UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1999

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

CREATIVE COMPUTERS, INC.

Delaware	95-4518700
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2555 West 190th Street, Torrance, California 90504
(Address of principal executive offices)(Zip Code)

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:

Title of each class

Common Stock, $.001 par value

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 Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment this Form 10-K. ☐

As of March 28, 2000, the aggregate market value of the Common Stock held by non-affiliates of the Registrant was approximately $77 million. The number of shares outstanding of the Registrant's Common Stock as of March 28, 2000 was 10,409,726.

Documents incorporated by reference into Part III: Portions of the definitive Proxy Statement for the Registrant’s 2000 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

CREATIVE COMPUTERS, INC.

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PART I

ITEM 1. BUSINESS

General

Creative Computers, Inc. (the "Company"), founded in 1987, is a direct marketer of personal computer hardware, software, peripheral products and consumer electronics. The Company offers products to individual consumers, home offices, small businesses and large corporations through direct response catalogs, dedicated inbound and outbound telemarketing sales executives, the Internet, a direct sales force, and a retail showroom. The Company offers a broad selection of products through its six worldwide web sites on the Internet, ecost.com, pcmall.com, macmall.com, computability.com, ccit-inc.com and elinux.com, and its distinctive full-color catalogs, including MacMall, PC Mall Business Solutions, PC Mall.com, and ComputAbility and other promotional materials. The Company's staff of knowledgeable telemarketing sales executives, customer service and technical support personnel work together to serve customers by assisting in product selection and offering technical assistance. The Company believes that its high level of customer service results in customer loyalty and repeat customer orders. The Company recently announced its plans to intensify its focus on the Internet and business-to-business markets by developing its growing portfolio of web site properties.

In 1997, the Company acquired and assimilated two marketers of personal computer hardware and software products, Elek-Tek, Inc. (currently operating as CCIT) and ComputAbility, Ltd. During 1997, the Company operated four retail showrooms in Southern California under the name Creative Computers and three retail showrooms in Illinois and one retail showroom in Indiana under the name of Elek-Tek. In the first quarter of 1998, the Company closed all but one of its showrooms to focus its efforts on its catalog, corporate and Internet channels. Net sales from the Company's retail showroom operations were $67.8 million, $43.6 million and $34.7 million for the years ended December 31, 1997, 1998 and 1999, representing 12.4%, 6.8% and 4.7% of net sales, respectively.

In September 1997, the Company formed a wholly-owned subsidiary, *u*Bid, 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, the Company owned 80.1% of the outstanding Common Stock of *u*Bid. On June 7, 1999, the Company divested its ownership in *u*Bid by means of a tax-free distribution of all of its remaining 7.3 million shares of *u*Bid Common Stock to the Company's stockholders of record as of May 24, 1999.

In February 1999, the Company formed eCOST.com as a wholly-owned subsidiary. eCOST.com is a multi-category Internet retailer of computer products and electronics, and offers a broad selection of name-brand products, most of which are sold at competitive prices plus itemized fees for processing and shipping the order. In December 1999, the Company formed eLinux.com as a wholly-owned subsidiary to focus on products and services directed to the Linux community.

In 1999, the Company operated in two reportable business segments: Direct marketing and multi-category Internet retailing. The direct marketing segment consists of retail sales of personal computers, hardware, software, peripheral products and consumer electronics under the PCMall, MacMall, ComputAbility and CCIT brands, and the multi-category Internet segment consists of retail sales of computer products and electronics under the eCOST.com brand. The Company no longer operates in the Internet Auction segment as a result of the spin-off of *u*Bid in 1999. For segment information relating to net sales, operating income and assets, see Note 12 to the Company's financial statements included herein.

Strategy

The Company's strategy is to be a leading high-volume, cost-effective direct marketer of a broad range of personal computers, software and related products, focusing on the Internet and business-to-business markets. Specific elements of the Company's operating strategy include:

Leverage of Internet Leadership Position. 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. *u*Bid completed a successful initial public offering ("IPO") in December 1998, and the Company subsequently distributed to its stockholders all of its remaining shares of *u*Bid in June 1999.

In March 1999, the Company launched the eCOST.com web site, which offers a broad selection of name-brand products, most of which are sold at discount prices. Customers are provided an itemized description of the fees associated with processing their orders, including a handling fee to cover warehousing, order processing, systems and overhead costs, and a shipping fee. With the introduction of eCOST.com, the Company believes that it is among the first full-spectrum Internet resellers in the personal computing marketplace, offering customers many different ways to purchase computer hardware, software, peripherals and consumer electronics.

In February 2000, the Company launched its newest Internet venture, eLinux.com, to offer complete multi-vendor Linux solutions, including Linux compatible products, consulting and support services, and community. eLinux.com serves the rapidly growing Linux community by providing multi-vendor Linux solutions and custom configurations of Linux-based systems and compatible products through its secure web site.

Core Business Focus. The Company's core business is built around its catalog, Internet and business-to-business sales to various customer bases. PC Mall.com focuses on marketing computers and related products to small businesses with fewer than 100 employees, as well as high-end consumers. PCM.com Business Solutions focuses on marketing servers, desktops and network equipment to businesses with 100 or more employees. CCIT is a field service organization focusing on Fortune 1000 companies.

Continued Expansion into Outbound Telemarketing. During 1999, the Company continued to intensify its outbound telemarketing efforts to focus on the under-served small and medium-size business market. The Company believes this market represents a high potential growth opportunity. Outbound business-to-business sales can also be more profitable than inbound sales due to reduced advertising and higher average order size. The Company's strategy is to rapidly expand its outbound sales executive workforce and mine its catalog customer database as well as purchased name lists for prospects. During 1999, the Company continued to hire experienced outbound telemarketing executives to manage this initiative and experienced outbound telemarketing recruiters to expand the outbound sales executive workforce. The Company also commissioned the development of a new comprehensive training program for outbound sales executives. The Company expects to continue to invest in outbound telemarketing and prospect its catalog database for sales leads. The Company expects that its outbound telemarketing initiative will transform the Company's customer sales mix to an even higher percentage of business customer sales.

Focus on the Windows/Intel (WINTEL) Market. The Company launched its first PC catalog, PC Mall, primarily for WINTEL customers, in May 1995. The Company published seven editions of PC Mall with a total circulation of 11.1 million copies in 1995. Since then, the PC Mall catalog has expanded into two catalogs, PC Mall.com and PC Mall Business Solutions, with fourteen editions each in 1999, and total combined circulation of 21.2 million. Combining ComputAbility's 1999 catalog circulation of 6.3 million, total WINTEL revenues were $410 million, a 13% or $47 million increase over 1998 WINTEL revenue of $363 million.

The Company is authorized or otherwise has the ability to sell IBM, Compaq, Hewlett-Packard, Sony, Toshiba and other name brand computers. The Company has rapidly become one of the leading catalog resellers of WINTEL products since the start of its WINTEL initiative in 1995.

