesses abroad; foreign tax laws; changes in cost of and access to capital; changes in import/export regulations, including enforcement policies; "gray market" resales; and tariff and freight rates. Political and other factors beyond the control of the Company, including trade disputes among nations or internal political or economic instability in any nation where the Company conducts business, could have a material adverse effect on the Company.

The Company's consolidated financial statements and accompanying notes, which include certain business segment and geographic information, are in Part IV.

Asia-Pacific Region

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

The Company offers wireless handsets and accessories manufactured by Original

Equipment Manufacturers ("OEMs"), such as Motorola, Nokia, Ericcson and LG and aftermarket accessories manufactured by a variety of suppliers. Throughout the Asia-Pacific 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 our business units in the region, derives its revenue principally from wholesale sales of wireless handsets to Hong Kong-based companies that ship these products to the remainder of China.

Shanghai CellStar International Trading Company, Ltd. ("CellStar Shanghai"), a wholly-owned, limited liability foreign trade company established in Shanghai, China, commenced domestic wholesale operations in China in 1997 using a local commodities exchange market as an intermediary, pursuant to an experimental initiative permitting market access as authorized by the Shanghai municipal government. CellStar Shanghai purchases wireless handsets locally manufactured by Motorola, Nokia and Ericcson 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 such arrangements, CellStar Shanghai provides services, sales support, training and access to promotional materials for use in their operations. As a result of these cooperative arrangements, more than 1,000 retail points of sale in China display the CellStar name and trademarks. In exchange, those distributors agree to purchase most of their requirements of wireless handsets from CellStar Shanghai.

CellStar Shanghai currently deals with numerous local distributors, including distributors located in the ten largest metropolitan areas in China. CellStar Shanghai leases warehouse, showroom and office space in the Pudong district of Shanghai, as well as two other warehouses in Beijing and Guangzhou.

Although the Company's business in the Asia-Pacific Region is predominantly wholesale, retail operations are also conducted in Singapore, Malaysia and Taiwan. Historically the Company has acted through wholly-owned subsidiaries in each of the countries in this region; however, some of the retail operations may be owned jointly with local partners, depending on the market and regulatory environment in the host country.

The Company commenced operations in Taiwan in 1995. The Company entered the Singapore, The Philippines and Malaysia markets in 1995. In Malaysia, the Company is a minority partner (49%) in a joint venture. Due to the continuing deterioration in the Malaysia market, the Company is in the process of divesting its ownership interest in the Malaysia joint venture. In 2000, the Company established a wholly-owned subsidiary in Japan and an 80% owned subsidiary in Korea to locate and purchase product and to develop relationships with local handset manufacturers in those areas. In 2001, the Company closed the Japan operation.

The following table outlines CellStar's entry into the Asia-Pacific Region:

Country	Year Entered	Type of Operation (as of November 30, 2001)
Hong Kong	1993	Wholesale

Singapore	1995	Wholesale and Retail
The Philippines	1995	Wholesale
Malaysia	1995	Wholesale and Retail
Taiwan	1995	Wholesale and Retail
People's Republic of China	1997	Wholesale
Japan	2000	Purchasing (closed as of November 30, 2001)
Korea	2000	Purchasing

At November 30, 2001, the Company sold its products to over 250 wholesale customers in the Asia-Pacific Region (excluding customers of the Company's Malaysia joint venture), the ten largest of which accounted for approximately 32% of consolidated revenues. The Company offers a broad product mix compatible with digital systems in the Asia-Pacific Region and anticipates that its product offerings will continue to expand with the evolution of new technologies as they become commercially viable.

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

North American Region

In the United States, wireless communications services were developed as an alternative to conventional landline systems and have been among the fastest growing market segments in the communications industry. The Company believes that the U.S. market for wireless services should continue to expand due to the increasing affordability and availability of such services and shorter development cycles for new products and product and service enhancements. In addition, many wireless service providers have upgraded their existing systems from analog to digital technology as a result of capacity constraints in many of the larger wireless markets and to respond to competition. Digital technology offers certain advantages, such as improved signal quality, improved call security, lower incremental costs for additional subscribers, and the ability to provide data transmission services.

At November 30, 2001, the Company sold its products to approximately 1,800 customers in the North American Region, the ten largest of which accounted for approximately 14% of consolidated revenues. The Company offers wireless handsets and accessories manufactured by OEMs, such as Motorola, Nokia, Kyocera, Sony Ericsson Mobile Communications (USA) Inc. ("Sony") and InfoComm U.S.A., Inc. and aftermarket accessories manufactured by a variety of suppliers. The Company's distribution operations and value-added services complement the manufacturer distribution channels by allowing the manufacturers to sell and distribute their products to smaller volume purchasers and retailers.

The Company offers a broad product mix in the United States, including products that are compatible with digital and analog systems, 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 continues to develop and enhance the functionality of the AOS On-Line and netXtreme(SM) programs. These programs are proprietary, internet-based order entry and supply chain services software and systems designed to assist customers in the submission of orders, the tracking of such orders and the analysis of business activities with CellStar. AOS On-Line and netXtreme greatly enhance a customer's ability to actively manage inventories and reduce supply chain delays. In addition, the Company assists customers in developing e-commerce platforms and solutions designed to enhance sales and reduce product delivery and activation delays.

As of November 30, 2001, the Company operated two retail locations in the United States--one in Austin, Texas, and one in Houston, Texas.

Latin American Region

As in the Asia-Pacific Region, the Company believes that demand for wireless communications services in the Latin American Region has been and should continue to be driven by an unsatisfied demand for basic phone service due to the lack of adequate landline service and to 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. Based on these and other factors, as

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well as the large population base in this region, the Company believes that phone users should increasingly use wireless communications systems.

In the Latin American Region, CellStar offers wireless communications handsets, related accessories and other wireless products manufactured by OEMs, such as Motorola, Nokia, Samsung, Kyocera and Ericsson, and aftermarket accessories manufactured by a variety of suppliers to carriers, mass merchandisers and other retailers. The Company, through its Miami, Florida operation, 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 operation is included in the Latin American Region.

In the quarter ended May 31, 2000, the Company began phasing out a major portion of its redistributor business in Miami due to the volatility of such business, the relatively lower margins and higher credit risks. Redistributors are distributors without existing direct relationships with manufacturers and without long-term carrier or dealer/agent relationships. Such distributors purchase product on a spot basis to fulfill intermittent customer demand and do not have a long-term predictable product demand. Due to the reduction in the redistributor business and the increased availability of in-country manufactured product, the Company has experienced a significant decline in exports from its Miami operation and has restructured the Miami operation in 2001 to reduce the size and cost of the operation.

Although the Company's business in the Latin American Region is predominantly wholesale and value-added fulfillment services, the Company conducts retail operations in all its countries in this region. At November 30, 2001, CellStar operated 103 retail locations (including kiosks) in the Latin American Region, the majority of which are located in Colombia and Mexico. Historically, the Company has acted primarily through wholly-owned subsidiaries in each of the countries in this region. From 1998 until the divestiture of the Brazil operations in August 2000, the Company conducted its operations in Brazil primarily through a majority owned (51%) joint venture.

The Company decided during the quarter ended August 31, 2000, based on the current and future economic and political outlook in Venezuela, to divest its operations in Venezuela. The Company exited the Venezuela market on December 26, 2000.

The following table outlines CellStar's entry into the Latin American Region:

Country	Year Entered	Type of Operation (as of November 30, 2001)
Mexico	1991	Wholesale and Retail
Chile	1993	Wholesale and Retail
Venezuela	1993	Wholesale and Retail (sold in December 2000)
Colombia	1994	Wholesale and Retail
Argentina	1995	Wholesale and Retail
Peru	1998	Wholesale and Retail

At November 30, 2001, the Company sold its products to over 750 wholesale customers in the Latin American Region, the ten largest of which accounted for approximately 11% of the Company's consolidated revenues in fiscal 2001. The Company offers a broad product mix in the Latin American Region, including products that are compatible with digital and analog systems, 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 through direct sales and advertising. The Company uses direct mailings and newspapers to promote its retail operations. To penetrate local markets, the Company has made use of subagent relationships in certain countries.

European Region

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

In April 2000, the Company curtailed a significant portion of its U.K. international trading operations following third party theft and fraud losses. Trading in wireless handsets involves the purchase of wireless handsets from sources other than the

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manufacturers or network operators (i.e., trading companies) and the sale of those handsets to other trading companies. The curtailment in its trading activities had a significant impact on revenues and profit for its U.K. operation and on the European Region as a whole. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations --International Operations").

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

Country	Year Entered	Type of Operation (as of November 30, 2001)
United Kingdom	1996	Wholesale
Sweden	1998	Wholesale
The Netherlands	1999	Wholesale and Retail

As of November 30, 2001, the Company sold its products to approximately 1,400 wholesale customers in the European Region, the ten largest of which accounted for approximately 3% of consolidated revenues. The Company offers a broad product mix compatible with digital systems in the European 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 through direct sales, catalogues and advertising.

Industry Relationships

The Company has established strong relationships with leading wireless equipment manufacturers and wireless service carriers. Although the Company purchased its products from more than 15 suppliers in fiscal 2001, the majority of the Company's purchases were from Motorola, Nokia, Ericsson, LG, Samsung and Kyocera. For the year ended November 30, 2001, Motorola and Nokia accounted for approximately 75% of the Company's product purchases.

The Company has various supply contracts with terms of approximately one year with Motorola, Nokia, Ericsson, Samsung, Kyocera, NEC, LG and Sony that specify territories, minimum purchase levels, 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'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 July 1995, Motorola purchased a split-adjusted 417,862 shares of the outstanding common stock of the Company. 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. While the Company believes that its relationship with Motorola and other significant vendors is satisfactory, there can be no assurance that these relationships will continue.

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

Asset Management

The Company continues to invest in and focus on technology to improve financial and information control systems. The Company expanded and extended its technology tools to improve financial and information control systems during 2001. These initiatives included : (i) implementation of virtual private network capabilities for Asian and Latin America sites to increase wide area network performance, (ii) adding several new service levels to NetXtreme, the

Company's customer portal (catalog, invoice management, file transfer protocol (FTP) services, order status and Dataport), (iii) extension of the customer data warehouse capabilities including full order life cycle analysis and perpetual inventory reconciliation, (iv) expanding electronic data interchange (EDI) processing for both customer and vendor relationships, and (v) expansion of system integration capabilities, especially with direct to consumer customers. One result of the Company's technology investment is that e-commerce tools process over 50% of all U.S. orders and virtually all orders in the People's Republic of China. 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 purchases its products from more than 15 suppliers that ship directly to the Company's warehouse or distribution

facilities. Inventory purchases are based on quality, price, service, market demand, product availability and brand recognition. Certain 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. The Company provides stock balancing to certain of its customers.

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 (AOS On-Line and netXtreme), to help manage inventory and sales margins.

Typically, the Company ships its products within 24 hours of receipt of customer orders and, therefore, backlog is not considered material to the Company's business.

The market for wireless products is characterized by rapidly changing technology and frequent new product introductions, often resulting in product obsolescence or short product life cycles. The Company's success depends in large part upon its ability to anticipate and adapt its business to such technological changes. There can be no assurance that the Company will be able to identify, obtain and offer products necessary to remain competitive or that competitors or manufacturers of wireless communications products will not market products that have perceived advantages over the Company's products or that render the products sold by the Company obsolete or less marketable. The Company maintains a significant investment in its product inventory and, therefore, is subject to the risks of inventory obsolescence and excessive inventory levels. The Company attempts to limit these risks by managing inventory turns and by entering into arrangements with its vendors, including price protection credits and return privileges for slow-moving products. The Company's significant inventory investment in its international operations exposes it to certain political and economic risks. See "Item 1. Business--Cautionary Statements" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations--International Operations."

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 also has filed for registrations of its other trade names in the United States and other jurisdictions where 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.

Competitors of the Company in the Asia-Pacific, Latin American and European Regions include manufacturers, national carriers that have retail outlets with direct end-user access, and U.S. and foreign-based exporters and distributors. The Company is also subject to competition from gray market activities by third parties that are legal, but are not authorized by manufacturers, or that are illegal (e.g., activities that avoid applicable duties or taxes). In addition, the Company competes for activation fees and residual fees with agents and subagents for wireless carriers.

Employees

As of November 30, 2001, the Company had approximately 1,300 employees worldwide. In Mexico and Argentina, approximately 100 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.

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Executive Officers of the Registrant

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

Terry S. Parker	56	Chief Executive Officer
Dale H. Allardyce	52	President and Chief Operating Officer
A.S. Horng	44	Chairman and Chief Executive Officer of CellStar (Asia) Corporation Limited
Robert A. Kaiser	48	Senior Vice President, Chief Financial Officer and Treasurer
Elaine Flud Rodriguez	45	Senior Vice President, General Counsel and Secretary
Raymond L. Durham	40	Vice President, 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.

Dale H. Allardyce has served as the President and Chief Operating Officer of the Company since November 1999. Previously, Mr. Allardyce served as Executive Vice President--Operations for ENTEX Information Services, Inc., a personal computer systems integrator, from February 1995 to December 1998. From January 1993 to February 1995, Mr. Allardyce served as Senior Vice President of THORN Americas, Inc., a nationwide chain of rent-to-own stores and a subsidiary of UK based THORN EMI. From March 1982 to December 1992, Mr. Allardyce was employed by The Southland Corporation, the owner and operator of a nationwide convenience store chain, where he served as Vice President of distribution, food processing and procurement from 1987 to 1992. Mr. Allardyce 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 such company 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 Senior Vice President, Chief Financial Officer and Treasurer since December 2001. Prior to joining CellStar, Mr. Kaiser served as President and Chief Executive Officer of MobileStar Network Corporation, a provider of broadband wireless Internet access, from May 2001 to December 2001. Prior to joining MobileStar, Mr. Kaiser served as Chief Executive Officer of WorldCom Broadband Solutions Group from August 2000 to May 2001. Mr. Kaiser served as Chief Executive Officer and Chief Financial Officer of SkyTel from January 2000 to August 2000 and as Chief Financial Officer from August 1996 to December 1999. Mr. Kaiser served as Chief Financial Officer of Southwestern Bell's Mobile Systems from March 1987 to August 1996. Mr. Kaiser serves as an officer of the Company pursuant to his employment agreement.

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 in the states of Texas and Louisiana. Ms. Rodriguez serves as an officer of the Company pursuant to her employment agreement.

Raymond L. Durham has served as Vice President, 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 the Company's Asia-Pacific Region, which was responsible for approximately 50% of the Company's revenues for fiscal 2001. If Mr. Horng were to depart as chief executive officer of the Asia-Pacific Region, the Company's operations in the Asia-Pacific Region could be materially adversely affected. Although the Company has entered into employment agreements with these officers and several other officers and key employees, there can be no assurance that the Company will be able to retain their services. The Company

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

Item 2. Properties

As of November 30, 2001, the Company had a total of 25 operating facilities in the Asia-Pacific Region (including kiosks, but not including facilities of the Company's Malaysia joint venture), 23 of which were leased, a total of 118 operating facilities in the Latin American Region (including kiosks), all but one of which were leased, and a total of 6 operating facilities in the European Region (including kiosks), all of which were leased. These facilities serve as offices, warehouses, distribution centers or retail locations.

The Company's corporate headquarters and principal North American Region distribution facility is located at 1730 and 1728 Briercroft Court in Carrollton, Texas. Both facilities are owned by the Company. As of November 30, 2001, the Company had three other operating facilities in the North American Region, all of which were leased.

