

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-K**

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

For the fiscal year ended December 31, 2003

OR

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

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

Commission File Number: 0-25790

**PC MALL, INC.**

(Exact name of registrant as specified in its charter)

Delaware	95-4518700
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

2555 West 190th Street, Suite 201  
Torrance, CA 90504  
(address of principal executive offices)

(Registrant's telephone number, including area code): (310) 354-5600

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 \$0.001 Per Share

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

Indicate by check mark 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 the Registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

As of June 30, 2003, the aggregate market value of the Common Stock held by non-affiliates of the Registrant was approximately \$31.9 million. The number of shares outstanding of the Registrant's Common Stock as of March 29, 2004 was 10,871,199.

**Documents incorporated by reference into Part III:**

Portions of the Proxy Statement for the Registrant's 2004 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A within 120 days after the Registrant's fiscal year end of December 31, 2003 are incorporated by reference into Part III of this Report.

PC MALL, INC.  
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## PART I

### ITEM 1. BUSINESS

#### General

PC Mall, Inc. ("PC Mall"), formerly IdeaMall, Inc. and Creative Computers, Inc., together with its subsidiaries (the "Company"), founded in 1987, is a rapid response direct marketer of computer hardware, software, peripheral, electronics, and other consumer products. The Company offers products to business, government and educational institutions as well as individual consumers through dedicated outbound and inbound telemarketing sales executives, the Internet, direct marketing techniques, direct response catalogs, a direct sales force, and three retail showrooms. The Company offers a broad selection of products through its distinctive full-color catalogs under the PC Mall, MacMall, ClubMac, PC Mall Gov, and eCOST.com brands, its worldwide Web sites on the Internet: [pcmall.com](http://pcmall.com), [macmall.com](http://macmall.com), [clubmac.com](http://clubmac.com), [pcmallgov.com](http://pcmallgov.com) and [ecost.com](http://ecost.com), and other promotional materials. The Company believes that its rapid response service and its broad product selection result in customer loyalty and repeat customer orders. The Company also operates [OnSale.com](http://OnSale.com), an online marketplace and auction, which was formally launched in October 2003.

In September 1997, PC Mall formed a wholly-owned subsidiary, uBid, Inc. ("uBid"), to sell computer-related products and consumer electronics through an auction format on the Internet. On December 9, 1998, uBid completed an initial public offering of 1,817,000 shares of its Common Stock. Upon completion of this offering, PC Mall owned 80.1% of the outstanding Common Stock of uBid. On June 7, 1999, PC Mall divested its ownership in uBid by means of a tax-free distribution of all of its remaining 7.3 million shares of uBid Common Stock to PC Mall's stockholders of record as of May 24, 1999. In April 2000, uBid was acquired by CMGI.

In February 1999, PC Mall formed eCOST.com as a wholly-owned subsidiary. eCOST.com is a multi-category Internet retailer of new, refurbished, and close-out computer products, consumer electronics, digital imaging products, home and houseware products, watches and jewelry, and other consumer products. eCOST.com offers a broad selection of name-brand products, most of which are sold at competitive prices plus itemized fees for handling, processing and shipping the order.

During 2000, the Company shifted its strategy to focus primarily on its outbound telemarketing operations. Accordingly, the Company changed its operating strategy for eCOST.com, emphasizing profitability over growth.

During 2002, the Company completed two acquisitions. In April 2002, the Company acquired substantially all of the assets of Pacific Business Systems, Inc. ("PBS"), a privately held direct marketer of computer products to businesses and consumer customers under the ClubMac and PBS brands. The Company operates the acquired business as ClubMac. In July 2002, the Company completed the acquisition of substantially all of the assets of Wareforce, Inc. ("Wareforce") through a United States Bankruptcy proceeding under Chapter 11 of the United States Bankruptcy Code. The Company considers ClubMac and Wareforce to be part of its Core Business segment. Also during 2002, the Company formed a new subsidiary, PC Mall Gov, Inc., to focus on the public sector market, and hired an experienced public sector technology sales executive to lead the entity's operations.

In June 2002, the Company formed Onsale, Inc. as a wholly-owned subsidiary. The Company acquired the URL and software that operated the original [OnSale.com](http://OnSale.com) website for approximately \$0.4 million through bankruptcy proceedings of Egghead in December 2002. In October 2003, the Company formally launched [OnSale.com](http://OnSale.com), an online marketplace including auctions. The [OnSale.com](http://OnSale.com) website has been

rebuilt on a technology platform using the latest .NET solutions. As of December 31, 2003, the Company has invested approximately \$0.8 million in capital expenditures and software development costs in connection with its OnSale.com business. As OnSale.com is a marketplace service, and is not itself a seller of the products sold on its website, the Company expects that in the foreseeable future, revenue through OnSale.com will be immaterial.