Continued Macintosh Marketshare Expansion. Throughout 1999, the Company continued to be a leading direct marketer of Macintosh products, offering the full line of Apple as well as related products. The Company's sales of Mac-related products in 1999 increased 15% to $322 million from $279 million in 1998. During 1999, the Company published fourteen editions of its MacMall catalog with a circulation of 31.5 million copies, a 5% decrease from the prior year's 33.0 million circulation and a 13% decrease from the 36.0 million copies circulated in 1997. Although total catalog circulation has decreased, the Company has focused on expanding its presence by marketing through its MacMall.com web site.

Marketing Database Growth. The Company has compiled a proprietary mailing list of over five million names of previous and potential customers. The database is continually analyzed to target customer types and increase response and purchase rates. The Company's response rate (calculated by dividing the number of orders generated by the number of catalogs distributed) for its proprietary mailing list during 1999 was higher than its response rate for third party mailing lists.

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 on-going customer service and returns-related issues. Additionally, sales executives bring other expertise to bear as needed from within the Company including Novell-trained Certified Network Engineers (CNE), Microsoft Windows NT specialists (MCSE) and Apple-certified technicians.

Marketing and Sales

The Company designed its various marketing programs to attract new customers and to stimulate additional purchases by previous customers. The Company continuously attracts new customers by selectively mailing catalogs to prospective customers as well as through advertising on the Internet and in major computer user magazines, such as PC World, PC Magazine, Computer Shopper and MacWorld. 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 individual consumers, home offices, small businesses and large corporations. During 1999, the Company shipped approximately 874,000 mail order/catalog orders with an average order size of $639. The Company distributes its catalogs throughout the United States.

Catalogs. The Company published twenty-eight editions of its PC Mall Business Solutions and PC Mall.com catalogs during 1999 and distributed approximately 21.2 million catalogs. PC Mall customers receive a catalog several times a year depending on purchasing history. In addition, the Company includes a catalog with every order shipped, as well as special promotional flyers and manufacturers' product brochures.

The Company published fourteen editions of MacMall in 1999 and distributed approximately 31.5 million catalogs. Active MacMall customers receive a catalog several times a year depending upon purchasing history, and the Company includes a catalog with every order shipped, as well as special promotional flyers and manufacturers' product brochures.

The Company creates all of its catalogs in-house with its own design team and production artists using a computer-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 maintains worldwide web sites on the Internet that can be accessed via its four catalog names, pcmall.com, macmall.com, computability.com and ccit-inc.com, as well as eCOST.com and eLinux.com. The Company also maintains direct links to its PC Mall and eCOST.com web sites on AOL (through the AOL Shopping Channel), and direct links to its eCOST.com site on MSN.

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. 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. In addition, the Company's web sites also serve as another source of new customers. In 1999, the Company shipped approximately 336,000 Internet orders, with an average order size of $414.

Outbound and Inbound Telemarketing. The Company believes that much of its success has come from the quality and training of its telemarketing sales executives. These sales executives are responsible for assisting customers in purchasing decisions, answering product pricing and availability questions and processing product orders. Telemarketing sales executives have the authority to vary prices within specified parameters in order to meet prices of competitors. In addition to product training, the sales executives are trained in systems and networking solutions, sales techniques, phone etiquette and customer service. Telemarketing sales executives attend frequent training sessions to stay up-to-date on new products. Sales executives staff the Company's toll-free order numbers 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. The computer system maintains a database listing previous customer purchases, which allows telemarketing sales executives to make product suggestions that fit each customer's specific buying preferences and to offer the latest upgrades for products previously purchased from the Company.

Vendor Supported Marketing. The Company currently has a marketing team that sells advertising space in the Company's catalogs, advertising on the Company's Internet sites and vendor supported outbound marketing campaigns. These advertising sales generate revenues which offset a substantial portion of the expense of publishing and distributing the catalogs. The same marketing team develops marketing campaigns to maximize product sales.

National Off-Page Advertising. The Company continuously attracts new catalog customers and generates orders through large multi-page color advertisements in major publications such as PC World, PC Magazine, Computer Shopper and MacWorld. During 1999, the Company purchased 404 pages of magazine advertising.

Corporate Sales. The specific needs of corporate buyers are fulfilled through a combination of inbound and outbound full-time sales personnel as well as a direct sales force through its CCIT subsidiary. 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 30-day 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 consumer electronics equipment. 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 and percentage of net sales by major product category for the periods presented.

	Year Ended December 31, (in millions of dollars)					
	1997	%	1998	%	1999	%
Computer systems..........	$231.1	42.3%	$270.9	42.2%	$321.2	43.9%
Peripherals, components and accessories...........	247.9	45.4	291.7	45.4	322.0	44.0
Software.......................	60.9	11.2	68.5	10.7	72.0	9.8
Other (1)......................	6.2	1.1	10.9	1.7	16.8	2.3
Total........................	$546.1	100.0%	$642.0	100.0%	$732.0	100.0%

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

Computer Systems. In connection with the Company's expansion into the WINTEL market, the Company has obtained catalog sales authorizations or otherwise has the ability to sell WINTEL products from the major WINTEL-platform hardware manufacturers, including IBM, Compaq, Hewlett-Packard, Sony, Toshiba and others. The Company is also authorized to sell the full line of Apple hardware.

Peripherals, Components and Accessories. The Company offers a large selection of peripheral and component products from manufacturers such as Apple, Hewlett-Packard, Sony, Epson, 3Com, US Robotics, IBM, Iomega and Compaq. Peripherals and components include printers, modems, 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 diskettes, cables and connectors.

Software. The Company sells a wide variety of software packages in the business and personal productivity, utility, language, educational and entertainment categories, including word processing, spreadsheet and database software. The Company offers a large number of software programs and licenses from established vendors, such as Microsoft, Corel, Adobe, Symantec, Quark, Lotus, Macromedia and Intuit as well as numerous specialty products from new and emerging vendors. The Company also markets upgrades from certain vendors, such as Symantec, Corel, Lotus and Microsoft, which the Company believes offer incremental revenue opportunities.

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 1999, the Company purchased products from over 560 vendors. During 1997, 1998 and 1999, products manufactured by Apple represented approximately 21.4%, 20.0% and 25.4% of net sales, respectively. The Company is also linked electronically with four large distributors, which allows account executives to view distributor product availability on line and drop-ship product directly to their customers. The benefits of this program, known as virtual warehouse, include reduced inventory carrying costs and improved inventory turns. The Company intends to expand its use of virtual warehouse in the future.

Most key vendors have agreements to provide market development funds to the Company, whereby such vendors finance portions of the cost of catalog publication and distribution based upon the amount of coverage given in the catalogs for their products. Termination or interruption of the Company's relationships with its vendors, or modification of the terms of or discontinuance of the Company's agreements with its vendors, could adversely affect the Company's operating results. The Company's success is dependent in part upon the ability of its vendors to develop and market products that meet the changing requirements of the marketplace. As is customary in the industry, the Company has no long-term supply contracts with any of its vendors. Substantially all of the Company's contracts with its vendors are terminable upon 30 days' notice or less.