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

Item 3. Legal Proceedings

During the period from May 1999 through July 1999, seven purported class action lawsuits were filed in the United States District Court for the Southern District of Florida, Miami Division, styled as follows: (1) Elfie Echavarri v. CellStar Corporation, Alan H. Goldfield, Richard M. Gozia and Mark Q. Huggins; (2) Mark Krug v. CellStar Corporation, Alan H. Goldfield, Richard M. Gozia and Mark Q. Huggins; (3) Jewell Wright v. CellStar Corporation, Alan H. Goldfield, Richard M. Gozia and Mark Q. Huggins; (4) Theodore Weiss v. CellStar Corporation, Alan H. Goldfield, Richard M. Gozia and Mark Q. Huggins; (5) Tony LaBella v. CellStar Corporation, Alan H. Goldfield, Richard M. Gozia and Mark Q. Huggins; (6) Thomas F. Petrone v. CellStar Corporation, Alan H. Goldfield, Richard M. Gozia and Mark Q. Huggins; and (7) Adele Brody v. CellStar Corporation, Alan H. Goldfield, Richard M. Gozia and Mark Q. Huggins. Each of the above lawsuits sought certification as a class action to represent those persons who purchased the publicly traded securities of the Company during the period from March 19, 1998, to September 21, 1998. Each of these lawsuits alleges that the Company issued a series of materially false and misleading

statements concerning the Company's results of operations and investment in Topp Telecom, Inc. ("Topp") resulting in violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 10b-5 promulgated thereunder.

The Court entered an order on September 26, 1999 consolidating the above lawsuits and appointing lead plaintiffs and lead plaintiffs' counsel. On November 8, 1999, the lead plaintiffs filed a consolidated complaint. The Company filed a Motion to Dismiss the consolidated complaint and the Court granted that motion on August 3, 2000. The plaintiffs filed a Second Amended and Consolidated Complaint on September 1, 2000, essentially re-alleging the violations of Sections 10(b) and 20(a) of the Exchange Act, and Rule 10b-5 promulgated thereunder. The Company filed a Motion to Dismiss plaintiffs' Second Amended and Consolidated Complaint on November 2, 2000. On September 28, 2001, the Court entered an order and judgement to dismiss the consolidated complaint with prejudice, and closed the consolidated action for administrative purposes.

On August 3, 1998, the Company announced that the Securities and Exchange Commission ("SEC") was conducting an investigation of the Company relating to its compliance with federal securities laws. On June 28, 2001, the Company announced that the SEC had terminated the investigation with no enforcement action recommended.

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

The Company is a party to various other claims, legal actions and complaints arising in the ordinary course of business.

Management believes that the disposition of these matters will not have a materially adverse effect on the consolidated financial condition or results of operations of the Company.

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

There were no matters submitted to a vote of the Company's security holders during the fiscal quarter ended November 30, 2001.

PART II.

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

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

	High	Low

Fiscal Year ended November 30, 2001		
Quarter Ended:		
February 28, 2001	$ 10.63	5.63
May 31, 2001	10.60	4.69
August 31, 2001	12.90	6.50
November 30, 2001	6.65	3.80
Fiscal Year ended November 30, 2000		
Quarter Ended:		
February 29, 2000	$ 57.50	40.94
May 31, 2000	46.88	12.19
August 31, 2000	20.00	10.78
November 30, 2000	21.88	8.28

As of February 22, 2002, there were 289 stockholders of record, although the Company believes that the number of beneficial owners is significantly greater than that number because a large number of shares are held of record by CEDE & Co.

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

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Item 6 Selected Consolidated Financial Data

The financial data presented below, as of and for each of the years in the five-year period ended November 30, 2001, were derived from the Company's audited financial statements. The selected consolidated financial data should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," and the Company's consolidated financial statements and notes thereto, included elsewhere herein.

			Year Ended Nov
	2001	2000	199
	(In thousands, except per share d		
Statements of Operations Data:			
Revenues	$ 2,433,803	2,475,682	2,333,
Cost of sales	2,297,977	2,364,197	2,140,
Gross Profit	135,826	111,485	193,
Operating expenses:			

Selling, general and administrative expenses	113,785	169,232	111,
Impairment of assets	-	12,339	5,
Lawsuit settlement	-	-	-
Separation agreement	5,680	-	-
Restructuring charge (credit)	750	(157)	3,
Operating income (loss):	15,611	(69,929)	72,
Other income (expense):			
Interest expense	(15,383)	(19,113)	(19,
Equity in income (loss) of affiliated companies, net	(858)	(1,805)	31,
Gain on sale of assets	933	6,200	8,
Impairment of investment	(2,215)	-	-
Other, net	5,288	932	(1,
Total other income (expense)	(12,235)	(13,786)	19,
Income (loss) before income taxes and extraordinary loss	3,376	(83,715)	92,
Provision (benefit) for income taxes	2,200	(20,756)	23,
Income (loss) before extraordinary loss	1,176	(62,959)	69,
Extraordinary loss on early extinguishment of debt, net of tax	(626)	-	-
Net income (loss)	$ 550	(62,959)	69,
Net income (loss) per share: (1)			
Basic:			
Income (loss) before extraordinary loss	$ 0.10	(5.24)	5
Extraordinary loss on early extinguishment of debt, net of tax	(0.05)	-	-
Net income (loss)	$ 0.05	(5.24)	5
Diluted:			
Income (loss) before extraordinary loss	$ 0.10	(5.24)	5
Extraordinary loss on early extinguishment of debt, net of tax	(0.05)	-	-
Net income (loss)	$ 0.05	(5.24)	5
Weighted average number of shares: (1)(2)			
Basic	12,028	12,026	11,
Diluted	12,029	12,026	13,
Operating Data:			
International revenues, including export sales, as a percentage of revenues	76.2%	79.8	8

At November

	2001	2000	199
		(In thousands)	
Balance Sheet Data:			
Working capital	$ 116,892	264,380	332,
Total assets	646,070	858,824	706,
Notes payable and current portion of long-term debt	202,644	127,128	50,
Long-term debt, less current portion	-	150,000	150,
Stockholders' equity	184,210	185,583	250,

(1) Common stock amounts have been retroactively adjusted to give effect to the one-for-five reverse stock split effective February 22, 2002, a two-for-one stock split, which was made in the form of a stock dividend distributed on June 23, 1998 and a three-for-two stock split, which was made in the form of a stock dividend distributed on June 17, 1997.

(2) The Company issued in an exchange offer $39.1 million in senior convertible notes which are convertible into 7.8 million shares of common stock by November 30, 2002 (see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources"). The 7.8 million shares will be considered as dilutive securities beginning in the first quarter of 2002.

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

Overview

CellStar is a leading global provider of distribution and value-added logistics services to the wireless communications industry, with operations in Asia-Pacific, North America, Latin America, and Europe. 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. In many of its markets, the Company provides activation services that generate new subscribers for its wireless carrier customers. From 1997 through 2001, the Company's revenues grew from $1,482.8 million to $2,433.8 million. Sales of wireless communications products have increased primarily as a result of greater market penetration due in part to decreasing unit prices and service costs. In 2001, industry wide sales of handsets declined approximately 5 percent. The Company's revenues decreased from $2,475.7 million in 2000 to $2,433.8 million in 2001. The Company experienced an improvement in gross profit to 5.6% of revenues in 2001 from 4.5% of revenues in 2000, primarily due to better product management and mix. Selling, general and administrative expenses were $113.8 million in 2001 compared to $169.2 million in 2000, primarily due to a $44.8 million reduction in bad debt expense. As a result, the Company had net income of $0.05 per diluted share in 2001 compared to a loss of $5.24 per diluted share in 2000.

The Company announced on July 6, 2001, that Alan H. Goldfield retired effective immediately from the position of Chairman and Chief Executive Officer and that James L. "Rocky" Johnson, who has served on the Board of Directors since March 1994, became Chairman of the Board, and that Terry S. Parker, a member of the Board of Directors and a former President and Chief Operating Officer, rejoined the Company as Chief Executive Officer. The Company recorded expense of $5.7 million in 2001 related to the separation agreement between the Company and Alan H. Goldfield.

On February 20, 2002 the Company completed its exchange offer for its $150 million 5% convertible subordinated notes due October 2002. Holders owning

$128.6 million of existing convertible subordinated notes exchanged them for $47.2 million in cash, $12.4 million of new 12% senior subordinated notes due January 2007, and $39.1 million of new 5% senior subordinated convertible notes due November 2002. The Company expects to recognize an extraordinary gain of approximately $11.0 million after-tax in 2002 as a result of the exchange.

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

Special Cautionary Notice Regarding Forward-Looking Statements

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

limitation, those statements made in conjunction with the forward-looking statements included under the captions identified above and otherwise herein. All forward-looking statements attributable to the Company are expressly qualified in their entirety by the Cautionary Statements.

Results of Operations

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

	2001	2000	1999
Revenues	100.0%	100.0	100.0
Cost of sales	94.4	95.5	91.7
Gross profit	5.6	4.5	8.3
Selling, general and administrative expenses	4.7	6.8	4.8
Impairment of assets	-	0.5	0.2

Seperation agreement	0.3	-	-
Restructuring charge (credit)	-	-	0.2
Operating income (loss)	0.6	(2.8)	3.1
Other income (expense):			
Interest expense	(0.6)	(0.8)	(0.8)
Equity in income (loss) of affiliated companies, net	-	(0.1)	1.4
Gain on sale of assets	-	0.3	0.4
Impairment of investment	(0.1)	-	-
Other, net	0.2	-	(0.1)
Total other income (expense)	(0.5)	(0.6)	0.9
Income (loss) before income taxes and extraordinary loss	0.1	(3.4)	4.0
Provision (benefit) for income taxes	0.1	(0.9)	1.0
Income (loss)before extraordinary loss	0.0	(2.5)	3.0
Extraordinary loss on early extinguishment of debt, net of tax	0.0	-	-
Net income (loss)	0.0%	(2.5)	3.0

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

	2001		2000		1999	
	(Dollars in thousands)					
Asia-Pacific Region	$1,213,454	49.9%	1,024,762	41.4	769,412	33.0
North American Region	578,612	23.7	499,171	20.2	377,129	16.2
Latin America Region	411,079	16.9	636,354	25.7	717,273	30.7
European Region	230,658	9.5	315,395	12.7	469,991	20.1
Total	$2,433,803	100.0%	2,475,682	100.0	2,333,805	100.0

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

Fiscal 2001 Compared to Fiscal 2000

Revenues. The Company's revenues decreased $41.9 million, or 1.7%, from $2,475.7 million to $2,433.8 million.

Revenues in the Asia-Pacific Region increased $188.7 million, or 18.4% from $1,024.8 million to $1,213.5 million. The Company's operations in The People's Republic of China ("PRC"), including Hong Kong, provided $1,049.6 million in revenue, an increase of $324.2 million, or 44.7%, from $725.4 million. Growth in China, where market penetration of handsets is

approximately 10% of the total population, is being driven by the addition of new wireless subscribers. However, the Company's growth in the PRC was negatively impacted in the fourth quarter of 2001 by the lack of availability of compelling new products and the implementation of new warranty requirements to the manufacturer which resulted in the delay of consumer purchases. The Company's revenues in the PRC in the fourth quarter of 2001 of $232.6 million were the lowest since the fourth quarter of 2000 when revenues were $218.6 million. Industry forecasts show that the rate of growth of net new subscribers will decrease from five million per month to approximately four million per month in 2002. Revenues from the Company's operations in Singapore increased $47.5 million, or 110.6%, to $90.4 million due to third party subsidies and new products, including sales of two products for which the Company has exclusive rights. Revenues from Taiwan and The Philippines operations decreased $178.5 million, or 85.9%, and $4.6 million, or 9.4%, respectively to $29.2 million and $44.1 million, respectively. The Company's operations in Taiwan and The Philippines continue to be affected by economic and political turmoil in the respective countries. In addition, the Company's supplier base in Taiwan is limited, and there are no new compelling products from the Company's major supplier.

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

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

The Europe Region recorded revenues of $230.7 million, a decrease of $84.7 million, or 26.9%, from $315.4 million, primarily due to the Company's decision to curtail its U.K. international trading operations in April 2000 (see

"International Operations") and to a decline in the Company's Sweden operations. The handset market in Europe is highly penetrated and is increasingly driven by replacement sales, which are depressed due to delays in the rollout of new handset technologies and services.

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

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

the receivable from the satellite handset customer which was reserved in 2000. In the fourth quarter of 2001, selling, general and administrative expenses included a $3.0 million charge for a value-added tax prepaid asset in the Company's Mexico operations for which the recoverability is uncertain. Selling, general and administrative expenses related to the Brazil and Venezuela operations, which were sold in August 2000 and December 2000, respectively, were $0.2 million in 2001 and $17.8 million in 2000 and included $2.5 million in bad debt expense. Overall selling, general and administrative expenses as a percentage of revenues decreased to 4.7% from 6.8%.

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

of $1.0 million to reduce the carrying value of other assets.

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

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

Equity in Loss of Affiliated Companies. Equity in loss of affiliated companies was $0.9 million in 2001 and $1.8 million in 2000 primarily due to losses from the Company's 49% minority interest in CellStar Amtel Sdn. Bhd. ("CellStar Amtel"), a joint venture in Malaysia. As a result of the continuing deterioration in the Malaysia market, the Company is in the process of divesting its ownership interest in CellStar Amtel. The Company will be required to recognize future losses, if any, of CellStar Amtel up to the amount of debt and payables of CellStar Amtel that it guaranteed ($0.8 million at November 30, 2001). The Company does not anticipate that any further losses will be recognized.

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

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

Impairment of Investment. In 2001, the Company recorded an impairment charge of $2.2 million to reduce the carrying value of its 3.5% interest in a Taiwan retailer. Due to the continuing economic and political turmoil in Taiwan, the Company considered its investment in the Taiwan retailer to be permanently impaired. As a result the Company reduced the carrying value of its 3.5% investment in the retailer to $1.9 million which represents the Company's estimate of the fair value of its 3.5% interest in the retailer.

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

Income Taxes. Income tax expense increased from a benefit of $20.8 million in 2000 to expense of $2.2 million in 2001 due to the changes in pretax income. The Company's annual effective tax rate for 2001 was 65.2% and for 2000 was 24.8%. The increase in the effective tax rate for 2001 is primarily due to the impact of non-deductible items. The impact of the non-deductible items is greater in 2001 due to the smaller amount of pretax income.

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

Fiscal 2000 Compared to Fiscal 1999

Revenues. The Company's revenues increased $141.9 million, or 6.1% from $2,333.8 million to $2,475.7 million.

Revenues in the Asia-Pacific Region increased $255.4 million, or 33.2% from $769.4 million to $1,024.8 million. The Company's operations in the PRC, including Hong Kong, provided $725.4 million in revenue, an increase of $196.8 million, or 37.2% from $528.6 million. This increase continued to be driven by the strong demand in the PRC and the build-up of sales channels. The Company's operations in Taiwan provided $207.7 million in revenue, an increase of $20.3 million, or 10.8%, from $187.4 million. Demand in Taiwan increased due to the introduction of new high-end handsets. However, Taiwan's growth was impacted negatively in the fourth quarter of 2000 by political uncertainty in the country and concern about Taiwan's relationship with the PRC. Taiwan's fourth quarter 2000 revenues of $44.2 million were its lowest quarterly revenues since the first quarter of 1999 when revenues were $27.0 million. In The Philippines, revenues increased $33.5 million to $48.7 million due to carrier promotions and receipt by the Company in the fourth quarter of 1999 of certain distribution rights to Nokia products in The Philippines. The growth rate over 1999, however, decreased in the second half of 2000. Revenues in the second half of 2000 were $17.7 million reflecting the slowdown in the Philippine economy. Revenues in Singapore were $42.9 million in 2000 compared to $38.3 million in 1999.