The Company operates in three reportable segments: 1) a rapid response supplier of technology solutions for business, government and educational institutions as well as consumers, comprised of Corporate, Public Sector, Inbound Catalog and other sales, collectively referred to as the "Core Business", 2) a multi-category Internet retailer of new, refurbished and close-out products under the eCOST.com brand, and 3) an online marketplace/auction business under the OnSale.com brand. Beginning in the first quarter of 2003, the Company integrated its eLinux segment into the Core Business segment. The OnSale segment, which was previously reported as part of the Core Business, was established as a new segment beginning in the third quarter of 2003, and prior period segment amounts have been adjusted to reflect the new presentation. The Company allocates resources to and evaluates the performance of its segments based on operating income. Corporate expenses are included in the Company's measure of segment operating income for management reporting purposes.

## **Strategy**

The Company's strategy is to be a leading rapid response direct marketer of a broad range of computers, software and related technology products and solutions to business, government and educational institutions, and individual consumers. Specific elements of the Company's operating strategy include:

*Continued Development of Outbound Telemarketing.* During 2003, the Company continued to intensify its Outbound telemarketing efforts to focus on the under-served small and medium business ("SMB") market, as well as large business (enterprise), government and education markets. The Company believes that its inherent cost efficiencies and its purchasing power with key vendors provide it with competitive advantages and growth opportunities to acquire market-share from small Value-Added Resellers ("VARs"). The Company's strategy is to expand its Outbound telemarketing sales executive workforce. To this end, during 2003, the Company continued to hire experienced Outbound telemarketing executives to manage this initiative and expand the Outbound telemarketing sales executive workforce. In June 2003, the Company opened a new Outbound telemarketing sales office located in Canada to access an abundant, highly educated labor pool and to obtain cost advantages from a government labor subsidy that extends through the end of 2007. The Company also focused on the development of its Outbound telemarketing executives through its comprehensive training program. The Company expects to continue to invest in new tools and training to develop its Outbound telemarketing sales operation.

*Focus on Sales of Enterprise Products.* The Company continues to focus on sales of enterprise products such as networking, servers, storage and volume licensing, as these products represent high growth segments of the enterprise market. The Company is authorized or otherwise has the ability to sell Cisco, EMC, HP, IBM, Microsoft, Network Associates and other name brand products. The Company is also authorized to sell Microsoft contractual licenses to large enterprise customers. The Company also enhanced its ability to support enterprise products during 2003 by launching new tools, such as software license asset management, to simplify software license tracking.

*Leverage Macintosh Market Position.* Throughout 2003, the Company continued to be a leading rapid response direct marketer of Apple products. The Company believes that its Apple leadership position provides opportunities to acquire new commercial customers as well as penetrate existing

customers. The Company's sales of Apple-related products in 2003 were \$317.6 million, an increase of \$12.7 million, or 4%, compared to \$304.9 million in 2002. The Company's PC Mall Gov subsidiary also received authorization to sell Apple products on the GSA schedule to federal government customers in April 2003. During 2003, the Company published 14 editions of its MacMall catalog with a circulation of 22.9 million copies, an 8% decrease from the prior year's 24.8 million circulation and a 23% decrease from the 29.7 million copies circulated in 2001. The decrease in MacMall catalog circulation was due to the Company's intensified outbound telemarketing effort, which is less dependent on catalog circulation.

*Increased Relationship-Based Selling.* The Company's sales executives are highly trained in relationship building with their customers and are continuously coached to offer higher levels of service. The Company is committed to relationship-based selling. Each sales executive is trained and empowered to handle all customer needs, including ongoing customer service and returns-related issues. Additionally, sales executives bring other expertise to bear as needed from within the Company, including Apple, Cisco, Computer Associates, EMC, HP, Microsoft Windows Server specialists (MCSE) certified technicians, and Novell-trained Certified Network Engineers (CNE).

*Leverage of Internet Expertise.* The Company considers itself a leader in Internet e-commerce innovation and intends to continue enhancing its leadership position on the Internet. The Company was among the first to enter the Internet auction space with its uBid.com web site. uBid completed a successful initial public offering in December 1998, and the Company subsequently distributed to its stockholders all of its remaining shares of uBid in June 1999.