The Company attempts to manage its inventory position to generate the highest levels of customer satisfaction possible while limiting inventory risk. The Company believes that it has increased its ability to provide constrained products, which it believes is an important competitive advantage; and the Company invested in this strategy heavily during 1999. The Company's average annual inventory turns were 9.9 times in 1997, 13.5 times in 1998 and 16.4 times in 1999. Inventory levels may vary from period to period, due in part to increases or decreases in sales levels, the Company's practice of making large-volume purchases when it deems the terms of such purchases to be attractive and the addition of new manufacturers and products. The Company has negotiated agreements with many of its vendors that contain price protection provisions intended to reduce the Company's risk of loss due to manufacturer price reductions. The Company currently has such rights with respect to products which it purchases from Apple, IBM, Compaq, Hewlett Packard and certain other vendors; however, such rights vary by product line, have other conditions and limitations and can be terminated or changed at any time.

The market for computers, computer products, peripherals, software and electronics is characterized by rapid technological change and a growing diversity of products. The Company's success depends in large part on its ability to identify and obtain the right to market products that will meet the changing requirements of the marketplace and to obtain sufficient quantities of product to meet changing demands. There can be no assurance that the Company will be able to identify and offer products necessary to remain competitive or avoid losses related to excess or obsolete inventory.

Distribution

The Company operates a full-service 325,000 square foot distribution center in Memphis, Tennessee. The centralized distribution operations, strategically located near the Federal Express hub in Memphis, allow most orders of in-stock products accepted by 10:00 p.m. Eastern Standard Time to be shipped for delivery by 10:30 a.m. the following day via Federal Express. Upon request, orders may also be shipped at a lower cost by United Parcel Ground Service. As of December 31, 1999, the Company subleases 175,600 square feet of the Company's 325,000 square foot facility to *u*Bid, Inc. under two sublease agreements. The first sublease agreement covers 105,600 square feet, and is co-terminus with the building lease. The remaining 70,000 square feet is covered in a sublease agreement expiring in 2001.

When an order is entered into the system, a computer credit check or credit card verification is performed and, if approved, the order is electronically transmitted to the warehouse area, and a packing slip is printed for order fulfillment. Orders fulfilled by certain distributors linked electronically with the Company are transmitted directly to their warehouses. All inventory items are bar coded and located in computer-designated areas which are easily identified on the packing slip. All orders are checked with bar code scanners prior to final packing to ensure that each order is packed correctly.

The Company believes that its existing distribution facilities are currently adequate for its needs.

Management Information Systems

The Company has committed significant resources to the development of a sophisticated computer system which is used to manage all aspects of its business. The Company's computer system supports telemarketing, marketing, purchasing, accounting, customer service, warehousing and distribution, and facilitates the preparation of daily operating control reports which provide concise and timely information regarding key aspects of its business. The system allows the Company to, among other things, monitor sales trends, make informed purchasing decisions and provide product availability and order status information. In addition to the main computer system, the Company has a system of networked personal computers, which facilitates data sharing. The Company also applies its management information systems to the task of managing its inventory. The Company currently operates its management information system using a Hewlett Packard HP3000 Enterprise System and has a back-up system available in the event of a system failure. The Company believes that in order to remain competitive it will be necessary to upgrade its management information systems on a continuing basis.

The Company's success is in part dependent on the accuracy and proper utilization of its management information systems and its telephone system. In addition to the costs associated with system upgrades, the transition to and implementation of new or upgraded hardware or software systems can result in system delays or failures. Any interruption, corruption, degradation or failure of the Company's management information systems or telephone system could impact its ability to receive and process customer orders on a timely basis.

Retail Computer Showrooms

During the first quarter of 1998, the Company closed seven retail showrooms to focus its efforts on its business-to-business and Internet channels of distribution. The Company recorded a one-time pretax restructuring charge of $10.5 million relating to exit costs associated with the closing of retail operations. Recorded in selling, general and administrative costs were $3.1 million of goodwill write-offs, $1.9 million of fixed asset write-offs, $1.5 million of reserves for lease exit costs, and $0.3 million of employee-related severance costs. Recorded as cost of sales were $3.7 million of reserves for store inventory. The Company currently operates one retail computer showroom, located in Santa Monica, California.

Competition

The retail business for personal computers and related products is highly competitive. The Company competes with other direct marketers, including MicroWarehouse, CDW, Multiple Zones, Insight Direct, PC Connection and Global Direct. The Company also competes with Internet retailers such as buy.com, onvia.com, egghead.com and beyond.com. In addition, the Company competes with computer retail stores and resellers including superstores such as CompUSA and Best Buy, corporate resellers such as Compucom, Entex and Inacom, certain hardware and software vendors such as Gateway and Dell Computer which sell directly to end users, and other direct marketers of hardware, software and computer-related products. Barriers to entry are relatively low in the direct marketing industry and the risk of new competitors entering the market is high. The market in which the Company's retail showroom operates is also highly competitive.

The manner in which personal computers, software and related products are distributed and sold is changing, and new methods of sales and distribution have emerged, such as the Internet. Technology now allows software vendors the ability to sell and download programs directly to consumers, if so desired. In addition, in recent years the industry has generated a number of new, cost-effective channels of distribution such as computer superstores, consumer electronic and office supply superstores, national direct marketers and mass merchants. Computer resellers are consolidating operations and acquiring or merging with other resellers to achieve economies of scale and increased efficiency. In addition, traditional retailers have entered and may increase their penetration into the direct mail channel. The current industry reconfiguration and the trend toward consolidation could cause the industry to become even more competitive, further increase pricing pressures and make it more difficult for the Company to maintain its operating margins or to increase or maintain the same level of net sales or gross profit.

Although many of the Company's competitors have greater financial resources than the Company, the Company believes that its ability to offer the consumer a wide selection of products, at competitive prices, with prompt delivery and a high level of customer service, and its good relationships with its vendors and suppliers, allow it to compete effectively. There can be no assurance that the Company can continue to compete effectively against existing or new competitors that may enter the market. The Company believes that competition may increase in the future, which could require the Company to reduce prices, increase advertising expenditures or take other actions which may have an adverse effect on the Company's operating results.

Employees

As of December 31, 1999, the Company had 980 full-time employees, including 132 people at the Company's distribution center. The Company emphasizes the recruiting and training of high quality personnel and, to the extent practical, promotes people to positions of increased responsibility from within the Company. Each employee initially receives training appropriate for his or her position, followed by varying levels of training in computer technology, communication and leadership. New account executives participate in an intensive six-week training program, during which time they are introduced to the Company's philosophy, available resources, products and services, as well as basic and advanced sales skills. Training for specific product lines and continuing education programs for all employees are conducted on an ongoing basis, supplemented by vendor-sponsored training programs for all sales executives and technical support personnel.