The Latin American Region provided $636.4 million of revenues, compared to $717.3 million, a decrease of $80.9 million, or 11.3%. Revenues in Mexico increased $154.3 million to $383.3 million in 2000 due primarily to increased carrier business. Revenues for Brazil were down $153.2 million in 2000 to $40.6 million. In 1999, the recently completed privatization of the telecommunications industry was driving rapid growth in carrier sales in Brazil. In 2000, sales to the Company's major customer in Brazil were greatly reduced due to the increased availability of in-country manufactured product. In August 2000, the Company completed the divestiture of its 51% interest in its Brazil operations (see "International Operations"). Revenues from the Venezuela operations declined $40.4 million in 2000 to $36.6 million. The decline was a result of the effects of the torrential floods in late 1999, the positive impact on the first quarter of 1999 of a special carrier promotion, and market softness in 2000 caused by political and economic instability. In the third quarter 2000, the Company decided to exit its Venezuela operations and completed its sale of that operation in December 2000 (see "International Operations"). Revenues from the Company's operations in Miami decreased $75.1 million to $79.1 million in 2000 as increased product availability from in-country manufacturers in Latin America continued to reduce export sales from Miami. The Company began phasing out a major portion of its redistributor business in its Miami and North American operations in the second quarter 2000, due to the volatility of the redistributor business, the relatively lower margins, and higher credit risks. Also, supply shortages in the third and fourth quarters of 1999 significantly weakened the redistributor channel, reducing the number of financially viable redistributors and creating operating and financial difficulties for others. Revenues from the redistributor business

for Miami and North America were $57.4 million and $158.6 million in 2000 and 1999, respectively. Due to the reduction in the redistributor business and the decline in export sales, the Company restructured its Miami operation in 2001. Revenues in Colombia increased $32.1 million to $48.1 million primarily reflecting increased carrier activity business in the fourth quarter of 2000. Combined revenues from the operations in Argentina, Chile, and Peru increased from $47.1 million in 1999 to $48.6 million in 2000.

North America Region revenues were $499.2 million, up 32.4% from $377.1 million for the prior year. U.S. revenues continued to benefit from strong promotional activity by several customers, as well as the addition of new customers and expanded markets.

The Company's Europe Region recorded revenues of $315.4 million, a decrease of $154.6 million, or 32.9% from $470.0 million, primarily due to the Company's decision to curtail its U.K. international trading operations in April 2000 (see "International Operations"). Revenues from Sweden increased $6.7 million to $118.7 million in 2000. Revenues from operations in The Netherlands, which were acquired in the third quarter of 1999, were $30.7 million. The Company sold its operations in Poland in the third quarter of 2000.

Gross Profit. Gross profit decreased $81.9 million, or 42.3% from $193.4 million to $111.5 million. The decrease in gross profit can be attributed to a shift in geographic revenue mix, shortages of digital handsets in North America, and global industry price competition, including an oversupply of analog handsets in North America and an oversupply of handsets in the Asia-Pacific Region during part of 2000. The Company's commitment to defend market share in the face of intense global industry price competition, particularly in the Asia-Pacific Region, also negatively impacted the gross margin percentage. Based on 1999's handset shortages and industry forecasts of higher demand, manufacturers significantly increased production in 2000. However, worldwide handset sales, while significantly higher in 2000, were still below industry forecasts. This resulted in a surplus of product during parts of 2000 driving stronger-than-usual competition for market share, mainly in the Asia-Pacific Region and to a lesser extent in the Latin American Region. The decrease in gross profit is also partially due to $32.3 million in inventory obsolescence caused primarily by price declines during the second quarter and $3.2 million in third party theft and fraud losses related to the U.K. international trading operations, also in the second quarter.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $57.6 million, or 51.6% from $111.6 million to $169.2 million. This increase was primarily due to bad debt expense of $51.5 million, up from $10.4

million for 1999. This bad debt expense related to: (i) certain U.S.-based accounts receivable from Brazilian importers, the collectibility of which deteriorated significantly in the second quarter of 2000, and which were further affected by the Company's decision to divest its majority interest in its joint venture in Brazil; (ii) accounts receivable from redistributors, many of which were impacted by a supply shortage in 1999 and were also further affected by the phase out of a major portion of the redistributor business in the Company's Miami and North America operations; (iii) accounts receivable in the Asia-Pacific Region whose businesses have been adversely affected by competitive market conditions in Asia; and (iv) a receivable in the U.S. from a satellite handset customer. The remaining increase in selling, general and administrative expenses was primarily attributable to costs associated with

business expansion activities and professional expenses. Overall selling, general and administrative expenses as a percentage of revenues increased to 6.8% from 4.8%.

Impairment of Assets. In the third quarter of 2000, the Company decided to exit its Venezuela operations. In the third quarter of 2000 the Company recorded a $4.9 million non-cash impairment charge to reduce the carrying value of certain Venezuela assets, primarily goodwill, to their estimated fair value. In December 2000, the Company completed the sale of its Venezuela operations. In the fourth quarter of 2000, the Company recorded a non-cash goodwill impairment charge of $6.4 million related to the operations in Peru due to a major carrier customer's proposed changes to an existing contract that adversely changed the long-term prospects of the Peru operations. In the fourth quarter of 1999, based on the market conditions in Poland, the Company decided to sell its operations in Poland and completed the sale in the third quarter of 2000. The Company recorded an impairment charge of $5.5 million in 1999, including a $4.5 million writedown of goodwill to reduce the carrying value of the assets in Poland to their estimated fair value.

Restructuring Charge. The Company's results of operations include a pre-tax restructuring charge of $3.6 million in 1999 associated with the reorganization and consolidation of the management for the Company's Latin American and North American Regions as well as the centralization of management in the Asia-Pacific Region.

Equity in Income (Loss) of Affiliated Companies. Equity in income (loss) of affiliated companies decreased from income of $31.9 million in 1999 to a loss of $1.8 million in 2000. In 2000, the Company incurred losses of $1.8 million related to its 49% minority interest in CellStar Amtel.

In February 1999, the Company sold part of its equity investment in Topp to a wholly-owned subsidiary of Telefonos de Mexico S.A. de C.V. ("TelMex"). At the closing, the Company also sold a portion of its debt investment to certain other shareholders of Topp. As a result of these transactions, the Company recorded a pre-tax gain of $5.8 million. In September 1999, the Company sold its remaining debt and equity interest in Topp to the TelMex subsidiary for a pre-tax gain of $26.1 million.

Gain on Sale of Assets. In the third quarter of 2000, the Company recorded a pre-tax gain of $6.0 million, from the completion of the divestiture of its 51% ownership interest in its Brazil joint venture (see "International Operations"). During the third quarter of 2000, the Company also completed the sale of its Poland operations and recognized a pre-tax gain of $0.2 million. In 1999, the Company recorded a pre-tax gain of $8.8 million primarily associated with the sale of its prepaid operations in Venezuela and the sale of the Company's retail stores in the Dallas-Fort Worth and Kansas City areas.

Interest Expense. Interest expense increased from $19.0 million in 1999 to $19.1 million in 2000.

Other, Net. Other, net changed from an expense of $1.9 million to income of $0.9 million. This change was primarily due to (i) a $2.6 million foreign currency transaction loss realized in 1999 from the conversion of U.S. dollar denominated debt in Brazil into a Brazilian real denominated credit facility, (ii) losses due to the revaluations of foreign currency related to the Company's European operations in 2000, and (iii) offset by an increase in interest income.

Income Taxes. Income tax expense decreased from $23.4 million in 1999 to a benefit of $20.8 million in 2000 due to the losses incurred in 2000. The Company's effective tax rate decreased to 24.8% from 25.3%. The lower effective tax rate was attributable to changes in the geographic mix of income (loss)

before income taxes and an increased valuation allowance for capital losses and carry forwards related to international operations.

Critical Accounting Policies

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

Significant Estimates

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

In determining the adequacy of the allowance for doubtful accounts, management considers a number of factors, including the aging of the receivable portfolio, customer payment trends, financial condition of the customer, economic conditions in the customer's country, and industry conditions. In some years, the Company has experienced significant amounts of bad debt, including $51.5 million in 2000. In 2000, the decline in the redistributor market, the decision to exit the Brazil market, and the competitive market conditions significantly impacted bad debt expense. Actual amounts could differ significantly from management's estimates.

In determining the adequacy of the reserve for inventory obsolescence, management considers a number of factors, including the aging of the inventory, recent sales trends, industry market conditions, and economic conditions. In assessing the reserve, management also considers price protection credits or other incentives the Company expects to receive from the vendor. In some years, the Company has experienced significant amounts of inventory obsolescence, including $32.3 million in 2000. After a supply shortage in 1999, there was an oversupply of product resulting in intense price competition in 2000 which significantly impacted obsolescence. Actual amounts could differ significantly from management's estimates.

In assessing the realizability of deferred income tax assets, management considers whether it is more likely than not that the deferred income tax assets will be realized. The ultimate realization of deferred income tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred income tax assets are deductible, management determines if it is more likely than not that the Company will realize the benefits of these deductible differences. The amount of the deferred income tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carry-forward period are reduced.

The Company does not provide for U.S. Federal income taxes or tax benefits on the undistributed earnings and/or losses of its international subsidiaries because earnings are reinvested and, in the opinion of management, should continue to be reinvested indefinitely. At November 30, 2001, the Company had not provided U.S. Federal income taxes on earnings of international subsidiaries of approximately $186.5 million. On distribution of these earnings in the form of dividends or otherwise, the Company would be subject to both U.S. income taxes and certain withholding taxes in the various international jurisdictions. Determination of the related amount of unrecognized deferred U.S. income tax liability is not practicable because of the complexities associated with this hypothetical calculation.

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

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

Revenue Recognition

For the Company's wholesale business, revenue is recognized when the customer takes title and assumes risk of loss. If the customer takes title and assumes risk of loss upon shipment, revenue is recognized on the shipment date. If the customer takes title and assumes risk of loss upon delivery, revenue is recognized on the delivery date. In accordance with contractual agreements with wireless service providers, the Company receives an activation commission for obtaining subscribers for wireless services in connection with the Company's retail operations. The agreements contain various provisions for additional commissions ("residual commissions") based on subscriber usage. The agreements also provide for the reduction or elimination of activation commissions if subscribers deactivate service within stipulated periods. The Company recognizes revenue for

activation commissions on the wireless service providers' acceptance of subscriber contracts and residual commissions when earned and provides an allowance for estimated wireless service deactivations, which is reflected as a reduction of accounts receivable and revenues in the accompanying consolidated financial statements. The Company recognizes service fee revenue when the service is completed.

Vendor Credits

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

Liquidity and Capital Resources

The following table summarizes the Company's contractual obligations at November 30, 2001 (amounts in thousands):

		Payments Due By Period			
	Total	Less than One Year	One to Three Years	Four to Five Years	More than Five Years
Notes payable	$ 52,644	52,644	-	-	-
Long-term debt (A)	150,000	150,000	-	-	-
Operating leases	9,220	3,995	3,518	1,480	227
Total	$ 211,864	206,639	3,518	1,480	227

(A) See discussion of exchange offer for long-term debt below.

During the year ended November 30, 2001, the Company relied primarily on cash available at November 30, 2000, funds generated from operations and borrowings under its revolving credit facilities to fund working capital, capital expenditures and expansions.

At November 30, 2001, the Company's operations in China had two lines of credit, one for USD $12.5 million and the second for RMB (Chinese People's Currency) 220 million (approximately USD $26.6 million), bearing interest at 7.16%, and from 5.28% to 5.56%, respectively. The loans have maturity dates through September 2002. Both lines of credit are fully collateralized by U.S. dollar cash deposits. The cash deposits were made via intercompany loans from the operating entity in Hong Kong as a mechanism to secure repatriation of these funds. At November 30, 2001, the U.S. dollar equivalent of $39.1 million had been borrowed against the lines of credit in China. As a result of this method of funding operations in China, the consolidated balance sheet at November 30, 2001 reflects USD $41.8 million in cash that is restricted as collateral on these advances and a corresponding USD $39.1 million in notes payable. At November 30, 2001, the Company's China operations also had $5.8 million in promissory notes to a bank with maturity dates through January 2002 and bearing interest at 5%. These notes were subsequently renewed with maturities through May 2002. The Company expects to renew the borrowings under similar terms. At February 20, 2002 the Company had borrowings of $59.0 million in its China operations. In addition, the Company has notes payable in Taiwan totaling $7.8 million at November 30, 2001.

On October 15, 1997, the Company entered into a five year $135.0 million Multicurrency Revolving Credit Facility (the "Facility") with a syndicate of banks. On April 8, 1999, the amount of the Facility was reduced from $135.0 million to $115.0 million due to the release of a syndication member bank. On

August 2, 1999, the Company restructured its Facility to add additional flexibility for foreign working capital funding and capitalization.

At May 31, 2000, the Company would not have been in compliance with one of its covenants under the Facility. As of July 12, 2000, the Company had negotiated an amendment to the Facility following which the Company was in compliance with the covenant. The amount of the Facility was also reduced from $115.0 million to $100.0 million. At August 31, 2000, the Company was not in compliance with another of its covenants and subsequently received an additional amendment following which the Company was in compliance.

As of November 10, 2000, the Company had negotiated an amendment to the Facility which allowed the Company to remain in compliance by extending the date by which a compliance certificate was required to be delivered to its banks. The date for delivering the compliance certificate was extended again by an additional amendment as of December 20, 2000.

As of January 30, 2001, the Company had negotiated an amendment to the Facility to assist the Company in complying with certain covenants through March 2, 2001. The amount of the Facility was reduced from $100.0 million to $86.4 million.

On February 27, 2001, the Company and its banking syndicate negotiated and executed a Second Amended and Restated Credit Agreement which further reduced the amount of the Facility to $85.0 million on February 28, 2001, $74.0 million on July 31, 2001, $65.0 million on September 30, 2001, and $50.0 million on December 15, 2001. Such Second Amended and Restated Credit Agreement further (i) increased the applicable interest rate margin by 25 basis points, (ii) shortened the term of the Facility from June 1, 2002 to March 1, 2002, (iii) provided additional collateral for such Facility in the form of additional stock pledges and mortgages on real property, (iv) provided for dominion of funds by the banks for the Company's U.S. operations, (v) limited the borrowing base, and (vi) tightened restrictions on the Company's ability to fund its operations, particularly its non-U.S. operations.

Fundings under the Facility were limited by a borrowing base test, which was measured monthly. Borrowings under the Facility were made under London Interbank Offering Rate contracts, generally for 30-90 days, or at the bank's prime lending rate. Total interest charged on those borrowings included an applicable margin that was subject to certain increases based on the ratio of consolidated funded debt to consolidated cash flow determined at the end of each fiscal quarter. At November 30, 2000, the interest rate on the Facility borrowing under the LIBOR rate was 9.529% and the prime rate was 10.75%. The Facility was secured by the Company's accounts receivable, property, plant and equipment and all other real property. The Facility contained, among other provisions, covenants relating to the maintenance of minimum net worth and certain financial ratios, dividend payments, additional debt, mergers and acquisitions and dispositions of assets.

As of September 28, 2001, the Company had negotiated and finalized a new, five-year, $60.0 million Loan and Security Agreement ("the New Facility") with a bank and terminated the previously existing Facility. On October 12, 2001 the Company finalized an amendment to the New Facility increasing the commitment amount from $60.0 million to $85.0 million. The New Facility lowers the applicable interest rate margin by 25 basis points from its level at August 31, 2001 of 125 basis points, provides a more extensive borrowing base, more flexible financial covenants and greater flexibility in funding foreign operations.

Fundings under the New Facility are limited by a borrowing base test, which is measured weekly. Interest on borrowings under the New Facility is at the London Interbank Offered Rate or at the bank's prime lending rate, plus an applicable margin. The New Facility is also secured by a pledge of 100% of the outstanding stock of all U.S. subsidiaries and 65% of the outstanding stock of all first tier foreign subsidiaries. The New Facility is further secured by the Company's domestic accounts receivable, inventory, property, plant and equipment and all other domestic real property and intangible assets. The New Facility contains, among other provisions, covenants relating to the maintenance of minimum net worth and certain financial ratios, exchanging, refinancing or extending of the Company's convertible notes, dividend payments, additional debt, mergers and acquisitions and disposition of assets. At November 30, 2001, the Company had no borrowings under the New Facility.