In March 1999, the Company launched the eCOST.com web site, which offers a broad selection of name-brand products, many of which are sold at discount prices. Customers are provided an itemized description of the fees associated with processing their orders, including a handling and processing fee, and a shipping fee.

In October 2003, the Company launched its latest Internet venture, OnSale.com, an online auction and marketplace Website. OnSale.com provides Internet sellers an alternative site to market products. Over time, OnSale.com intends to provide customers with sophisticated marketing services and technology. Also in 2003, the Company expanded its use of "Corporate Access Pages" or CAP sites, which are custom extranet-based dedicated web sites that allow customers to perform routine tasks online and gives account executives increased time for acquiring new customers.

*Penetration of the Public Sector Market.* In April 2002, PC Mall formed PC Mall Gov, Inc. ("PC Mall Gov"), a wholly owned subsidiary, and hired an experienced public sector technology sales executive to lead its public sector sales efforts. Public sector sales are one of the fastest growing categories, and the Company believes that PC Mall Gov's efficiency is well suited to support the procurement model of the government and education buyer. PC Mall Gov intends to establish a larger presence in the federal government market. To this end, in 2003 PC Mall Gov expanded its sales office in the Washington D.C. area and obtained authorization to sell Apple and HP products on the GSA schedule to government customers.

## **Marketing and Sales**

The Company designs its various marketing programs to attract new customers and to stimulate additional purchases by previous customers. The Company employs Outbound telemarketing sales techniques to establish new customer relationships with businesses, selectively mails catalogs to prospective customers and advertises on the Internet and in major computer user magazines such as Computer Shopper, Federal Computer Week, Government Technology, Mac Addict, Mac Home, Mac Today, MacWorld and others. In addition, the Company obtains the names of prospective customers

through selected mailing lists acquired from various sources, including manufacturers, suppliers and computer magazine publishers. The Company sells its products to business, government and educational institutions, as well as individual consumers, primarily within the United States of America.

The Company utilizes third-party software designed to manage marketing campaigns using different media channels and to optimize campaigns through advanced data mining techniques. The software combines these optimization techniques with multiple models to more effectively match offers to individuals and businesses to provide the most profitable results.

*Outbound and Inbound Telemarketing.* The Company believes that much of its success has come from the quality and training of its sales executives. Sales executives are responsible for assisting customers in purchasing decisions, answering product pricing and availability questions and processing product orders. Sales executives also have the authority to vary prices within specified parameters in order to meet prices of competitors. In addition, sales executives undergo an initial sales training program focusing on use of the Company's systems, product offerings and networking solutions, sales techniques, phone etiquette and customer service. Sales executives also attend regular training sessions to stay up-to-date on new products. Sales executives staff the Company's toll-free order lines 24 hours a day, seven days a week. Customer service and technical support personnel assist inbound and Outbound telemarketing sales executives. The Company's phone and computer systems are used for order entry, customer tracking and inventory management. During 2003, the Company shipped approximately 621,000 inbound and Outbound telemarketing orders with an average order size of \$1,084. This compares to approximately 612,000 inbound and Outbound telemarketing orders with an average order size of \$912 in 2002.

*Catalogs.* The Company published 13 editions of its PC Mall catalog during 2003 and distributed approximately 10.4 million PC Mall catalogs, a decrease of 5% compared to 11.0 million catalogs distributed in 2002. The Company published 14 editions of its MacMall catalog in 2003 and distributed approximately 22.9 million catalogs, a decrease of 8% compared to the 24.8 million catalogs distributed in 2002. Active PC Mall and MacMall customers receive a catalog several times a year depending upon purchasing history, and the Company includes a catalog with most orders shipped, as well as special promotional flyers and manufacturers' product brochures. The Company also published and distributed ClubMac, eCOST.com, Mac Software and PC Mall Gov catalogs in 2003, totaling an additional 39 editions, approximately 7.7 million catalogs.

The Company creates all of its catalogs in-house with its own design team and production artists using a Macintosh-based desktop publishing system. The in-house preparation of the catalogs streamlines the production process, provides greater flexibility and creativity in catalog production, and results in significant cost savings over outside production.

*The Internet.* The Company operates several worldwide web sites on the Internet, including pcmall.com, macmall.com, clubmac.com, pcmallgov.com, ecost.com and onsale.com. The Company offers many advanced Internet features such as on-line ordering, access to inventory availability and a large product selection with detailed product information. The Company also maintains and operates an extranet for its corporate customers, called "Corporate Access Pages" or CAP sites. CAP sites provide custom catalogs and online purchasing channels for corporate customers and their employees. CAP sites enhance sales productivity by allowing customers to perform routine tasks online, freeing the account executive's time for acquiring new customers. Sales generated through the Internet have grown rapidly for the Company as it offers its customers a convenient means of shopping and ordering its products. The Company's web sites also serve as another source of new customers. In 2003, the Company shipped approximately 768,000 Internet-related orders, a 30.8% increase over the 587,000 Internet orders shipped in 2002.