The Company's employees are generally compensated on a basis that rewards performance and the achievement of identified goals. For example, sales executives receive compensation pursuant to a commission schedule which is based primarily upon aggregate sales, gross profit dollars and gross profit percentage generated from their sales efforts. The Company believes that these incentives positively impact its performance and operating results.

The Company considers its employee relations to be good. None of the Company's employees is represented by a labor union, and the Company has experienced no work stoppages.

Since its formation, the Company has experienced rapid growth. As a result of this growth, the Company has added a significant number of employees and has been required to expend considerable effort in training these new employees.

Properties

The Company's facilities at December 31, 1999 were as follows:

Description	Sq. Ft.	Location
Creative Computers Corporate Headquarters	143,532	Torrance, CA
Distribution Center	325,000	Memphis, TN
Retail Showroom...	13,050	Santa Monica, CA
CCIT Corporate Headquarters	25,840	Elk Grove Village, IL
Kansas Property..	32,800	Lenexa, KS
CCIT Colorado Corporate Sales	2,315	Englewood, CO
ComputAbility Corporate Headquarters...................	15,000	Milwaukee, WI
ComputAbility Sales Office....................................	15,000	Milwaukee, WI

The Company leases all of its facilities, except for the following: 9,750 square feet of the Santa Monica retail showroom, the Lenexa property, and the ComputAbility Corporate headquarters, each of which is owned by the Company. The Company's distribution center serves the Company's catalog, ComputAbility and eCOST.com operations, as well as its retail showrooms, and includes shipping, receiving, warehousing and administrative space. The Company subleases 175,600 square feet of its distribution center to *u*Bid Inc. The following leases have remaining terms greater than two years: Creative Computers corporate headquarters, Memphis distribution center and CCIT corporate headquarters. All of the other leases have remaining terms less than two years. During the fourth quarter of 1997, the Company consolidated its headquarters facility and its telemarketing operations into a 160,000 square foot building in Torrance, California. The one-time charge for the move was $0.8 million.

During the first quarter of 1998, the Company closed all of its retail showrooms except for its Santa Monica showroom. The Company recorded a one-time $1.5 million reserve for lease exit costs during the first quarter of 1998. The Company intends to sell its Lenexa, Kansas building and its ComputAbility Corporate Headquarters.

In February 2000, the Company signed an agreement to lease 35,503 square feet in Milwaukee, Wisconsin to support the expansion of the Wisconsin sales force. This lease will replace the existing ComputAbility Sales Office lease, which expired in January 2000, and the ComputAbility Corporate Headquarters.

Regulatory and Legal Matters

The direct response business as conducted by the Company is subject to the Merchandise Mail Order Rule and related regulations promulgated by the Federal Trade Commission and laws or regulations directly applicable to access to or commerce on the Internet. While the Company believes it is currently in compliance with such laws and regulations and has implemented programs and systems to address its ongoing compliance with such regulations, no assurances can be given that new laws or regulations will not be enacted or adopted which might adversely affect the Company’s operations. Due to the increasing popularity and use of the Internet, it is possible that a number of laws and regulations may be adopted with respect to the Internet. The growth and development of the market for Internet commerce may prompt calls for more stringent consumer protection laws that may impose additional burdens on those companies conducting business over the Internet. The adoption of any additional laws or regulations may decrease the growth of the Internet, which, in turn, could decrease the demand for and growth of the Company’s Internet-based sales.

The Company, or various subsidiaries, currently collects and remits sales tax only on sales of its products to residents of the states in which the Company or its respective subsidiaries has a physical presence. Various states have sought to impose on direct marketers with no physical presence in the taxing state the burden of collecting state sales and use taxes on the sale of products shipped to those states’ residents, and it is possible that such a requirement could be imposed in the future.

A number of proposals have been made at the federal, state and local level, and by certain foreign governments, that would impose additional taxes on the sale of goods and services over the Internet. In October 1998, Congress passed the Internet Tax Freedom Act (the “ITFA”). The stated purpose of the ITFA is neutral tax treatment of economic activity, electronic or otherwise. The ITFA prohibits state and local taxes that discriminate against or single out the Internet. As part of the ITFA, Congress created a committee to conduct an 18-month study of whether use of or sales on the Internet should be taxed and, if so, how taxes could be applied without subjecting the Internet and electronic commerce to special, discriminatory or multiple taxation. Although it is not an issue specific to the Internet, one of the agenda items for the committee set up as part of the ITFA is a review of the sales tax “nexus” issue as it relates to all direct marketers. There can be no assurance the committee’s report to Congress will not ultimately result in a modification by legislation of the Supreme Court's favorable rulings regarding sales and use taxation on out of state marketers.

Executive Officers

The executive officers of the Company as of March ____, 2000 and their respective ages and positions are as follows:

Name	Age	Position
Frank F. Khulusi..............................	33	Chairman of the Board and Chief Executive Officer
Scott W. Klein	42	President
Theodore R. Sanders........................	45	Chief Financial Officer
Daniel J. DeVries	38	Executive Vice President - Marketing and Sales

The following is a biographical summary of the experience of the executive officers:

Frank F. Khulusi is a co-founder of the Company and has served as Chairman of the Board and Chief Executive Officer of the Company since the Company's inception in 1987, and served as President until July 1999. Mr. Khulusi attended the University of Southern California.

Scott W. Klein has served as President of Creative Computers since July 1999. In May 1999, Mr. Klein joined the Creative Computers organization as the President and CEO of eCOST.com. Prior to joining the Company, Mr. Klein was Executive Vice President and COO of PrimeSource Building Products, Inc. from 1984 to May 1999, where he oversaw sales, marketing, distribution and MIS and held a position on the Board of Directors. From 1981 to 1984, Mr. Klein was a Director of Marketing for Pepsi Co. Mr. Klein also worked in Brand Management at Procter & Gamble. Mr. Klein received a B.S. degree in Accounting from Syracuse University.

Theodore R. Sanders has served as Chief Financial Officer since September 1998 and was Vice President - Controller of the Company from May 1997 to September 1998. Prior to joining the Company, Mr. Sanders spent ten years with the Pittston Company in various senior finance roles including Controller of its Burlington Air Express Global division and Director of Internal Audit. Mr. Sanders started his career with Deloitte & Touche and rose to the position of Manager. Mr. Sanders is a C.P.A. and received a B.S.B.A. degree from Nichols College.

Daniel J. DeVries has served as Executive Vice President since February 1996 and was Senior Vice President from October 1994 to that time. Mr. DeVries is responsible for all marketing, sales, purchasing and the retail showroom. Mr. DeVries' marketing responsibilities include vendor co-op marketing, merchandising, database marketing and Internet marketing. From April 1993 to October 1994, he held various sales and marketing positions with the Company. From July 1988 to April 1993, Mr. DeVries was a Regional Manager for Sun Computers, a computer retailer.