At November 30, 2001 and 2000, long-term debt consisted of $150.0 million of the Company's 5% Convertible Subordinated Notes Due October 15, 2002 (the "Subordinated Notes"), which are convertible into 1.1 million shares of common stock at $138.34 per share (adjusted for the effect of the one-for-five reverse stock split effective on February 22, 2002) at any time prior to maturity.

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

On February 20, 2002, the Company completed its Exchange Offer for its Subordinated Notes. Holders owning $128.6 million of Subordinated Notes exchanged them for $47.2 million in cash, $12.4 million of Senior Notes and $39.1 million of Senior Convertible Notes. Upon completion of the Exchange Offer, $21.4 million of the Subordinated Notes were not exchanged and are now subordinate to the Company's New Facility, the Senior Notes and the Senior Convertible Notes.

The Senior Convertible Notes are mandatorily convertible into the Company's common stock on November 30, 2002, and bear interest at 5%, payable semi-annually in arrears, in either cash or stock, at the Company's option, on August 15, 2002, and November 30, 2002. In the event of bankruptcy the Senior Convertible Note holders are entitled to cash equal to the face value of the Senior Convertible Note plus accrued interest. The Senior Convertible Notes are convertible into the Company's common stock at a conversion price of $5.00 per share (adjusted for the effect of the one-for-five reverse stock split effective on February 22, 2002) and may be converted at any time prior to maturity at the option of the holders. The 39.1 million of Senior Convertible Notes are convertible into 7.8 million shares of common stock and will be considered as dilutive securities in calculating earnings per share beginning in the first quarter of 2002.

The Senior Notes mature January 15, 2007, and bear interest at 12%, payable in cash in arrears semi-annually on February 15 and August 15, commencing August 15, 2002. The Senior Notes contain certain covenants that restrict the Company's ability to incur additional indebtedness; make investments, loans and advances; declare dividends or certain other distributions; create liens; enter into sale-leaseback transactions; consolidate; merge; sell assets and enter into transactions with affiliates.

Cash, cash equivalents, and restricted cash at November 30, 2001 were $89.3 million, compared to $119.6 million at November 30, 2000, primarily reflecting the use of the cash to reduce the previously-existing credit facility and accounts payable.

Compared to November 30, 2000, accounts receivable decreased from $346.0 million to $216.0 million at November 30, 2001. Inventories declined to $218.9 million at November 30, 2001, from $265.6 million at November 30, 2000. Management has worked aggressively to reduce accounts receivable and inventory levels through tightening of credit policies, aggressive collection efforts, and better purchasing and inventory management. Accounts payable declined to $229.0 million at November 30, 2001 compared to $363.8 million at November 30, 2000.

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

International Operations

The Company's foreign operations are subject to various political and economic risks including, but not limited to, the following: political instability; economic instability; currency controls; currency devaluations; exchange rate fluctuations; potentially unstable channels of distribution; increased credit risks; export control laws that might limit the markets the Company can enter; inflation; changes in laws related to foreign ownership of businesses abroad; foreign tax laws; trade disputes among nations; changes in cost of capital; changes in import/export regulations, including enforcement policies; "gray market" resales; tariffs and freight rates. Such risks and other factors beyond the control of the Company in any nation where the Company conducts business could have a material adverse effect on the Company.

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

In 2000 and 2001, the Company incurred losses of $1.8 million and $0.7 million, respectively related to its minority interest in CellStar Amtel. As a result of the continuing deterioration in the Malaysia market, the Company intends to limit further exposure by divesting its 49% ownership in CellStar Amtel. The carrying value of the investment at November 30, 2001 was zero. The Company will be required to recognize future losses, if any, of CellStar Amtel up to the amount of debt and payables of CellStar Amtel guaranteed by the Company ($0.8 million at November 30, 2001). The Company currently does not anticipate any further losses to be recognized.

In December 2001, the Argentine government removed the fixed exchange rate maintained between the Argentine peso and the U.S. dollar. Based upon the Company's current level of operations in Argentina, the Company does not expect a significant impact as a result of Argentine peso devaluation.

During the fourth quarter of 2001, the Company recorded a $3.0 million charge for a value-added tax prepaid asset in the Company's Mexico operations for which the recoverability is uncertain.

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

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

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

In the third quarter of 2000, CellStar completed the sale of its operations in Poland and recognized a gain of $0.2 million.

In the fourth quarter of 2000, the Company recorded a non-cash goodwill impairment charge of $6.4 million related to the operations in Peru due to a major carrier customer's proposed changes to an existing contract that adversely changed the long-term prospects of the Peru operations.

Impact of Inflation

Historically, inflation has not had a significant impact on CellStar's overall operating results. However, the effects of inflation in volatile economies in foreign markets could have a material adverse impact on the Company.

Seasonality and Cyclicality

The Company's sales are influenced by a number of seasonal factors in the different countries and markets in which it operates, including the purchasing patterns of customers, 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 its principal markets could have a materially adverse effect on its operating results.

Accounting Pronouncements Not Yet Adopted

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

In June 2001, the FASB issued Statement No. 142, "Goodwill and Other Intangible Assets." Statement No. 142 addresses the initial recognition and measurement of intangible assets acquired (other than those acquired in a business combination, which is addressed by Statement No. 141) and the subsequent accounting for goodwill and other intangible assets after initial recognition. Statement No. 142 eliminates the amortization of goodwill and intangible assets with indefinite lives. Intangible assets with lives restricted by contractual, legal, or other means will continue to be amortized over their useful lives. Adoption of this statement will also require the Company to reassess the useful lives of all intangible assets acquired, and make any necessary amortization period adjustments. Goodwill and other intangible assets not subject to amortization will be tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Statement No.142 requires a two-step process for testing goodwill for impairment. First, the fair value of each reporting unit will be compared to its carrying value to determine whether an indication of impairment exists. If an impairment is indicated, then the fair value of the reporting unit's goodwill will be determined by allocating the unit's fair value to its assets and liabilities (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination. The amount of impairment for goodwill and other intangible assets will be measured as the excess of its carrying value over its fair value. Goodwill and intangible assets acquired after June 30, 2001 will be immediately subject to the impairment provisions of this statement. For goodwill and other intangible assets acquired on or before June 30, 2001, the Company is required to adopt Statement No. 142 no later than the beginning of fiscal 2003, with early application permitted during the first quarter of fiscal 2002. CellStar has not yet determined the impact of the adoption of this statement will have on its consolidated results of operations or financial position.

In June 2001, the FASB issued Statement No. 143, Accounting for Asset Retirement Obligations, which addresses financial accounting and reporting obligations associated with the retirement of tangible long-lived assets and the associated asset

retirement costs. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) normal use of the asset. Statement No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset. The liability is accrued at the end of each period through charges to operating expense. If the obligation is settled for other than the carrying amount of the liability, the Company will recognize a gain or loss on settlement. The Company is required to adopt the provisions of Statement No. 143 no later than the beginning of fiscal year 2003, with early adoption permitted. The Company does not expect the adoption of this statement to have a material effect on its consolidated results of operations or financial position.

In October 2001, the FASB issued Statement No. 144, Accounting for the Impairment or Disposal of Long- Lived Assets, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While Statement No. 144 supersedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, it retains many of the fundamental provisions of that Statement. Statement No. 144 becomes effective for fiscal years beginning after December 15, 2001, with early applications encouraged. The Company does not expect the adoption of this statement to have a material effect on its consolidated results of operations or financial position.

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

Foreign Exchange Risk

For the years ended November 30, 2001 and 2000, the Company recorded net foreign currency losses of $1.0 million and $5.8 million, respectively in costs of goods sold. For the years ended November 30, 2001 and 2000, the Company recorded in other income (expense), net foreign currency gains and (losses) of $1.3 million and $(4.2) million, respectively. The gain in 2001 and the loss in 2000, were primarily due to the revaluations of foreign currency related to the European operations.

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

The Company does have foreign exchange exposure on the intercompany advances

from the Hong Kong entity to the China entity as the funds have been effectively converted into RMB (Chinese People's Currency).

In December 2001, the Argentine government removed the fixed exchange rate maintained between the Argentine peso and the U.S. dollar. Based upon the Company's current level of operations in Argentina, the Company does not expect a significant impact as a result of Argentine peso devaluation.

Derivative Financial Instruments

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

At November 30, 2001, the Company had no forward contracts and does not hold any other derivative instruments.

Interest Rate Risk

The interest rate of the Company's previous Facility and the New Facility is an index rate at the time of borrowing plus an applicable margin on certain borrowings. The interest rate is based on either the agent bank's prime lending rate or the London

Interbank Offered Rate. During the year ended November 30, 2001, the interest rates of borrowings under the revolving credit facilities ranged from 6.0% to 10.0%. A one percent change in variable interest rates will not have a material impact on the Company.

The Company manages its borrowings under the revolving credit facility each business day to minimize interest expenses. The Company has short-terms borrowings in China as discussed in Liquidity and Capital Resources. The notes payable in Taiwan bear interest at 5.98% and 7.2%, respectively. The Subordinated Notes have a fixed interest rate of 5.0% and are due in October 2002. The Senior Convertible Notes issued in February 2002 bear interest at 5.0% and mature November 30, 2002. The Senior Notes issued in February 2002 bear interest at 12.0% and mature January 15, 2007.

Item 8. Consolidated Financial Statements and Supplementary Data

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

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

Not Applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information required by this item regarding Directors of the Company is set forth in the Proxy Statement (the "Proxy Statement") to be delivered to the Company's stockholders in connection with the Company's Annual Meeting of Stockholders to be held during the second quarter of 2002 under the heading "Election of Directors," which information is incorporated herein by reference. The information required by this item regarding executive officers of the Company is set forth under the heading "Executive Officers of the Registrant" in Part I of this Form 10-K, which information is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this item is set forth in the Proxy Statement under the heading "Executive Compensation," which information is incorporated herein by reference. Information contained in the Proxy Statement under the captions "Executive Compensation--Report of the Compensation Committee of the Board of Directors on Executive Compensation" and "Comparative Performance Graph" is not incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this item is set forth in the Proxy Statement under the heading "Security Ownership of Certain Beneficial Owners and Management," which information is incorporated herein by reference.

Item 13. Certain Relationships and Relation Transactions

The information required by this item is set forth in the Proxy Statement under the caption "Certain Transactions," which information in incorporated herein by reference.

PART IV.

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

1. Consolidated Financial Statements

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

2. Financial Statement Schedules

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

3. Exhibits

Number	Description
3.1	Amended and Restated Certificate of Incorporation of CellStar Corporation (the "Certificate of Incorporation"). (1)
3.2	Certificate of Amendment to Certificate of Incorporation. (12)
3.3	Amended and Restated Bylaws of CellStar Corporation. (17)
4.1	The Certificate of Incorporation, Certificate of Amendment to Certificate of Incorporation and Amended and Restated Bylaws of CellStar Corporation filed as Exhibits 3.1, 3.2 and 3.3 are incorporated into this item by reference. (1)(12)(17)
4.2	Specimen Common Stock Certificate of CellStar Corporation. (2)
4.3	Rights Agreement, dated as of December 30, 1996, by and between CellStar Corporation and Chase Mellon Shareholder Services, L.L.C., as Rights Agent ("Rights Agreement"). (3)
4.4	First Amendment to Rights Agreement, dated as of June 18, 1997. (4)
4.5	Form of Certificate of Designation, Preferences and Rights of Series A Preferred Stock of CellStar Corporation ("Certificate of Designation"). (3)
4.6	Form of Rights Certificate. (3)
4.7	Certificate of Correction of Certificate of Designation. (4)
4.8	Indenture, dated as of October 14, 1997, by and between CellStar Corporation and The Bank of New York, as Trustee. (10)
4.9	12% Senior Subordinated Notes Indenture, dated as of February 20, 2002, by and between CellStar Corporation and The Bank of New York, as Trustee. (19)
4.10	5% Senior Subordinated Convertible Notes Indenture, dated as of February 20, 2002, by and between CellStar Corporation and The Bank of New York, as Trustee. (19)
10.1	Employment Agreement, effective as of December 1, 1994, by and between CellStar Corporation and Alan H. Goldfield. (2)(20)
10.2	Employment Agreement, effective January 22, 1998, by and between CellStar (Asia) Corporation Limited, CellStar Corporation and Hong An- Hsien. (11)(20)
10.3	Employment Agreement, effective as of November 12, 1999, by and between CellStar, Ltd., CellStar Corporation and Dale H. Allardyce. (13)(20)
10.5	Employment Agreement, effective as of January 21, 2000, by and between CellStar Ltd., CellStar Corporation and Elaine Flud Rodriguez. (13)(20)

Number	Description
10.6	Registration Rights Agreement by and between the Company and Audiovox Corporation. (7)
10.7	Registration Rights Agreement by and between the Company and Motorola, Inc., dated as of July 20, 1995. (1)
10.8	CellStar Corporation 1994 Amended and Restated Director Nonqualified Stock Option Plan. (8)
10.9	Registration Rights Agreement, dated as of June 2, 1995, between Hong An- Hsien and CellStar Corporation. (11)(20)
10.10	CellStar Corporation 1993 Amended and Restated Long-Term Incentive Plan, amended and effective as of January 21, 2000. (13)(20)
10.11	Distribution Agreement, dated as of April 15, 2000, by and between Motorola, Inc. by and through its Personal Communications Sector Latin America Group and CellStar, Ltd. (15)(24)
10.12	Second Amendment to Amended and Restated Credit Agreement, dated as of July 12, 2000, among CellStar Corporation and each of the banks or other lending institutions which is or may from time to time become a signatory thereof. (14)
10.13	Third Amendment to Amended and Restated Credit Agreement dated as of November 10, 2000, among CellStar Corporation, each of the banks or other lending institutions which is or may from time to time become a signatory to the Amended and Restated Credit Agreement, Bank One, N.A., as Syndication Agent, National City Bank, as Documentation Agent and The Chase Manhattan Bank, as the Administrative Agent and Alternate Currency Agent. (15)
10.14	Fourth Amendment to Amended and Restated Credit Agreement dated as of December 20, 2000, among CellStar Corporation, each of the banks or other lending institutions which is or may from time to time become a signatory to the Amended and Restated Credit Agreement, Bank One, N.A., as Syndication Agent, National City Bank, as Documentation Agent and The Chase Manhattan Bank as the Administrative Agent and Alternate Currency Agent. (15)
10.15	Fifth Amendment to Amended and Restated Credit Agreement dated as of January 30, 2001, among CellStar Corporation, each of the banks or other lending institutions which is or may from time to time become a signatory to the Amended and Restated Credit Agreement, Bank One, N.A., as Syndication Agent, National City Bank, as Documentation Agent and The Chase Manhattan Bank as the Administrative Agent and Alternate Currency Agent. (15)
10.16	Wireless Products Agreement by and between Motorola, Inc., by and through its Cellular Subscriber Sector, and CellStar, Ltd., effective November 15, 2000. (15)(21)
10.17	Aircraft and Asset Purchase Agreement, dated as of January 30, 2001, by and between A & S Air Service, Inc. and Alan H. Goldfield. (15)

Number	Description
10.18	Second Amended and Restated Credit Agreement, dated February 27, 2001, by and among CellStar Corporation, the Financial Institutions Signatory Thereto, and The Chase Manhattan Bank, as Agent for such Financial Institutions. (16)
10.19	Form of Revolving Credit Promissory note. (16)
10.20	Amendment, Ratification and Confirmation, dated as of February 27, 2001, by and between CellStar Corporation and The Chase Manhattan Bank, as Agent for Financial Institutions Signatory to the Second Amended and Restated Credit Agreement. (16)
10.21	Deed of Trust, dated February 27, 2001, granted by CellStar, Ltd. To David L. Mendez, Trustee. (16)
10.22	First Amendment to Second Amended and Restated Credit Agreement and Post Closing Matters Agreement, dated as of March 15, 2001, by and among CellStar Corporation and the Financial Institutions Signatory Thereto. (16)
10.23	Second Amendment to Second Amended and Restated Credit Agreement, dated as of July 3, 2001, by and among CellStar Corporation, the Financial Institutions Signatory Thereto, and The Chase Manhattan Bank, as Agent for such Financial Institutions. (17)
10.24	Separation Agreement and Release, dated as of July 5, 2001, by and among CellStar Corporation and Alan H. Goldfield. (17)(20)
10.25	Consulting Agreement, dated as of July 5, 2001, by and among CellStar Corporation and Alan H. Goldfield. (17)(20)
10.26	Employment Agreement, dated as of July 5, 2001, by and among CellStar Corporation and Terry S. Parker. (17)(20)
10.27	Loan and Security Agreement, dated as of September 28, 2001, by and among CellStar Corporation and Each Of Its Subsidiaries That Are Signatories Thereto, as Borrowers, The Lenders That Are Signatories Thereto, as the Lenders, and Foothill Capital Corporation, as the Arranger and Administrative Agent. (18)
10.28	First Amendment To Loan Agreement, dated as of October 12, 2001, by and among CellStar Corporation and Each Of Its Subsidiaries That Are Signatories Thereto, as Borrowers, The Lenders That Are Signatories Thereto, as the Lenders, and Foothill Capital Corporation, as the Arranger and Administrative Agent. (18)
10.29	Second Amendment to Loan Agreement, dated as of February 22, 2002, by and among CellStar Corporation and Each Of Its Subsidiaries That Are Signatories Thereto, as Borrowers, The Lenders That Are Signatories Thereto, as the Lenders, and Foothill Capital Corporation, as the Arranger and Administrative Agent. (19)
10.30	Exhibit A to Consulting Agreement, dated as of July 5, 2001, by and

among CellStar Corporation and Alan H. Goldfield. (18)(20)

21.1 Subsidiaries of the Company. (19)

23.1 Consent of KPMG LLP. (19)

99.1 Shareholders Agreement by Alan H. Goldfield to Motorola, Inc., dated as of July 20, 1995. (1)

(1) Previously filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended August 31, 1995, and incorporated herein by reference.