*Vendor Supported Marketing.* The Company sells advertising space in the Company's catalogs and on the Company's Internet sites, and provides vendor supported Outbound telemarketing campaigns. These advertising sales generate revenues that offset a substantial portion of the expense of publishing and distributing the catalogs. The Company also develops marketing campaigns designed to maximize product sales.

*National Off-Page Advertising.* The Company attracts new catalog customers and generates orders through large multi-page color advertisements in major publications such as Computer Shopper, Federal Computer Week, Government Technology, MacWorld, Mac Home, Mac Today, and Mac Addict. During 2003, the Company purchased 186 pages of magazine advertising.

*Corporate Sales.* The specific needs of corporate buyers are fulfilled through a combination of inbound and Outbound telemarketing sales force, as well as a direct sales force through the Company's CCIT and Wareforce subsidiaries. The Company's sales staff builds long-term relationships with corporate customers through regular phone contact and personalized service. Corporate customers may choose from several purchase or lease options for financing product purchases, and the Company extends credit terms to certain corporate customers.

*Customer Return Policy.* The Company offers a limited return policy on a number of its products, subject to vendor terms and conditions. Returns are monitored to identify trends in product acceptance and defects, to enhance customer satisfaction and to reduce overall returns.

## **Products and Merchandising**

The Company offers hardware, software, peripherals, components and accessories for users of computer products, as well as electronics equipment and other consumer products. The Company screens new products and selects products for inclusion in its catalogs and web sites based on features, quality, sales trends, price, margins, cooperative/market development funds and warranties. The Company offers its customers other value-added services, such as the ability to purchase systems that have been specifically configured to meet the customer's requirements. Through frequent mailings of its catalogs and e-mails to its customers, the Company is able to quickly introduce new products and replace slower selling products with new products.

The following table sets forth the Company's net sales by major product category as a percentage of total net sales for the periods presented.

	<u>Year Ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Computer systems	36.8%	36.9%	39.0%
Peripherals, components and accessories	42.2	42.1	45.5
Software	12.3	12.1	10.4
Other <sup>(1)</sup>	<u>8.7</u>	<u>8.9</u>	<u>5.1</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

(1) Other consists primarily of other electronic products, income from configuration charges, sales of extended warranties, and other consumer products.

*Computer Systems.* The Company offers a large selection of desktop, laptop and server systems from leading manufacturers including Apple, HP, IBM, Sony, Toshiba and others.

*Peripherals, Components and Accessories.* The Company offers a large selection of peripheral and component products from manufacturers such as 3Com, Apple, Canon, Cisco, EMC, Epson, HP, IBM, Iomega, Kingston, NEC/Mitsubishi, Sony, Viewsonic and Xerox. Peripherals and components include printers, monitors, data storage devices, add-on circuit boards, connectivity products and communications products. The accessories offered by the Company include a broad range of computer-related items and supplies such as toner, ink cartridges, magnetic tape, cables and connectors.

*Software.* The Company sells a wide variety of software packages in the business and personal productivity, enterprise, utility, language, graphics and video editing categories, including word processing, spreadsheet and database software. The Company offers a large number of software programs and licenses from established vendors, such as Adobe, Apple, Computer Associates, Filemaker, Intuit, Lotus/IBM, Macromedia, Microsoft, Network Associates, Quark, and Symantec, as well as numerous specialty products from new and emerging vendors.

### **Purchasing and Inventory**

The Company believes that effective purchasing is a key element of its business strategy to provide name brand computer products and related software and peripherals at competitive prices. The Company believes that its high volume of sales results in increased purchasing power with its primary suppliers, resulting in volume discounts, favorable product return policies and vendor promotional allowances. During 2003, the Company purchased products from over 1,200 vendors. During 2003, 2002 and 2001, products manufactured by Apple represented approximately 20.4%, 23.1% and 24.1% of net sales, respectively. Products manufactured by HP accounted for 20.9% of net sales in 2003, 17.8% of net sales in 2002 and 17.3% of net sales in 2001. The Company is also linked electronically with eleven distributors or manufacturers, which allows account executives to view distributor product availability