CERTAIN FACTORS AFFECTING FUTURE RESULTS

This Annual Report on Form 10-K, including the sections entitled "Business," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other sections of this Report, contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. Words such as "expect," "anticipate," "intend," "plan," "believe," "estimate," "may," "will," "should," "seeks" and variations of such words and similar expressions are intended to identify such forward-looking statements. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and the Company is including this statement for purposes of complying with these safe harbor provisions. The Company has based these forward-looking statements on its current expectations and projections about future events. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions, and actual results could differ materially as a result of several factors, including those set forth under this section entitled "Certain Factors Affecting Future Results" and elsewhere herein. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

(1) The loss of a key vendor or decline in demand for products of a key vendor, such as Apple, may reduce sales and adversely affect operating results.

(2) Intense competition may lead to reduced prices and lower gross margins.

(3) The Company's narrow margins magnify the impact on operating results of variations in operating performance. A number of factors may reduce the Company's margins even further.

(4) Seasonal variations in the demand for products and services, as well as the introduction of new products, may cause variations in the Company's quarterly results.

(5) The availability (or lack thereof) of capital on acceptable terms may hamper the Company in its efforts to fund its increasing working capital needs.

(6) The failure of the Company to adequately manage its growth, including the integration of acquired companies, may adversely impact the Company's results of operations.

(7) A failure of the Company's information systems may adversely impact the Company's results of operations.

(8) The loss of a key executive officer or other key employee may adversely impact the Company's operations.

(9) The inability of the Company to obtain products on favorable terms may adversely impact the Company's results of operations.

(10) The Company's operations may be adversely impacted by an acquisition that is either (i) not suited for the Company or (ii) improperly executed.

(11) The Company's financial condition may be adversely impacted by a decline in value of a portion of the Company's inventory.

(12) The failure of certain shipping companies to deliver product to the Company, or from the Company to its customers, may adversely impact the Company's results of operations.

(13) The failure of the Company to respond adequately to changes in consumer preferences, such as the use of the Internet for purchasing, may adversely affect the Company's business and results of operations.

(14) Rapid technological change may alter the market for the Company's products and services, requiring the Company to anticipate such technological changes, to the extent possible.

(15) The failure of the Company to attract and retain skilled personnel may adversely affect the Company's business and results of operations.

It is not reasonably possible to itemize all of the many factors and specific events that could affect the Company and/or the computer products and electronics industry as a whole. However, the discussion below discusses in more detail some of the foregoing factors, as well as additional factors which may affect the Company's actual results and cause such results to differ materially from those projected, forecasted, estimated, budgeted or otherwise expressed in any "forward-looking statements."

Our addition of a new business focus could subject us to risks commonly associated with a new company

We have historically operated as a direct marketer of computer products, and have only recently expanded our business model to include a focus on the Internet and business-to-business markets by developing our portfolio of web site properties. We have only been active in this new line of business since 1995 when we launched the PCMall.com web site. We established uBid.com, an online auction web site in 1997, our eCOST.com web site in March 1999 and our eLinux.com web site in February 2000, and plan to continue our focus on the Internet and business-to-business market in the future. We do not have a significant operating history upon which you can evaluate our new business focus, and you should not rely upon past performance to predict our future performance. In adding a new business focus, we expect that we will have to make changes to our business operations, sales and implementation practices, customer service and support operations and management focus. We are also facing new risks and challenges, including a lack of meaningful historical financial data upon which to plan future budgets, reliance on the growth and use of the Internet to generate commercial opportunities, competition from a wider range of sources, the need to develop strategic relationships and other risks. We cannot guarantee that we will be able to successfully transition to this new business focus.

Dependence on Apple

The Company is dependent on sales of Apple computers and software and peripheral products used with Apple computers. Products manufactured by Apple represented approximately 21.4%, 20.0% and 25.4% of the Company's net sales in 1997, 1998 and 1999, respectively. A decline in sales of Apple computers or a decrease in supply of or demand for software and peripheral products for such computers could have a material adverse impact on the Company's business. During parts of 1997 and 1999, certain Apple computers were in short supply. A continuation of such shortages or future shortages could adversely affect the Company's operating results. The Company is an authorized dealer for the full retail line of Apple products; however, the Company's dealer agreement with Apple is terminable upon 30 days' notice. The Company's business would be adversely affected if all or a portion of the line of Apple products was no longer available to the Company. The Company's success is, in part, dependent upon the ability of Apple to develop and market products that meet the changing requirements of the marketplace. To the extent that these products are not available to the Company, the Company could encounter increased price and other competition, which would adversely affect the Company's business, financial condition and results of operations.

Rapid Growth

Since its formation, the Company has experienced rapid growth. Net sales have grown from $8.7 million in 1990 to $732.0 million in 1999. The Company's catalog sales grew from $117.9 million in 1994 to $558.2 million in 1999. Internet sales on its pcmall.com, macmall.com, computability.com, ecost.com and ccit-inc.com web sites grew from $15.6 million in 1997 to $139.0 million in 1999. As a result of the Company's shift from the retail showroom to the Internet sales and catalog distribution channels, retail showroom sales have decreased from 28.0% of net sales in 1994 to 4.7% in 1999. During the first quarter of 1998, the Company closed seven retail showrooms to focus its efforts on its catalog, corporate and Internet channels of distribution. The Company recorded a one-time pretax restructuring charge of $10.5 million in the first quarter of 1998 relating to exit costs, asset write-offs, other charges and related goodwill. In response to the growth in catalog sales, the Company has rapidly added a significant number of employees and has been required to expend considerable efforts in training these new employees. This growth has placed strains on the Company's management, resources and facilities. As part of its growth strategy, the Company acquired Elek-Tek and ComputAbility in 1997 and may, in the future, acquire other companies in the same or complementary lines of business. These acquisitions and any such acquisition and the ensuing integration of the operations of the acquired company with those of the Company place additional demands on the Company's management, operating and financial resources. The Company's success will, in part, be dependent upon the ability of the Company to manage growth effectively. In addition, the Company's business and growth could be affected by the spending patterns of existing or prospective customers, the cyclical nature of capital expenditures of businesses, continued competition and pricing pressures, changes in the rate of development of new technologies and new products by manufacturers, acceptance by end-users and other trends in the general economy. There can be no assurance that the Company's historical growth rates will continue in the future.

In connection with the Company's expansion into the WINTEL market, the Company has obtained catalog sales authorizations or otherwise has the ability to sell WINTEL products from certain major hardware manufacturers, including IBM, Compaq, Hewlett-Packard, Sony, Toshiba, and others. Many of its current vendors of peripherals, components, accessories and software also offer WINTEL products. While the Company has been successful to date in becoming a major catalog reseller of WINTEL products, no assurances can be given that the Company will be able to maintain that position.