(2) Previously filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1995, and incorporated herein by reference.

(3) Previously filed as an exhibit to the Company's Registration Statement on Form 8-A (File No. 000-22972), filed January 3, 1997, and incorporated herein by reference.

(4) Previously filed as an exhibit to the Company's Registration Statement on Form 8-A/A, Amendment No. 1 (File No. 000-22972), filed June 30, 1997, and incorporated herein by reference.

(5) Previously filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended August 31, 1997, and incorporated herein by reference.

(6) Previously filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1994, and incorporated herein by reference.

(7) Previously filed as an exhibit to the Company's Registration Statement No. 33-70262 on Form S-1 and incorporated herein by reference.

(8) Previously filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended February 28, 1995, and incorporated herein by reference.

(9) Previously filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 1997 and incorporated herein by reference.

(10) Previously filed as an exhibit to the Company's Current Report on Form 8-K dated October 8, 1997, filed October 24, 1997, and incorporated herein by reference.

(11) Previously filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1997, and incorporated herein by reference.

(12) Previously filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 1998, and incorporated herein by reference.

(13) Previously filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1999 and incorporated herein by

reference.

(14) Previously filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2000, and incorporated herein by reference.

(15) Previously filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2000, filed on February 28, 2001, and incorporated herein by reference.

(16) Previously filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended February 28, 2001, and incorporated herein by reference.

(17) Previously filed as an exhibit to the Company's Quarterly Report on Form 10-Q/A for the quarter ended May 31, 2001, and incorporated herein by reference.

(18) Previously filed as an exhibit to the Company's Quarterly Report on Form 10-Q/A for the quarter ended August 31, 2001, and incorporated herein by reference.

(19) Filed herewith.

(20) The exhibit is a management contract or compensatory plan or agreement.

(21) Certain provisions of this exhibit are subject to a request for confidential treatment filed with the Securities and Exchange Commission.

4. Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CELLSTAR CORPORATION

By /s/ Terry S. Parker

Terry S. Parker
Chief Executive Officer

Date: February 27, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By /s/ Terry S Parker Date: February 27, 2002

Terry S. Parker
Chief Executive Officer and Director
(Principal Executive Officer)

By /s/ James L. Johnson Date: February 27, 2002

James L. Johnson
Chairman of the Board

By /s/ Dale H. Allardyce Date: February 27, 2002

Dale H. Allardyce
President and Chief Operating Officer

By /s/ Robert A. Kaiser Date: February 27, 2002

Robert A. Kaiser
Senior Vice President, Chief Financial Officer
and Treasurer
(Principal Financial Officer)

By /s/ Raymond L. Durham Date: February 27, 2002

Raymond L. Durham
Vice President, Corporate Controller
(Principal Accounting Officer)

By /s/ J. L. Jackson Date: February 27, 2002

J. L. Jackson
Director

By /s/ Dale V. Kesler Date: February 27, 2002

Dale V. Kesler
Director

By /s/ Jere W. Thompson Date: February 27, 2002

Jere W. Thompson
Director

CELLSTAR CORPORATION AND SUBSIDIARIES

Index to Consolidated Financial Statements

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Consolidated Statements of Cash Flows for the years ended
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November 30, 2001, 2000 and 1999 S-1

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders CellStar Corporation:

We have audited the consolidated financial statements of CellStar Corporation and subsidiaries as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CellStar Corporation and subsidiaries as of November 30, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended November 30, 2001, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG LLP

Dallas, Texas
January 11, 2002,
except as to note 22 which
is as of February 22, 2002

CELLSTAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

November 30, 2001 and 2000
(Amounts in thousands, except share data)

	2001	20
ASSETS		
Current assets:		
Cash and cash equivalents	$ 47,474	77
Restricted cash	41,820	42
Accounts receivable (less allowance for doubtful accounts of $57,359 and $75,810, respectively)	216,002	345
Inventories	218,927	265
Deferred income tax assets	35,915	30
Prepaid expenses	18,614	25
Total current assets	578,752	787
Property and equipment, net	19,340	22
Goodwill (less accumulated amortization of $7,423 and $17,408 respectively)	22,060	23
Deferred income tax assets	18,102	16
Other assests	7,816	9
	$ 646,070	858
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ 52,644	127
Current portion of long-term debt	150,000	
Account payable	228,958	363
Accrued expenses	21,804	22
Income taxes payable	4,767	2
Deferred income tax liabilities	3,687	6
Total current liabilities	461,860	523
Long-term debt	-	150
Total liabilities	461,860	673
Stockholders' equity:		
Preferred stock, $.01 par value, 5,000,000 shares authorized; none issued	-	
Common stock, $.01 par value, 200,000,000 shares authorized; 12,028,425 shares issued and outstanding	120	
Additional paid-in capital	82,443	81
Accumulated other comprehensive loss - foreign currency translation adjustments	(13,447)	(10
Retained earnings	115,094	114
Total stockholders' equity	184,210	185
	$ 646,070	858

See accompanying notes to consolidated financial statements.

CELLSTAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended November 30, 2001, 2000, and 1999
(In thousands, except per share data)

	2001	2000	1999
Revenues	$2,433,803	2,475,682	2,333,805
Cost of sales	2,297,977	2,364,197	2,140,375
Gross profit	135,826	111,485	193,430
Selling, general and administrative expenses	113,785	169,232	111,613
Impairment of assets	-	12,339	5,480
Separation agreement	5,680	-	-
Restructuring charge (credit)	750	(157)	3,639
Operating income (loss)	15,611	(69,929)	72,698
Other income (expense):			
Interest expense	(15,383)	(19,113)	(19,027)
Equity in income (loss) of affiliated companies, net	(858)	(1,805)	31,933
Gain on sale of assets	933	6,200	8,774
Impairment of investment	(2,215)	-	-
Other, net	5,288	932	(1,876)
Total other income (expense)	(12,235)	(13,786)	19,804
Income (loss) before income taxes and extraordinary loss	3,376	(83,715)	92,502
Provision (benefit) for income taxes	2,200	(20,756)	23,415
Income (loss) before extraordinary loss	1,176	(62,959)	69,087
Extraordinary loss on early extinguishment of debt, net of tax	(626)	-	-
Net income (loss)	$ 550	(62,959)	69,087
Net income (loss) per share:			
Basic:			
Income (loss) before extraordinary loss	$ 0.10	(5.24)	5.78
Extraordinary loss on early extinguishment of debt, net of tax	(0.05)	-	-
Net income (loss)	$ 0.05	(5.24)	5.78
Diluted:			
Income (loss) before extraordinary loss	$ 0.10	(5.24)	5.61
Extraordinary loss on early extinguishment of debt, net of tax	(0.05)	-	-
Net income (loss)	$ 0.05	(5.24)	5.61

See accompanying notes to consolidated financial statements.

CELLSTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
Years ended November 30, 2001, 2000, and 1999
(In thousands)

	Common Stock Shares	Common Stock Amount	Additional paid-in capital	Common stock warrant	Acc o comp
Balance at November 30, 1998	11,792	$ 118	77,434	4	
Comprehensive income:					
Net income	-	-	-	-	
Foreign currency translation adjustment	-	-	-	-	
Total comprehensive income					
Common stock issued under stock option plans	107	1	3,973	-	
Exercise of common stock warrant	112	1	3	(4)	
Balance at November 30, 1999	12,011	120	81,410	-	
Comprehensive loss:					
Net loss	-	-	-	-	
Foreign currency translation adjustment	-	-	-	-	
Total comprehensive loss					
Common stock issued under stock option plans	17	-	370	-	
Balance at November 30, 2000	12,028	120	81,780	-	(
Comprehensive income (loss):					
Net income	-	-	-	-	
Foreign currency translation adjustment	-	-	-	-	
Total comprehensive loss					
Stock option compensation expense	-	-	663	-	
Balance at November 30, 2001	12,028	$ 120	82,443	-	(

See accompanying notes to consolidated financial statements.

CELLSTAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended November 30, 2001, 2000, and 1999

(In thousands)

	2001	2000	1999
Cash flows from operating activities:			
Net income (loss)	$ 550	(62,959)	69,087
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities			
Provision for doubtful accounts	6,684	51,636	11,643
Provision for inventory obsolesence	10,210	32,255	23,012
Depreciation, amortization, and impairment of assets	11,888	23,571	16,911
Gain on sale of assets	(933)	(6,200)	(8,774)
Equity in loss (income) of affiliated companies, net	858	1,805	(31,933)
Deferred income taxes	(9,553)	(34,446)	8,950
Stock option compensation expense	663	-	-
Impairment of investment	2,215	-	-
Changes in certain operating assets and liabilities:			
Accounts receivable	118,282	(101,243)	29,751
Inventories	35,278	(119,867)	61,232
Prepaid expenses	5,784	2,705	(15,201)
Other assets	(141)	(648)	(2,327)
Accounts payable	(130,169)	168,224	(99,349)
Accrued expenses	(207)	1,474	(16,070)
Income taxes payable	1,819	(5,698)	882
Net cash provided by (used in) operating activities	53,228	(49,391)	47,814
Cash flows from investing activities:			
Purchases of property and equipment	(5,558)	(5,461)	(8,499)
Acquisitions of businesses, net of cash acquired	(320)	(4,241)	(2,301)
Proceeds from sale of assets	2,237	377	41,778
Purchase of investment	-	(4,144)	-
Investment in joint venture	(735)	-	-
Change in restricted cash	802	(17,622)	(25,000)
Net cash provided by (used in) investing activities	(3,574)	(31,091)	5,978
Cash flows from financing activities:			
Borrowings on notes payable	311,318	404,637	509,736
Payments on notes payable	(385,802)	(318,000)	(544,150)
Additions to deferred loan costs	(4,719)	-	-
Net proceeds from issuance of common stock	-	370	3,137
Net cash provided by (used in) financing activities	(79,203)	87,007	(31,277)
Net increase (decrease) in cash and cash equivalents	(29,549)	6,525	22,515
Cash and cash equivalents at beginning of the year	77,023	70,498	47,983
Cash and cash equivalents at end of year	$ 47,474	77,023	70,498

See accompanying notes to consolidated financial statements.

CELLSTAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

(a) Basis for Presentation

CellStar Corporation and subsidiaries (the "Company") is a leading global provider of distribution and value-added logistics services to the wireless communications industry, with operations in Asia-Pacific, North America, Latin America, and Europe. 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. In many of its markets, the Company provides activation services that generate new subscribers for its wireless carrier customers.

All significant intercompany balances and transactions have been eliminated in consolidation.

Certain prior year financial amounts have been reclassified to conform to the current year presentation.

(b) Use of Estimates

Management of the Company has made a number of estimates and assumptions related to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities in preparation of these consolidated financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

(c) Inventories

Inventories are stated at the lower of cost (primarily on a moving average basis) or market and are comprised of finished goods.

(d) Property and Equipment

Property and equipment are recorded at cost. Depreciation of equipment is provided over the estimated useful lives of the respective assets, which range from three to thirty years, on a straight-line basis. Leasehold improvements are amortized over the shorter of their useful life or the related lease term. Major renewals are capitalized, while maintenance, repairs and minor renewals are expensed as incurred.

(e) Goodwill

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

(f) Impairment of Long-Lived Assets

Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by

the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(g) Equity Investments in Affiliated Companies

The Company accounts for its investments in common stock of affiliated companies using the equity method or the modified equity method, if required. The investments are included in other assets in the accompanying consolidated balance sheets.

(h) Revenue Recognition

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

The Company adopted the provisions of SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements", (SAB No. 101) in fiscal year 2001. The adoption of SAB No. 101 had no material impact on the Company's revenue recognition practices.

(i) Foreign Currency

Assets and liabilities of the Company's foreign subsidiaries have been translated at the rate of exchange at the end of each period. Revenues and expenses have been translated at the weighted average rate of exchange in effect during the respective period. Gains and losses resulting from translation are accumulated as other comprehensive loss in stockholders' equity, except for subsidiaries located in countries whose economies are considered highly inflationary. In such cases, translation adjustments, along with foreign currency gains and losses related to intercompany transactions at the Company's international finance subsidiary, are included in other income (expense) in the accompanying consolidated statements of operations. Net foreign currency transaction gains (losses) for the years ended November 30, 2001, 2000 and 1999 were ($0.3) million, ($10.0) million and $(3.4) million, respectively. The currency exchange rates of the Latin American and Asia Pacific countries in which the Company conducts operations have historically been volatile. The Company manages the risk of foreign currency devaluation by attempting to increase prices of products sold at or above the anticipated rate of local currency devaluation relative to the U.S. dollar, by indexing certain of its receivables to exchange rates in effect at the time of their payment and by entering into non-deliverable foreign currency forward contracts in certain instances.

(j) Derivative Financial Instruments

The Company uses various derivative financial instruments as part of an overall strategy to manage the Company's exposure to market risk associated with interest rate and foreign currency exchange rate fluctuations. The Company periodically uses foreign currency forward contracts to manage the foreign currency exchange rate risks associated with international operations. The Company evaluates the use of interest rate swaps and cap agreements to manage its interest risk on debt instruments, including the reset of interest rates on variable rate debt. The Company does not hold or issue derivative financial instruments for trading purposes.

The Company currently has no material derivative instruments that qualify as a hedge as defined by Financial Accounting Standards Board Statement ("Statement") No. 133, Accounting for Derivative Instruments, and Statement No. 138, Accounting for Derivative Instruments and Certain Hedging Activities. Accordingly, all changes in fair value of derivative instruments are recognized in the statements of operations.

The Company used foreign currency non-deliverable forward ("NDF") contracts to manage certain foreign exchange risks in conjunction with transactions with E.A. Electronicos e Componentes Ltda. (see note 2(b)). These contracts did not qualify as hedges against financial statement exposure. Gains or losses on these contracts represent the difference between the forward rate available on the underlying currency against the U.S. dollar for the remaining maturity of the contracts as of the balance sheet date and the contracted forward rate and are included in selling, general and administrative expenses in the consolidated statements of operations.

(k) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred income tax assets and liabilities

are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(l) Net Income (Loss) Per Share

Basic net income (loss) per common share is based on the weighted average number of common shares outstanding for the relevant period. Diluted net income (loss) per common share is based on the weighted average number of common shares outstanding plus the dilutive effect of potentially issuable common shares pursuant to stock options, warrants, and convertible debentures.

A reconciliation of the numerators and denominators of the basic and diluted net income (loss) per share computations for the years ended November 30, 2001, 2000, and 1999, follows (in thousands, except per share data):

	2001	2000	1999
Basic:			
Income (loss) before extraordinary loss	$ 1,176	(62,959)	69,087
Extraordinary loss on early extinguishment of debt, net of tax	(626)	-	-
Net income (loss)	$ 550	(62,959)	69,087
Weighted average number of shares outstanding	12,028	12,026	11,952
Income (loss) per share before extraordinary loss	$ 0.10	$ (5.24)	$ 5.78
Extraordinary loss per share on early extinguishment of debt net of tax	(0.05)	-	-
Net income (loss), per share	$ 0.05	$ (5.24)	$ 5.78
Diluted:			
Income (loss) before extraordinary loss	$ 1,176	(62,959)	69,087
Extraordinary loss on early extinguishment of debt, net of tax	(626)	-	-
Net income (loss)	550	(62,959)	69,087
Interest on convertible notes, net of tax effect	-	-	4,500
Adjusted net income (loss)	$ 550	(62,959)	73,587
Weighted average number of shares outstanding	12,028	12,026	11,952
Effect of dilutive securities:			
Stock options and warrant	1	-	82
Convertible notes	-	-	1,084
Weighted average number of share outstanding including effect of dilutive securities	12,029	12,026	13,118
Income (loss) per share before extraordinary loss	$ 0.10	(5.24)	5.61
Extraordinary loss per share on early extinguishment of debt net of tax	(0.05)	-	-
Net income (loss)	$ 0.05	(5.24)	5.61

Outstanding options to purchase 1.3 million, 0.9 million and 0.5 million shares of common stock at November 30, 2001, 2000 and 1999, respectively, were not included in the computation of diluted earnings per share because their inclusion would have been anti-dilutive.

Diluted weighted average shares outstanding at November 30, 2001 and 2000 do not include 1.1 million common equivalent shares issuable for the convertible notes, as their effect would be anti-dilutive (see Note 6).

(m) Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income (loss) and foreign currency translation adjustments and is presented in the consolidated statements of

stockholders' equity and comprehensive income (loss). The Company does not tax effect its foreign currency translation adjustments since it considers the unremitted earnings of its foreign subsidiaries to be indefinitely reinvested.

(n) Consolidated Statements of Cash Flow Information

For purposes of the consolidated statements of cash flows, the Company considers all highly-liquid investments with an original maturity of 90 days or less to be cash equivalents. The Company paid approximately $16.8 million, $17.9 million and $19.4 million of interest for the years ended November 30, 2001, 2000 and 1999, respectively. The Company paid approximately $4.8 million, $14.5 million and $13.6 million of income taxes for the years ended November 30, 2001, 2000 and 1999, respectively.

(o) Stock Option Plans

The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("Opinion 25"), and related interpretations, in accounting for grants to employees and non-employee directors under its fixed stock option plans. Accordingly, compensation expense is recorded on the date of grant of options only if the current market price of the underlying stock exceeds the exercise price.

(p) Other, Net

Other, net was comprised of the following for the years ended November 30, 2001, 2000 and 1999 (in thousands):

	2001	2000	1999
Interest income	$3,237	4,759	3,881
Foreign currency gains (losses)	1,260	(4,167)	(4,066)
Other income (expense)	791	340	(1,691)
	$5,288	932	(1,876)

(2) Related Party Transactions

(a) Transactions with Motorola

Motorola purchased 0.4 million shares of the Company's common stock in July 1995 and is a major supplier of handsets and accessories to the Company. Total purchases from Motorola approximated $834.1 million, $1,074.3 million and $1,055.1 million for the years ended November 30, 2001, 2000 and 1999, respectively. Included in accounts payable at November 30, 2001 and 2000 was approximately $46.5 million and $113.3 million, respectively, due to Motorola for purchases of inventory.

(b) Transactions with E.A. Electronicos e Componentes Ltda.

From 1998 until 2000 when the Company sold its interest in the joint venture (see note 14), the Company's Brazil operations had been primarily conducted

through a majority-owned joint venture. The primary supplier of handsets to the joint venture was a Brazilian importer, E.A. Electronicos e Componentes Ltda. ("E.A."), which was a customer of the Company. Sales to E.A. were excluded from the Company's consolidated revenues, and the related gross profit was deferred until the handsets were sold by the Brazil joint venture to customers. At November 30, 1999, the Company had accounts receivable of $7.0 million due from E.A. and accounts payable of $10.5 million due to E.A.

From November 1998 through March 1999, the Company used Brazilian real NDF contracts to manage currency exposure risk related to credit sales made to E.A. Payment for these sales was remitted by E.A. using the Brazilian real rate exchange against the U.S. dollar on the day the Company recorded the sale to E.A. Foreign currency rate fluctuations caused bad debt expense of $26.4 million related to the payments remitted by the importer. This expense was included in selling, general and administrative expenses for the year ended November 30, 1999, but was completely offset by gains realized on NDF contract settlements, which gains also were included in selling, general and administrative expenses.

(c) Sale of Aircraft to Chief Executive Officer

In December 1993, the Company and the Company's then Chief Executive Officer entered into an agreement pursuant to which the Company purchased the Chief Executive Officer's jet aircraft at book value. Pursuant to that agreement, the Company sold the Company's jet aircraft back to the Chief Executive Officer for the book value of $2.2 million in January 2001.

(3) Fair Value of Financial Instruments

The carrying amounts of accounts receivable, accounts payable and notes payable as of November 30, 2001 and 2000 approximate fair value due to the short maturity of these instruments. The fair value of the Company's long-term debt represents quoted market prices as of November 30, 2001 and 2000 as set forth in the table below (in thousands):

	2001		2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$ 150,000	63,000	$ 150,000	37,320

(4) Property and Equipment

Property and equipment consisted of the following at November 30, 2001 and 2000 (in thousands):

	2001	2000
Land and buildings	$ 11,034	8,695

Furniture, fixtures and equipment	27,718	29,054
Jet aircraft	-	4,454
Leasehold improvements	5,408	5,457
	44,160	47,660
Less accumulated depreciation and amortization	(24,820)	(25,645)
	$ 19,340	22,015

(5) Investments in Affiliated Companies

At November 30, 2001 and 2000, investments in affiliated companies includes a 49% interest in CellStar Amtel Sdn. Bhd. ("CellStar Amtel"), a Malaysian company. CellStar Amtel is a distributor of wireless handsets.

As a result of the continuing deterioration in the Malaysia market, the Company is in the process of divesting its 49% ownership in CellStar Amtel. The carrying value of the investment at November 30, 2001 was zero. During the years ended November 30, 2001 and 2000, the Company incurred losses of $0.7 and $1.8 million, respectively related to the operations of CellStar Amtel. The Company will be required to recognize future losses, if any, of CellStar Amtel up to the amount of debt and payables of CellStar Amtel guaranteed by the Company ($0.8 million at November 30, 2001). The Company does not currently anticipate any further losses to be recognized.

In November 1997, the Company made a $3.0 million equity investment which represented an 18% voting interest in the common stock of Topp Telecomm, Inc. ("Topp") and began supplying Topp with handsets. Topp is a reseller of wireless airtime through the provision of prepaid wireless services.

Topp incurred substantial operating losses associated with the acquisition costs of expanding its customer base. Beginning in the Company's third fiscal quarter of 1998, the Company became Topp's primary source of funding through the Company's supply of handsets.

Accordingly, the Company then began to account for its debt and equity investment in Topp under the modified equity method. Under this method, in 1998 the Company recognized Topp's net loss to the extent of the Company's entire debt and equity investment, or $29.2 million. In February 1999, the Company sold part of its equity investment in Topp to a wholly-owned subsidiary of Telefonos de Mexico S.A. de C.V. At the closing, the Company also sold a portion of its debt investment to certain other shareholders of Topp. As a result of these transactions, the Company received cash in the amount of $7.0 million, retained a $22.5 million note receivable and a 19.5% equity ownership interest in Topp, and recorded a pre-tax gain of $5.8 million. In September 1999, the Company sold its remaining debt and equity interest in Topp for $26.5 million in cash, resulting in a pre-tax gain of $26.1 million.

In January 2000, the Company acquired for $4.1 million 3.5% of the issued and outstanding common stock of Arcoa Communications Co. Ltd, ("Arcoa") a telecommunications retail store chain in Taiwan. Due to the continuing economic and political turnoil in Taiwan, the Company considered its investment in Arcoa to be permanently impaired. In the third quarter of 2001, the Company recorded an impairment charge of $2.2 million to reduce the carrying value of its 3.5% interest to the Company's estimate of the fair value of its interest of $1.9 million.

(6) Debt

Notes payable consisted of the following at November 30, 2001 and 2000 (in thousands):

	2001	2000
Revolving credit facility	$ -	82,700
Peoples' Republic of China ("PRC") credit facilities	39,078	44,428
Peoples' Republic of China ("PRC") notes payable	5,799	-
Taiwan notes payable	7,767	-
	$52,644	127,128

On October 15, 1997, the Company entered into a five year $135.0 million Multicurrency Revolving Credit Facility (the "Facility") with a syndicate of banks. On April 8, 1999, the amount of the Facility was reduced from $135.0 million to $115.0 million due to the release of a syndication member bank. On August 2, 1999, the Company restructured its Facility to add additional flexibility for foreign working capital funding and capitalization.

At May 31, 2000, the Company would not have been in compliance with one of its covenants under the Facility. As of July 12, 2000, the Company had negotiated an amendment to the Facility following which the Company was in compliance with the covenant. The amount of the Facility was also reduced from $115.0 million to $100.0 million. At August 31, 2000, the Company was not in compliance with another of its covenants and subsequently received an additional amendment following which the Company was in compliance.

As of November 10, 2000, the Company had negotiated an amendment to the Facility which allowed the Company to remain in compliance by extending the date by which a compliance certificate was required to be delivered to its banks. The date for delivering the compliance certificate was extended again by an additional amendment as of December 20, 2000.

As of January 30, 2001, the Company had negotiated an amendment to the Facility to assist the Company in complying with certain covenants through March 2, 2001. The amount of the Facility was also reduced from $100.0 million to $86.4 million.

On February 27, 2001, the Company and its banking syndicate negotiated and executed a Second Amended and Restated Credit Agreement which further reduces the amount of the Facility to $85.0 million on February 28, 2001, $74.0 million on July 31, 2001, $65.0 million on September 30, 2001, and $50.0 million on December 15, 2001. Such Second Amended and Restated Credit Agreement further (i) increased the applicable interest rate margin by 25 basis points, (ii) shortened the term of the Facility from June 1, 2002 to March 1, 2002, (iii) provided additional collateral for such Facility in the form of additional stock pledges and mortgages on real property, (iv) provided for dominion of funds by the banks for the Company's U.S. operations, (v) limited the borrowing base, and (vi) tightened restrictions on the Company's ability to fund its operations, particularly its non-U.S. operations.

Fundings under the Facility were limited by a borrowing base test, which was measured monthly. Borrowings under the Facility were made under London Interbank Offering Rate contracts, generally for 30-90 days, or at the bank's prime

lending rate. Total interest charged on those borrowings included an applicable margin that was subject to certain increases based on the ratio of consolidated funded debt to consolidated cash flow determined at the end of each fiscal quarter. At November 30, 2000, the interest rate on the Facility borrowing under the LIBOR rate was 9.529% and the prime rate was 10.75%. The Facility was secured by the Company's accounts receivable, property, plant and equipment and all other real property. The Facility contained, among other provisions, covenants relating to the maintenance of minimum net worth and certain financial ratios, dividend payments, additional debt, mergers and acquisitions and dispositions of assets.

As of September 28, 2001, the Company had negotiated and finalized a new, five-year, $60.0 million Loan and Security Agreement (the "New Facility") with a bank and terminated the Facility. On October 12, 2001 the Company finalized an amendment to the New Facility increasing the commitment amount from $60.0 million to $85.0 million. The New Facility lowers the applicable interest rate margin by 25 basis points from its level at August 31, 2001 of 125 basis points, provides a more extensive borrowing base,more flexible financial covenants and greater flexibility in funding foreign operations.

Fundings under the New Facility are limited by a borrowing base test, which is measured weekly. Interest on borrowings under the New Facility is at the London Interbank Offered Rate or at the bank's prime lending rate, plus an applicable margin. The New Facility is also secured by a pledge of 100% of the outstanding stock of all U.S. subsidiaries and 65% of the outstanding stock of

all first tier foreign subsidiaries. The New Facility is further secured by the Company's domestic accounts receivable, inventory, property, plant and equipment and all other domestic real property and intangile assets. The New Facility contains, among other provisions, covenants relating to the maintenance of minimum net worth and certain financial ratios, exchanging, refinancing or extending of the Company's convertible notes, dividend payments, additional debt, mergers and acquisitions and disposition of assets.

As a result of terminating its previous Facility, the Company recorded an after tax extraordinary loss on early extinguishment of $0.6 million, primarily related to the write-off of deferred loan costs related to the previous Facility.

The weighted average interest rate on short-term borrowings outstanding under the Facility and the New Facility for the years ended November 30, 2001 and 2000, was 9.2% and 9.7% respectively.

At November 30, 2001, the Company's operations in China had two lines of credit, one for USD $12.5 million and the second for RMB (Chinese People's Currency) 220 million (approximately USD $26.6 million), bearing interest at 7.16%, and from 5.28% to 5.56% respectively. The loans have maturity dates through September 2002. Both lines of credit are fully collateralized by U.S. dollar cash deposits. The cash deposits were made via intercompany loans from the operating entity in Hong Kong as a mechanism to secure repatriation of these funds. At November 30, 2001, the U.S. dollar equivalent of $39.1 million had been borrowed against the lines of credit in China. As a result of this method of funding operations in China, the consolidated balance sheet at November 30, 2001 reflects USD $41.8 million in cash that is restricted as collateral on these advances and a corresponding USD $39.1 million in notes payable. At November 30, 2001, China also had $5.8 million in promissory notes to a bank with maturity dates through January 2002 and bearing interest at 5.0%. The maturities have been extended through May 2002. In addition, the Company has notes payable in

Taiwan totaling $7.8 million.

At November 30, 2001 and 2000, long-term debt consisted of $150.0 million of the Company's 5% Convertible Subordinated Notes Due October 15, 2002 (the "Subordinated Notes"), which are convertible into 1.1 million shares of common stock at $138.34 per share (adjusted for the effect of the one-for-five reverse stock split effective on February 22, 2002) at any time prior to maturity. Subsequent to October 18, 2000, the Subordinated Notes are redeemable at the option of the Company, in whole or in part, initially at 102% and thereafter at prices declining to 100% at maturity, together with accrued interest. The Subordinated Notes were initially issued pursuant to an exempt offering and were subsequently registered under the Securities Act of 1933, along with the common stock into which the Subordinated Notes are convertible. Subsequent to year-end, the Company completed an exchange offer for a portion of the Subordinated Notes (see note 22).