Competition

The retail business for personal computers, electronics and related products is highly competitive, based primarily on price, product availability, speed and accuracy of delivery, effectiveness of sales and marketing programs, credit availability, ability to tailor specific solutions to customer needs, quality and breadth of product lines and services, and availability of technical or product information. The Company competes with other direct marketers, including MicroWarehouse, CDW, Multiple Zones, Insight Direct, PC Connection and Global Direct. The Company also competes with Internet retailers such as buy.com, egghead.com and beyond.com. In addition, the Company competes with computer retail stores and resellers, including superstores, such as CompUSA, Best Buy, corporate resellers such as Compucom, Entex and Inacom, certain hardware and software vendors, such as Gateway and Dell Computer, which sell directly to end users, and other direct marketers of hardware, software and computer-related products. In the direct marketing and Internet retail industries, barriers to entry are relatively low and the risk of new competitors entering the market is high. Certain existing competitors of the Company have substantially greater financial resources than the Company. There can be no assurance that the Company can continue to compete effectively against existing competitors, consolidations of competitors or new competitors that may enter the market. In addition, price is an important competitive factor in the personal computer hardware, software and peripherals market and the market for electronics products, and there can be no assurance that the Company will not be subject to increased price competition, which may have an adverse effect on the Company’s business, financial condition and results of operations. There can be no assurance that the Company will not lose market share or that it will not be forced in the future to reduce its prices in response to the actions of its competitors and thereby experience a further reduction in its gross margins.

Narrow Operating Margins

As a result of intense price competition in the computer products and electroncs industry, the Company’s margins have historically been narrow and are expected to continue to be narrow. These narrow margins magnify the impact on operating results of variations in operating costs and of adverse or unforeseen events.

Potential Quarterly Fluctuations

The Company experiences variability in its net sales and net income on a quarterly basis as a result of many factors. These factors include the frequency of catalog mailings, introduction or discontinuation of new catalogs, the introduction of new products or services by the Company and its competitors, changes in prices from suppliers, the loss or consolidation of a significant supplier or customer, general competitive conditions including pricing, the Company's ability to control costs, the timing of capital expenditures, the condition of the personal computer industry and electronics in general, seasonal shifts in demand for computer and electronics products, industry announcements and market acceptance of new products or upgrades, deferral of customer orders in anticipation of new product applications, product enhancements or operating systems, the relative mix of products sold during the period, inability of the Company to obtain adequate quantities of products carried in its catalogs, delays in the release by suppliers of new products and inventory adjustments and expenditures by the Company on new business ventures. The Company's planned operating expenditures each quarter are based on sales forecasts for the quarter. If sales do not meet expectations in any given quarter, operating results for the quarter may be materially adversely affected. The Company's narrow margins may magnify the impact of these factors on the Company's operating results. The Company believes that period-to-period comparisons of its operating results should not be relied upon as an indication of future performance. In addition, the results of any quarterly period are not necessarily indicative of results to be expected for a full fiscal year. In certain future quarters, the Company's operating results may be below the expectations of public market analysts or investors. In such event, the market price of the Company's Common Stock could be materially adversely affected.

Dependence on Vendors

The Company purchases all of its products from vendors. Certain key vendors, including IBM, Hewlett Packard, Compaq and Apple, provide the Company with trade credit as well as substantial incentives in the form of discounts, credits and cooperative advertising. Most key vendors have agreements to provide, or otherwise have consistently provided, market development funds to the Company, whereby such vendors finance portions of the cost of catalog publication and distribution based upon the amount of coverage given in the catalogs to their respective products. Termination or interruption of the Company's relationships with one or more of these vendors, including Apple, or modification of the terms or discontinuance of the agreements with these vendors, could adversely affect the Company's operating income and cash flow. The Company's success is dependent in part upon the ability of its vendors to develop and market products that meet the changing requirements of the marketplace. Substantially all of the Company's contracts with its vendors are terminable upon 30 days' notice or less. In most cases, the Company has no guaranteed price or delivery arrangements with its suppliers. As a result, the Company has experienced and may in the future experience short-term inventory shortages on certain products. In addition, manufacturers who currently sell their products through the Company may decide to sell their products directly or through resellers or channels other than the Company. Further, the personal computer industry experiences significant product supply shortages and customer order backlogs from time to time due to the inability of certain manufacturers to supply certain products as needed. There can be no assurance that suppliers will be able to maintain an adequate supply of products to fulfill the Company's customers' orders on a timely basis or that the Company will be able to obtain particular products or that a product line currently offered by suppliers will continue to be available. Similarly, there can be no assurance that the Company will be able to obtain authorizations from new vendors which may introduce new products that create market demand.

Business Interruption; Facilities

The Company believes that its success to date has been, and future results of operations will be, dependent in large part upon its ability to provide prompt and efficient service to its customers. The Company has taken several precautionary steps to help minimize the impact of disasters that might cause business interruptions. There can be no assurance that a disruption will not occur; however, any disruption of the Company's day-to-day operations including those caused by natural disasters could have a material adverse effect upon the Company and any interruption, corruption, degradation or failure of the Company's management information systems, distribution center, web site or telephone system could impair its ability to receive and process customer orders and ship products on a timely basis. The Company does not have a redundant telephone system and does not have a backup or redundant call center.

Changing Methods of Distribution

The manner in which computer and electronics products are distributed and sold is changing, and new methods of sale and distribution, such as the Internet, have emerged. Computer hardware and software vendors have sold, and may intensify their efforts to sell, their products directly to end users. From time to time, certain vendors have instituted programs for the direct sale of large quantities of hardware and software to certain major corporate accounts. These types of programs may continue to be developed and used by various vendors. Vendors also may attempt to increase the volume of software products distributed electronically to end users' personal computers. Any of these competitive programs, if successful, could have a material adverse effect on the Company's business, financial condition and results of operations.

Dependence on Independent Shipping Companies

The Company relies almost entirely on arrangements with independent shipping companies, especially Federal Express and UPS, for the delivery of its products. The disruption or termination of the Company's arrangements with Federal Express, UPS or other shipping companies, or the failure or inability of one or more shipping companies to deliver products from the Company to its customers, or from suppliers to the Company, could have a material adverse effect on the Company's business, financial condition and results of operations.

Postage, Shipping and Paper Costs

Postage and shipping are significant expenses in the operation of the Company's business. The Company ships its products to customers by overnight delivery and ground delivery services and generally mails its catalogs through the U.S. Postal Service. Any increases in postal or shipping rates in the future could have a material adverse effect on the business, financial condition and results of operations. The cost of paper is also a significant expense of the Company in printing its catalogs. The cost of paper has fluctuated significantly over the last several years. While the Company believes that it may be able to recoup a portion of any increased postage and paper costs through increases in vendor advertising rates, no assurance can be given that such advertising rate increases can be sustained or that they will offset all of the increased costs.

Risk of Technological Changes and Inventory Obsolescence

The market for personal computers, peripherals, software and electronics products is characterized by rapid technological change and a growing diversity of products. The Company's success depends in large part on its ability to identify and obtain the right to market products that will meet the changing requirements of the marketplace. There can be no assurance that the Company will be able to identify and offer products necessary to remain competitive or avoid losses related to excess and obsolete inventory. The Company currently has limited return rights with respect to products which it purchases from Apple, IBM, Compaq, Hewlett Packard and certain other vendors; however, such rights vary by product line, have other conditions and limitations and can be terminated or changed at any time.