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

(7) Income Taxes

The Company's income (loss) before income taxes and extraordinary loss was comprised of the following for the years ended November 30, 2001, 2000 and 1999 (in thousands):

	2001	2000	1999
United States	$ 3,593	(85,138)	13,430
International	(217)	1,423	79,072
Total	$ 3,376	(83,715)	92,502

Provision (benefit) for income taxes for the years ended November 30, 2001, 2000 and 1999 consisted of the following (in thousands):

	Current	Deferred	Total
Year ended November 30, 2001:			
United States:			
Federal	$ -	3,782	3,782
State	152	(3)	149

International	11,601	(13,332)	(1,731)
	$ 11,753	(9,553)	2,200
Year ended November 30, 2000:			
United States:			
Federal	$ -	(28,296)	(28,296)
State	1,138	(1,778)	(640)
International	12,552	(4,372)	8,180
	$ 13,690	(34,446)	(20,756)
Year ended November 30, 1999:			
United States:			
Federal	$ (28)	3,245	3,217
State	897	407	1,304
International	13,596	5,298	18,894
	$ 14,465	8,950	23,415

Provision (benefit) for income taxes differed from the amounts computed by applying the U.S. Federal income tax rate of 35% to income before income taxes and extraordinary loss as a result of the following for the years ended November 30, 2001, 2000 and 1999 (in thousands):

	2001	2000	1999
Expected tax expense (benefit)	$ 1,182	(29,300)	32,376
International and U.S. tax effects attributable to international operations	(5,737)	(4,731)	(8,869)
State income taxes, net of Federal benefits	97	(416)	848
Equity in loss of affiliated companies, net	204	631	6
Non-deductible goodwill and other	2,097	1,919	371
Change in valuation allowance	4,716	11,763	(131)
Foreign accumulated earnings tax	-	1,228	-
Other, net	(359)	(1,850)	(1,186)
Actual tax (benefit) expense	$ 2,200	(20,756)	23,415

As a result of certain activities undertaken by the Company, income in certain foreign countries is subject to reduced tax rates, and in some cases is wholly exempt from taxes, primarily through 1999. The income tax benefits attributable to the tax status of these subsidiaries are estimated to be $2.3 million, $1.4 million and $3.0 million, respectively, for 2001, 2000 and 1999, respectively.

The tax effect of temporary differences underlying significant portions of deferred income tax assets and liabilities at November 30, 2001 and 2000, is presented below (in thousands):

	2001	2000
Deferred income tax assets:		
United States:		
Accounts receivable	$ 13,987	14,387
Inventory adjustments for tax purposes	2,578	2,827
Net operating loss carryforwards	22,117	22,784
Foreign tax credit carryforwards	2,469	2,656
Capital losses	3,791	4,639
Other, net	4,451	4,381
International:		
Accounts receivable	3,246	2,091
Net operating loss carryforwards	5,751	8,640
Other, net	2,937	880
	61,327	63,285
Valuation allowance	(7,310)	(15,935)
	$ 54,017	47,350
Deferred income tax liabilities		
International inventory adjustments for tax purposes	$ 3,687	6,573

In assessing the realizability of deferred income tax assets, management considers whether it is more likely than not that the deferred income tax assets will be realized. The ultimate realization of deferred income tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible. The valuation allowance for deferred income tax assets as of December 1, 2000 and 1999, was $15.9 million and $4.2 million, respectively. The net change in the total valuation allowance for the years ended November 30, 2001 and 2000, was a decrease of $8.6 million and an increase of $11.8 million, respectively. This change in 2001 includes the removal of the valuation allowance against $8.6 million in net loss operating carryforwards that were eliminated when the Company divested the entities to which the carryforwards related. Management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred income tax assets are deductible, management believes it is more likely than not the Company should realize the benefits of these deductible differences. The amount of the deferred income tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carry forward period are reduced. At November 30, 2001, the Company had U.S. Federal net operating loss carryforwards of approximately $63.2 million, which will begin to expire in 2018.

The Company does not provide for U.S. Federal income taxes or tax benefits on the undistributed earnings and/or losses of its international subsidiaries because earnings are reinvested and, in the opinion of management, should continue to be reinvested indefinitely. At November 30, 2001, the Company had not provided U.S. Federal income taxes on earnings of international subsidiaries of approximately $186.5 million. On distribution of these earnings in the form of dividends or otherwise, the Company would be subject to both U.S. income taxes and certain withholding taxes in the various international jurisdictions. Determination of the related amount of unrecognized deferred U.S. income tax liability is not practicable because of the complexities

associated with this hypothetical calculation.

Because many types of transactions are susceptible to varying interpretations under foreign and domestic income tax laws and regulations, the amounts recorded in the accompanying consolidated financial statements may be subject to change on final determination by the respective taxing authorities. Management believes it has made an adequate tax provision

(8) Leases

The Company leases certain warehouse and office facilities, equipment and retail stores under operating leases that range from two to six years. Facility and retail store leases generally contain renewal options. Rental expense for operating leases was $3.9

million, $5.0 million and $6.0 million for the years ended November 30, 2001, 2000 and 1999, respectively. Future minimum lease payments under operating leases as of November 30, 2001 are as follows (in thousands):

Year ending November 30,	Amount
2002	$3,995
2003	2,180
2004	1,338
2005	1,174
2006	306
Thereafter	227

(9) Impairment of Assets

In the third quarter of 2000, the Company decided to exit its Venezuela operations (see note 15). The Company recorded a $4.9 million impairment charge to reduce the carrying value of certain Venezuela assets, primarily goodwill, to their estimated fair value. In December 2000, the Company completed the sale of its Venezuela operations and realized a gain of $1.1 million.

In the fourth quarter of 2000, the Company recorded a non-cash goodwill impairment charge of $6.4 million due to a major carrier customer's proposed changes to an existing contract that adversely changed the long-term prospects of the Peru operations.

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

(10) Separation Agreement

The Company announced on July 6, 2001, that Alan H. Goldfield retired effective immediately from the position of Chairman and Chief Executive Officer and that

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

(11) Restructuring Charge

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

Employee termination costs	$2,373
Write-down of assets	760
Other	506
	$3,639

As a result of a continued decline in revenues from its Miami operations, the Company restructured its Miami operations in the second quarter of 2001. The restructuring reduced the size and cost of those operations, resulting in a charge of $0.8 million, primarily related to the impairment of leasehold improvements.

(12) Gain on Sale of Assets

The Company recorded a gain on sale of assets of $0.9 million in 2001 primarily associated with the sale of its Venezuela operations in December 2000. The Company recorded a gain of $6.2 million for the year ended November 30, 2000, associated with the sale of the following (in thousands):

Brazil joint venture	$6,048
Poland operations	152
	$6,200

The Company recorded a gain of $8.8 million for the year ended November 30, 1999 associated with the sale of the following (in thousands):

Prepaid operations in Venezuela	$5,197

Retail stores in the United States	2,911
Other	666
	$8,774

(13) United Kingdom International Trading Operations

In April 2000, the Company curtailed a significant portion of its U.K. international trading operations following third party theft and fraud losses. As a result of the curtailment, the Company experienced a reduction in revenues for the U.K. operations after the first quarter of 2000 compared to 1999. The trading business involves the purchase of products from suppliers other than manufacturers and the sale of those products to customers other than network operators or their dealers and other representatives.

For the quarter ended May 31, 2000, the Company recorded a $4.4 million charge consisting of $3.2 million for third party theft and fraud losses during the purchase, transfer of title and transport of six shipments of wireless handsets and $1.2 million in inventory obsolescence expense for inventory price reductions incurred while the international trading business was curtailed pending investigation. The Company is negotiating to obtain an insurance settlement and is pursuing legal action where appropriate. However, the ultimate recovery in relation to these losses, if any, cannot be determined at this time.

(14) Brazil

Since 1998, the Company's Brazil operations were primarily conducted through a majority-owned joint venture. Following a review of its operations in Brazil, the Company concluded that its joint venture structure, together with foreign exchange risk, the high cost of capital in that country, accumulated losses, and the prospect of ongoing losses, were not optimal for success in that market. As a result, in the second quarter of 2000 the Company elected to exit the Brazil market.

On August 25, 2000, the Company completed the divestiture of its 51% ownership in the joint venture to its joint venture partner, Fontana Business Corp. Following is a summary of the operations related to Brazil (amounts in thousands):

	Year ended November 30,	
	2000	1999
Revenues	$ 40,602	193,756
Cost of sales	41,567	178,829
Gross profit (loss)	(965)	14,927
Selling, general and administrative expenses	10,038	10,255
Operating income (loss)	(11,003)	4,672
Other income (expense):		
Gain on sale of assets	6,047	-
Interest expense	(3,474)	(5,098)
Other, net	-	(2,249)
Total other income (expense)	2,573	(7,347)

Loss before income taxes	$ (8,430)	(2,675)

The Company recognized a pre-tax gain on sale of $6.0 million in conjunction with the disposition of its 51% interest in the joint venture in the third quarter of 2000. The Company had a negative carrying value in its 51% interest in the joint venture as a result

of losses previously recognized. In the disposition, the Company obtained promissory notes totaling $8.5 million related to the Company's funding of certain U.S. letters of credit supporting Brazilian debt obligations. These promissory notes are fully reserved and will remain reserved pending receipt of payments by the Company.

During the quarter ended May 31, 2000, the Company also fully reserved certain U.S.-based accounts receivable from Brazilian importers, the collectibility of which deteriorated significantly in the second quarter of 2000 and which were further affected by the decision, in the second quarter of 2000, to exit Brazil.

(15) Venezuela

During the quarter ended August 31, 2000, the Company decided, based upon the current and expected future economic and political climate in Venezuela, to divest its operations in Venezuela. For the quarter ended August 31, 2000, the Company recorded an impairment charge of $4.9 million to reduce the carrying value of certain Venezuela assets, primarily goodwill, to their estimated fair value. The Company subsequently sold its operations in Venezuela in December 2000 for a gain of $1.1 million. Following is a summary of the Venezuela operations (amounts in thousands):

	Year ended November 30,	
	2000	1999
Revenues	$ 36,639	77,077
Cost of sales	35,342	67,995
Gross profit	1,297	9,082
Selling, general and administrative expenses	8,630	4,212
Impairment of assets	4,930	-
Operating income (loss)	(12,263)	4,870
Other income (expense):		
Gain on sale of assets	-	5,197
Interest expense	(8)	(14)
Other, net	(1,039)	(593)
Total other income (expense)	(1,047)	4,590
Income (loss) before income taxes	$(13,310)	9,460

(16) Redistributor Business

The Company phased out a major portion of its redistributor business in the Miami and North American operations in 2000 due to the volatility of the redistributor business, the relatively lower margins and higher credit risks. Redistributors are distributors that do not have existing direct relationships with manufacturers and who do not have long-term carrier or dealer/agent relationships. These distributors purchase product on a spot basis to fulfill intermittent customer demand and do not have long-term predictable product demand. Revenues for the redistributor business for Miami and the North American Region for the years ended November 30, 2000 and 1999, were $57.4 million and $158.6 million, respectively.

(17) Inventory Obsolescence Expense And Bad Debt Expense

Inventory obsolescence expense of $10.2 million, $32.3 million and $23.0 million for the years ended November 30, 2001, 2000 and 1999, respectively, is included in cost of goods sold in the accompanying consolidated statements of operations.

Bad debt expense of $6.7 million, $51.5 million and $10.4 million for the years ended November 30, 2001, 2000 and 1999 respectively, is included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

(18) Segment And Related Information

The Company operates predominantly within one industry, wholesale and retail sales of wireless telecommunications products. The Company's management evaluates operations primarily on income before interest and income taxes in the following reportable geographic regions: Asia-Pacific, North America, primarily the United States, Latin America, which includes Mexico and the Company's Miami, Florida operations ("Miami") and Europe. Revenues and operations of Miami are included in Latin America since Miami's product sales are primarily for export to South American countries, either by the Company or through its exporter customers. The Corporate segment includes headquarters operations, income and expenses not allocated to reportable segments, and interest expense on the Company's Facility and Notes. Corporate segment assets primarily consist of cash, cash

equivalents and deferred income tax assets. The accounting policies of the reportable segments are the same as those described in note (1). Intersegment sales and transfers are not significant.

Segment information for the years ended November 30, 2001, 2000 and 1999 follows (in thousands):

	Asia-Pacific	North America	Latin America	Europ
November 30, 2001:				
Revenues from external customers	$ 1,213,454	578,612	411,079	230,65
Separation agreement	-	-	-	
Operating income (loss)	33,099	25,805	(11,372)	(3,87

Equity in income (loss) of affiliated companies, net	(858)	-	-	
Impairment of investment	(2,215)	-	-	
Income (loss) before interest and income taxes and extraordinary loss	30,300	21,752	(10,793)	(3,72
Extraordinary loss on extinguishment of debt, net of tax	-	-	-	
Total assets	263,268	143,598	130,481	48,88
Depreciation, amortization and impairment of assets	2,309	1,179	2,664	92
Capital expenditures	2,822	801	1,108	25
November 30, 2000:				
Revenues from external customers	$ 1,024,762	499,171	636,354	315,39
Impairment of assets	-	974	11,365	
Operating income (loss)	7,770	(16,425)	(38,724)	2,26
Equity in income (loss) of affiliated companies, net	(1,805)	-	-	
Income (loss) before interest and income taxes	6,361	(24,021)	(31,623)	2,45
Total assets	289,677	172,527	256,907	56,82
Depreciation, amortization and impairment of assets	1,905	3,661	14,492	81
Capital expenditures	1,256	1,309	2,052	45
November 30, 1999:				
Revenues from external customers	$ 769,412	377,129	717,273	469,99
Impairment of assets	-	-	-	5,48
Restructuring charge	1,277	2,302	-	
Operating income (loss)	41,537	17,529	31,580	5,50
Equity in income (loss) of affiliated companies, net	(18)	31,951	-	
Income (loss) before interest and income taxes	41,102	48,555	31,013	5,43
Total assets	240,523	126,208	261,618	56,53
Depreciation, amortization and impairment of assets	1,869	3,683	2,564	6,42
Capital expenditures(1)	1,028	3,072	3,522	87

(1) Prior to 2000, Corporate segment property and equipment was reported in North America.

A reconciliation from the segment information to the income (loss) before income taxes and extraordinary loss included in the consolidated statements of operations for the years ended November 30, 2001, 2000, and 1999 follows (in thousands):

	2001
Income (loss) before interest and income taxes and extraordinary loss per segment information	$ 15,522
Interest expense per the consolidated statements of operations	(15,383)
Interest income included in other, net in the consolidated statements of operations	3,237
Income (loss) before income taxes and extraordinary loss per the consolidated statements of operations	$ 3,376

Geographical information for the years ended November 30, 2001, 2000 and 1999, follows (in thousands):

	2001		2000		1999	
	Revenues	Long-lived Assets	Revenues	Long-lived Assets	Revenues	Lo
United States	$ 633,566	12,341	578,262	15,257	531,328	
People's Republic of China, which includes Hong Kong	1,049,633	4,525	725,409	6,591	528,572	
United Kingdom	111,433	457	163,797	637	341,090	
Mexico	250,335	2,838	383,256	3,038	228,959	
All other countries	388,836	6,995	624,958	5,664	703,856	
	$2,433,803	27,156	2,475,682	31,187	2,333,805	

For purposes of the geographical information above, the Company's Miami operations are included in the United States. Revenues are attributed to individual countries based on the location of the originating transaction.

A customer in the Asia-Pacific Region accounted for approximately 11% of consolidated revenues or $268.0 million of revenues for the year ended November 30, 2001. No customer accounted for 10% or more of consolidated revenues in the years ended November 30, 2000, and 1999.

At November 30, 2001, the Company had a receivable of $33.4 million from a customer in the North America Region.

(19) Acquisitions

In August 1999, the Company acquired the business and certain net assets of Montana Telecommunications Group B.V. in The Netherlands in a transaction accounted for as a purchase. The purchase price was $2.3 million, which resulted in $1.0 million of goodwill with an estimated life of 20 years. Additional payments based on future operating results of the business over the four year period subsequent to acquisition may be paid in cash. For 2000 and 2001, payments of $0.1 million were made pursuant to the agreement and recorded as goodwill.

The Company acquired three companies during 1998: (i) TA Intercall AB (Sweden), January 1998; (ii) Digicom Spoka zo.o. (Poland), March 1998; and (iii) ACC del Peru (Peru), May 1998. Each of these transactions was accounted for as a purchase. The aggregate of the original purchase prices was $18.2 million, which resulted in $18.1 million of goodwill with an estimated life of 20 years. Additional payments based on operating results of Sweden for the three years subsequent to acquisition may be paid either in cash or common stock at the Company's option. In 2000, $4.0 million of additional goodwill was recorded for Sweden based upon the estimated payment amount. In 2001, $0.6 million of additional goodwill was recorded in conjunction with the final acquisition payment.

The consolidated financial statements include the operating results of each business from the date of acquisition. The impact of these acquisitions was not material in relation the Company's consolidated financial position or results of operations.

(20) Stockholders' Equity

(a) Common Stock Options

The Company has a stock option plan (the "Plan") covering 2.23 million shares of its common stock. Options under the Plan expire ten years from the date of grant unless earlier terminated due to the death, disability, retirement or other termination of service of the optionee. Options have vesting schedules ranging from 100% on the first anniversary of the date of grant to 25% per year commencing on the first anniversary of the date of grant. The exercise price is equal to the fair market value of the common stock on the date of grant.

The Company also has a stock option plan for non-employee directors ("Directors' Option Plan"). The Directors' Option Plan provides that each non-employee director of the Company as of the date the Directors' Option Plan was adopted and each person who thereafter becomes a non-employee director should automatically be granted an option to purchase 1,500 shares of common stock. The exercise price is equal to the fair market value of the common stock on the date of grant. A total of 30,000 shares of common stock are authorized for issuance pursuant to the Directors' Option Plan. Each option granted under the Directors' Option Plan becomes exercisable six months after its date of grant and expires ten years from the date of grant unless earlier terminated due to the death, disability, retirement or other termination of service of the optionee. Non-employee directors also receive an annual grant of an option for 1,000 shares of Company common stock under the Plan. Such options vest over a four year period and have an exercise price equal to the fair market value of the Company's common stock as of market close on the date of grant.

The per share weighted-average fair value of stock options granted during the years ended November 30, 2001, 2000 and 1999, was $5.51, $29.25 and $22.25, respectively, on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2001	2000	1999
Dividend yield	0.00%	0.00	0.00
Volatility	92.00%	88.00	81.00
Risk-free interest rate	4.70%	6.50	5.10
Expected term of options (in years)	3.4	3.4	3.4

The Company applies Opinion 25 in accounting for its plans and, accordingly, no compensation cost has been recognized for its stock options in the consolidated financial statements. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation", the Company's net income (loss) would have been the pro forma amounts below for the years ended November 30, 2001, 2000 and 1999 (in thousands, except per share amounts):

	2001	2000	1999
Net income (loss) as reported	$550	(62,959)	69,087
Diluted net income (loss) per share as reported	0.05	(5.24)	5.61
Pro forma net income (loss)	(1,380)	(65,981)	67,605

Pro forma diluted net income (loss) per share	(0.11)	(5.49)	5.53

Stock option activity during the years ended November 30, 2001, 2000 and 1999, is as follows:

	2001		2000		
	Number of shares	Weighted-Average Exercise Prices	Number of shares	Weighted-Average Exercise Prices	Nu of s
Granted	603,925	$ 9.555	302,739	$47.765	29
Exercised	-	0.000	17,025	23.270	10
Forfeited	159,860	34.775	203,971	47.795	27
Outstanding, end of year	1,380,926	29.780	936,861	43.910	85
Exercisable, end of year	597,780	39.185	437,938	40.605	38
Reserved for future grants under the Plan	567,442				
Reserved for future grants under the Directors' Option Plan	18,000				

For options outstanding and exercisable as of November 30, 2001, the exercise prices and remaining lives were:

Range of Exercise Prices	Number Outstanding	Average Remaining Life (in years)	Average Exercise Prices	Number Exercisable	Average Exercise Prices
$4.1500 - 9.3750	360,875	9.2	$ 9.1630	-	$ -
$10.2500 - 30.8500	387,950	6.9	19.5350	223,700	25.8475
$31.0950 - 49.3750	433,726	7.3	43.2390	219,386	39.7240
$51.5650 - 99.4000	198,375	6.3	57.8825	154,694	57.7150
	1,380,926	7.5	$29.7785	597,780	$39.1870

(b) Stockholder Rights Plan

The Company has a Stockholder Rights Plan, which provides that the holders of the Company's common stock receive one-third of a right ("Right") for each share of the Company's common stock they own. Each Right entitles the holder to buy one one-thousandth of a share of Series A Preferred Stock, par value $.01 per share, at a purchase price of $5.33, subject to adjustment. The Rights are not currently exercisable, but would become exercisable if certain events occurred relating to a person or group acquiring or attempting to acquire 15% or more of the outstanding shares of common stock of the Company. Under those circumstances, the holders of Rights would be entitled to buy shares of the Company's common stock or stock of an acquirer of the Company at a 50% discount. The Rights expire on January 9, 2007, unless earlier redeemed by the Company.

(21) Commitments and Contingencies

(a) Litigation

During the period from May 1999 through July 1999, seven purported class action lawsuits were filed in the United States District Court for the Southern District of Florida, styled as follows: (1) Elfie Echavarri v. CellStar Corporation, Alan H. Goldfield, Richard M. Gozia and Mark Q. Huggins; (2) Mark Krug v. CellStar Corporation, Alan H. Goldfield, Richard M. Gozia and Mark Q. Huggins; (3) Jewell Wright v. CellStar Corporation, Alan H. Goldfield, Richard M. Gozia and Mark Q. Huggins; (4) Theodore Weiss v. CellStar Corporation, Alan H. Goldfield, Richard M. Gozia and Mark Q. Huggins; (5) Tony LaBella v. CellStar Corporation, Alan H. Goldfield, Richard M. Gozia and Mark Q. Huggins; (6) Thomas E. Petrone v. CellStar Corporation, Alan H. Goldfield, Richard M. Gozia and Mark Q. Huggins; (7) Adele Brody v. CellStar Corporation, Alan H. Goldfield, Richard M.

Gozia and Mark Q. Huggins. Each of the above lawsuits sought certification as a class action to represent those persons who purchased the publicly traded securities of the Company during the period from March 19, 1998 to September 21, 1998. Each of these lawsuits alleges that the Company issued a series of materially false and misleading statements concerning the Company's results of operations and the Company's investment in Topp, resulting in violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act"), as amended, and Rule 10b-5 promulgated thereunder. The Court entered an order on September 26, 1999 consolidating the above lawsuits and appointing lead plaintiffs and lead plaintiffs' counsel. The lead plaintiffs filed a consolidated complaint on November 8, 1999. The Company filed a Motion to Dismiss the consolidated complaint, and the Court granted that motion on August 3, 2000. The plaintiffs filed a Second Amended and Consolidated Complaint on September 1, 2000, essentially re-alleging the violations of Sections 10(b) and 20(a) of the Exchange Act, and Rule 10b-5 promulgated thereunder. The Company filed a Motion to Dismiss plaintiffs' Second Amended and Consolidated Complaint on November 2, 2000. The Company filed a Motion to Dismiss plaintiffs' Second Amended and Consolidated Complaint on November 2, 2000. On September 28, 2001, the Court entered an order and judgement to dismiss the consolidated complaint with prejudice, and closed the consolidated action for administrative purposes.

The Company is also a party to various other claims, legal actions and complaints arising in the ordinary course of business.

Management believes that the disposition of these matters should not have a materially adverse effect on the consolidated financial condition or results of operations of the Company.

(b) SEC

On August 3, 1998, the Company announced that the Securities and Exchange Commission (SEC) was conducting an investigation of the Company relating to its compliance with Federal securities laws. On June 28, 2001, the Company announced that the SEC had terminated the investigation with no enforcement action recommended.

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

(c) Financial Guarantee

The Company has guaranteed up to MYR $3.0 million (Malaysian ringgits), or $0.8 million as of November 30, 2001, for bank borrowings of CellStar Amtel. In addition, the Company has guaranteed certain accounts payable of CellStar Amtel at November 30, 2001. The Company is in the process of divesting its 49% interest in CellStar Amtel. The Company has entered into an indemnity agreement with the prospective purchaser.

(d) 401(k) Savings Plan

The Company established a savings plan for employees in 1994. Employees are eligible to participate if they were full-time employees as of July 1, 1994, or on completing 90 days of service. The plan is subject to the provisions of the Employee Retirement Income Security Act of 1974. Under provisions of the plan, eligible employees are allowed to contribute as much as 15% of their compensation, up to the annual maximum allowed by the Internal Revenue Service. The Company may make a discretionary matching contribution based on the Company's profitability. The Company made contributions of approximately $0.3 million, $0.2 million and $0.3 million to the plan for the years ended November 30, 2001, 2000 and 1999 respectively.

(e) Foreign Currency Contracts

The Company uses foreign currency forward contracts to reduce exposure to exchange rate risks primarily associated with transactions in the regular course of the Company's international operations. The forward contracts establish the exchange rates at

which the Company should purchase or sell the contracted amount of local currencies for specified foreign currencies at a future date. The Company uses forward contracts, which are short-term in nature (45 days to one year), and receives or pays the difference between the contracted forward rate and the exchange rate at the settlement date.

The major currency exposures periodically hedged by the Company are the British pound, Dutch guilder, Euro and Swedish Krona. The carrying amount and fair value of these contracts are not significant.

At November 30, 2001, the Company had no forward contracts and does not hold any other derivative instruments.

The contractual amount of the Company's forward exchange contracts at November 30, 2000, was $18.7 million.

(22) Subsequent Events

(a) Reverse Stock Split

On February 12, 2002, the stockholders approved a one-for-five reverse stock split. The reverse stock split was effective February 22, 2002. The impact of this share split has been retroactively applied to all periods presented herein.

(b) Exchange Offer

On January 14, 2002, the Company filed an S-4 registration statement (the "Exchange Offer"), with the Securities and Exchange Commission ("SEC"), offering

to exchange, for each $1,000 principal amount of the Subordinated Notes, $366.67 in cash and, at the election of the holder, one of the following options: a) $400.94 principal amount of 12% Senior Subordinated Notes due January 2007 (the "Senior Notes") or, b) $320.75 principal amount of Senior Notes and $80.19 principal amount of 5% Senior Subordinated Convertible Notes due November 2002 (the "Senior Convertible Notes") or, c) $400.94 principal amount of Senior Convertible Notes.

On February 20, 2002, the Company completed its Exchange Offer for its $150 million 5% Subordinated Notes due October 2002. Holders owning $128.6 million of Subordinated Notes exchanged them for $47.2 million in cash, $12.4 million of Senior Notes due January 2007, and $39.1 million of Senior Convertible Notes due November 2002. Upon completion of the Exchange Offer, $21.4 million of the Subordinated Notes due October 2002 were not exchanged and are now subordinate to the Company's New Facility, the Senior Notes and the Senior Convertible Notes.

The Company expects to realize a pre-tax extraordinary gain on early extinguishment of debt of approximately $17.0 million during the first quarter of fiscal 2002 ($11.0 million after-tax) as a result of the exchange. The exchange will be accounted for as a troubled debt restructuring in accordance with Statement No. 15.

The Senior Convertible Notes are mandatorily convertible into the Company's common stock on November 30, 2002, and bear interest at 5%, payable semi-annually in arrears, in either cash or stock, at the Company's option, on August 15, 2002, and November 30, 2002. In the event of bankruptcy the Senior Convertible Note holders are entitled to cash equal to the face value of the Senior Convertible Note plus accrued interest. The Senior Convertible Notes are convertible into the Company's common stock at a conversion price of $5.00 per share (adjusted for the effect of the one-for-five reverse stock split effective on February 22, 2002) and may be converted at any time prior to maturity at the option of the holders

The Senior Notes mature January 15, 2007, and bear interest at 12%, payable in cash in arrears semi-annually on February 15 and August 15, commencing August 15, 2002. The Senior Notes contain certain covenants that restrict the Company's ability to incur additional indebtedness, make investments, loans and advances, declare dividends or certain other distributions, create liens, enter into sale-leaseback transactions, consolidate, merge, sell assets and enter into transactions with affiliates.

(c) Shares To Be Issued Upon Conversion of Senior Convertible Notes

The Senior Convertible Notes issued in the Exchange Offer are convertible into 7.8 million shares of the Company's common stock on or before November 30, 2002. The 7.8 million shares will be included as dilutive securities in calculating net income per diluted share beginning in the first quarter of 2002.

CELLSTAR CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL FINANCIAL DATA (UNAUDITED)
(In thousands, except per share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2001				
Revenues	$ 645,158	572,879	610,496	605,270
Gross Profit	36,793	32,267	31,069	35,697
Net income (loss)	4,192	3,591	(5,840)(a)	(1,393)(b)
Net income (loss) per share:				
Basic:	0.35	0.30	(0.49)(a)	(0.12)(b)
Diluted:	0.35	0.30	(0.49)(a)	(0.12)(b)
2000				
Revenues	$ 589,859	561,370	629,793	694,660
Gross Profit	48,283	3,137 (c)	23,277	36,788 (e)
Net income (loss)	9,446	(42,424)(c)	(13,905)(d)	(16,076)(e)
Net income (loss) per share:				
Basic:	0.79	(3.53)(c)	(1.16)(d)	(1.34)(e)
Diluted	0.78	(3.53)(c)	(1.16)(d)	(1.34)(e)

(a) In the third quarter of 2001, the Company's operations were affected by a charge related to the separation agreement between the Company and the former Chief Executive Officer and an impairment charge to reduce the carrying value of an investment.

(b) In the fourth quarter of 2001, the Company's operations were affected by an $0.6 million after tax extraordinary loss on the early extinguishment of debt and a $3.0 million charge related to a value-added tax prepaid asset in the Company's Mexico operations for which the recoverability is uncertain.

(c) In the second quarter of 2000, the Company's operations were affected by significant declines in gross profit due to competitive margin pressures and by increases in bad debt expense related to the redistributor business and Brazil related receivables.

(d) In the third quarter of 2000, the Company's operations were affected by charges related to its decision to exit its Venezuela operations and the gain on the divestiture of its 51% interest in the Brazil joint venture.

(e) In the fourth quarter of 2000, the Company's operations were affected by $16.2 million in accounts receivable reserves for accounts whose businesses have been adversely affected by competitive market conditions in Asia and the United States, and a $6.4 million non-cash goodwill impairment charge for its Peru operations.

CELLSTAR CORPORATION AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
Years ended November 30, 2001, 2000 and 1999
(in thousands)

	Balance at beginning of period	Charged to costs and expenses	Charged to activation income(a)	Deductions, net of recoveries	Bala pe
Allowance for doubtful accounts:					
November 30, 2001	$75,810	6,737	(53)	(25,135)	57
November 30, 2000	33,152	51,533	103	(8,978)	75
November 30, 1999	33,361	10,392	1,251	(11,852)	33
Reserve for inventory obsolescence					
November 30, 2001	$19,312	10,210	--	(13,334)	16
November 30, 2000	14,868	32,255	--	(27,811)	19
November 30, 1999	12,082	23,012	--	(20,226)	14

(a) The Company, under agent agreements, earns activation commissions from wireless service providers on engaging subscribers for wireless handset services in connection with the Company's retail operations. The agent agreements also provide for the reduction or elimination of activation commissions if the subscribers deactivate service within a stipulated period. The Company reduces activation income for increases in the allowance for estimated deactivations.