State Sales Tax Collection

The Company, or various subsidiaries, currently collects and remits sales tax on sales of products to residents of the states that it has legal presence in. Various states have sought to impose on direct marketers the burden of collecting state sales taxes on the sale of products shipped to those states' residents. The U.S. Supreme Court has ruled that the various states, absent Congressional legislation, may not impose tax collection obligations on an out-of-state mail order company whose only contacts with the taxing state are distribution of catalogs and other advertisement materials through the mail, and whose subsequent delivery of purchased goods is by mail or interstate common carriers. A New York Court of Appeals case imposed tax collection obligations on two Vermont companies, one of which was a mail order company, whose contacts with New York consisted of visiting the state several times a year to aid customers or visiting showrooms stocking their goods. The Company believes its operations are different from the operations of the companies in the New York case and thus do not give rise to tax collection obligations. However, the Company cannot predict the level of contact with any state which would give rise to future or past tax collection obligations within the parameters of the Supreme Court case. It is possible that federal legislation could be enacted that would permit states to impose sales tax collection obligations on out-of-state mail order companies and if enacted, the imposition of a tax collection obligation on the Company may result in additional administrative expenses to the Company and price increases to its customers that could adversely affect the Company's business, financial condition and results of operations.

The tax treatment of the Internet and e-commerce is currently unsettled. A number of proposals have been made at the federal, state and local level and by certain foreign governments that could impose taxes on the sale of goods and services and certain other Internet activities. In 1998, the Internet Tax Freedom

Act was signed into law, placing a three-year moratorium on new state and local taxes on Internet commerce. However, there can be no assurance that future laws imposing taxes or other regulations on commerce over the Internet would not substantially impair the growth of e-commerce and as a result have a material adverse effect on the Company's business, results of operations and financial condition.

Industry Evolution and Price Reductions

The personal computer industry is undergoing significant change. In addition, in recent years a number of new, cost-effective channels of distribution have developed in the industry, such as the Internet, computer superstores, consumer electronic and office supply superstores, national direct marketers and mass merchants. Computer resellers are consolidating operations and acquiring or merging with other resellers and/or direct marketers to achieve economies of scale and increased efficiency. The current industry reconfiguration and the trend towards consolidation could cause the industry to become even more competitive, further increase pricing pressures and make it more difficult for the Company to maintain its operating margins or to increase or maintain the same level of net sales or gross profit. Declining prices, resulting in part from technological changes, may require the Company to sell a greater number of products to achieve the same level of net sales and gross profit. Such a trend could make it more difficult for the Company to continue to increase its net sales and earnings growth. In addition, the personal computer market has experienced rapid growth. If the growth rate of the personal computer market were to decrease, the Company's business, financial condition and operating results could be adversely affected.

Management Information Systems

The Company's success is in part dependent on the accuracy and proper utilization of its management information systems, including its telephone system. The Company's ability to analyze data derived from its management information systems to increase product promotions, manage inventory and accounts receivable collections, to purchase, sell and ship products efficiently and on a timely basis and to maintain cost-efficient operations, are each dependent upon the quality and utilization of the information generated by its management information systems. During 1995, the Company significantly upgraded its management information system hardware and software. The Company believes that to remain competitive it will be necessary to upgrade its management information systems on a continuing basis. In addition to the costs associated with such upgrades, the transition to and implementation of new or upgraded hardware or software systems can result in system delays or failures which could impair the Company's ability to receive and process orders and ship products in a timely manner. The Company does not currently have a redundant or back-up telephone system, and any interruption in telephone service including those caused by natural disasters could have a material adverse effect on the Company's business, financial condition and results of operations.

Dependence on Senior Management

The Company's future performance will depend to a significant extent upon the efforts and abilities of certain key management personnel, including Frank Khulusi, Chairman of the Board and Chief Executive Officer. The Company has a $3 million key man life insurance policy on Mr. Khulusi. The loss of service of one or more of the Company's key management personnel could have an adverse effect on the Company's business. The Company's success and plans for future growth will also depend in part on management's continuing ability to hire, train and retain skilled personnel in all areas of its business.

Management of Growth

The rapid growth of the Company’s business has required the Company to make significant recent additions in personnel and has significantly increased the Company’s working capital requirements. Although the Company has experienced significant sales growth in recent years, such growth should not be considered indicative of future sales growth. Such growth has resulted in new and increased responsibilities for management personnel and has placed and continues to place significant strain upon the Company’s management, operating and financial systems, and other resources. There can be no assurance that this strain will not have a material adverse effect on the Company’s business, financial condition, and results of operations, nor can there be any assurance that the Company will be able to attract or retain sufficient personnel to continue the expansion of its operations. Also crucial to the Company's success in managing its growth will be its ability to achieve additional economies of scale. There can be no assurance that the Company will be able to achieve such economies of scale, and the failure to do so could have a material adverse effect upon the Company's business, financial condition and results of operations.

Acquisitions

As part of its growth strategy, the Company acquired two marketers of computers and computer-related products in 1997 and may continue to pursue acquisitions of companies that would either complement or expand its existing business. No assurance can be given that the benefits expected from the integration of acquired companies will be realized. In addition, acquisitions involve a number of risks and difficulties, including expansion into new geographic markets and business areas, the diversion of management's attention to the assimilation of the operations and personnel of the acquired company, the integration of the acquired company's management information systems with those of the Company, potential short-term adverse effects on the Company's operating results and the amortization of acquired intangible assets. Any delays or unexpected costs incurred in connection with the integration of acquired operations could have a material adverse effect on the Company's business, financial condition and results of operations. There can be no assurance that the Company will be able to implement or sustain its acquisition strategy or that its strategy will ultimately prove profitable for the Company.

Possible Volatility of Stock Price

The Company believes certain factors, such as sales of Common Stock into the market by existing stockholders, fluctuations in quarterly operating results and market conditions generally, including market conditions affecting stocks of computer hardware and software manufacturers and resellers and companies in the Internet and electronic commerce industries in particular, and other technology or related stocks, could cause the market price of the Common Stock to fluctuate substantially. The stock market in general, and the stocks of computer and software resellers, and companies in the Internet and electronic commerce industries in particular, and other technology or related stocks, have in the past experienced extreme price and volume fluctuations which have been unrelated to corporate operating performance. Such market volatility may adversely affect the market price of the Common Stock.

ITEM 2. PROPERTIES

See "Properties" in Item 1 above.

ITEM 3. LEGAL PROCEEDINGS

The Company is subject to various legal proceedings or claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to those actions will not materially affect the Company's business, financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders during the fourth quarter of 1999.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Common Stock of the Company has been traded on the Nasdaq National Market since the Company's initial public offering on April 4, 1995 (the "IPO"). Prior to the IPO, there was no public market for the Company's Common Stock. The following table sets forth the range of high and low closing sales prices for the Common Stock for the periods indicated, as reported by the Nasdaq National Market.

	Price Range of Common Stock	
	High	Low
Year Ended December 31, 1997		
First Quarter	$ 8 1/8	5
Second Quarter	7 3/4	5
Third Quarter	13 11/16	7 1/8
Fourth Quarter	16 5/16	8 1/2
Year Ended December 31, 1998		
First Quarter	12 7/8	7 5/16
Second Quarter	10	5 1/4
Third Quarter	12 1/2	6
Fourth Quarter	59 11/16	5 1/4
Year Ended December 31, 1999		
First Quarter	43 1/4	25 1/8
Second Quarter	39 1/8	6 1/16
Third Quarter	7 7/8	5 1/4
Fourth Quarter	11	5 3/4

On March 28, 2000, the closing price of the Company's Common Stock as reported on the Nasdaq National Market was $11.50 per share. As of March 29, 2000, there were approximately 52 holders of record of the Common Stock.

On June 7, 1999, the Company distributed to its stockholders all of the 7.3 million shares of common stock of *u*Bid, Inc. owned by the Company, representing approximately 80.1% of the outstanding stock of *u*Bid. Each of the holders of the Company's common stock entitled to the distribution received approximately .70488 shares of *u*Bid common stock for each share of the Company's common stock held by such stockholders on May 24, 1999. On June 8, 1999, the Company's Common Stock traded ex-dividend to reflect the spin-off of *u*Bid, and its closing price on the Nasdaq National Market on that date was $8.6875.

The Company has never paid and has no present plans to pay any cash dividends on its capital stock. The Company intends to retain its earnings to finance the growth and development of its business.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data are qualified by reference to, and should be read in conjunction with, the Company's Consolidated Financial Statements and the notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained elsewhere herein. The selected income statement data for the years ended December 31, 1997, 1998 and 1999 and the selected balance sheet data as of December 31, 1998 and 1999 are derived from the Company's audited consolidated financial statements which are included elsewhere herein. The selected income statement data for the years ended December 31, 1995 and 1996 along with the balance sheet data as of December 31, 1995, 1996 and 1997 are derived from the audited consolidated financial statements of the Company which are not included herein. The selected operating data are derived from the operating records of the Company and have not been audited.

	Year Ended December 31, (in thousands, except per share data)				
	1995	1996	1997[1]	1998[1]	1999[1]
Net sales	$ 420,877	$ 444,971	$ 546,122	$ 642,006	$ 731,955
Cost of goods sold	361,803	395,000	476,053	568,309	652,404
Retail store closure inventory reserve	-	-	-	3,679	-
Gross profit	59,074	49,971	70,069	70,018	79,551
Selling, general and administrative expenses	49,844	60,585	63,252	76,812	83,687
Expenses related to retail store closure	-	-	-	6,773	-
Income (loss) from operations	9,230	(10,614)	6,817	(13,567)	(4,136)
Interest income (expense)	371	593	144	(291)	245
Income (loss) before income taxes	9,601	(10,021)	6,961	(13,858)	(3,891)
Income taxes (benefit)	3,754	(3,972)	2,642	(5,034)	812
Income (loss) from continuing operations	5,847	(6,049)	4,319	(8,824)	(4,703)
Discontinued operations	-	-	(194)	(8,971)	(6,240)
Net income (loss)	$ 5,847	$ (6,049)	$ 4,125	$ (17,795)	$ (10,943)
Basic earnings (loss) per share [2]					
Continuing operations	$ 0.71	$ (0.62)	$ 0.44	$ (0.87)	$ (0.45)
Discontinued operations	-	-	(0.02)	(0.88)	(0.60)
	$ 0.71	$ (0.62)	$ 0.42	$ (1.75)	$ (1.05)
Diluted earnings (loss) per share [2]					
Continuing operations	$ 0.66	$ (0.62)	$ 0.43	$ (0.87)	$ (0.45)
Discontinued operations	-	-	(0.02)	(0.88)	(0.60)
	$ 0.66	$ (0.62)	$ 0.41	$ (1.75)	$ (1.05)
Basic weighted average number of shares outstanding [2]	8,291	9,767	9,895	10,176	10,383
Diluted weighted average number of shares outstanding [2]	8,890	9,767	10,030	10,176	10,383

(1) Operating results in 1997, 1998 and 1999 reflect the effects of acquisitions of ComputAbility, Ltd., and Elek-Tek, Inc. in August 1997 and October 1997, respectively. Further, these results also reflect *u*Bid's results as discontinued operations. See Note 6 and Note 9 of Notes to Consolidated Financial Statements.

(2) Earnings (loss) per share and weighted average shares outstanding have been restated for all periods prior to 1998 to reflect the adoption of SFAS 128, "Earnings per Share." See Note 1 of Notes to Consolidated Financial Statements.

Selected Operating Data	Year Ended December 31, (in thousands, except average order size) 1995	1996	1997	1998	1999
Mail order/catalog net sales	$ 353,324	$ 383,864	$ 462,705	$ 562,284	$ 558,235
Internet sales	$ -	$ 3,239	$ 15,586	$ 36,143	$ 138,986
Retail net sales	$ 67,553	$ 57,868	$ 67,831	$ 43,579	$ 34,734
Number of catalogs distributed	38,680	48,753	62,220	69,427	58,955
Orders filled (mail order/catalog)	784	921	982	1,075	874
Orders filled (Internet)	-	10	44	121	336
Average order size (mail order/catalog)	$ 451	$ 417	$ 471	$ 523	$ 639
Average order size (Internet)	$ -	$ 324	$ 354	$ 299	$ 414
Mailing list size	1,300	2,518	4,177	4,792	5,459

Balance Sheet Data	December 31, (in thousands) 1995	1996	1997	1998	1999
Working capital	$ 46,307	$ 42,600	$ 30,183	$ 36,285	$ 18,697
Total assets	$ 112,569	$ 113,431	$ 131,466	$ 143,174	$ 151,533
Short-term debt	$ 281	$ 283	$ 10,186	$ 122	$ 148
Long-term debt, excluding current portion	$ 589	$ 325	$ 496	$ 161	$ 284
Stockholders' equity	$ 56,560	$ 52,805	$ 60,082	$ 67,564	$ 48,598

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the Company's consolidated financial statements and notes thereto included elsewhere herein.

Overview

The Company began operations in May 1987 as a mail-order company and opened its first retail computer showroom in August 1987. After opening its first retail showroom, the Company conducted mail order operations from one of its retail showroom locations. The Company became an authorized Apple dealer in 1991. During 1997, the Company operated four retail showrooms in Southern California under the name Creative Computers and three retail showrooms in Illinois and one retail showroom in Indiana under the name of Elek-Tek. During the first quarter of 1998, the Company closed all but one of its retail showrooms.

During 1999, the Company successfully completed a spin-off of its former subsidiary, *u*Bid, Inc., to the Company's stockholders. Consistent with its strategic focus on the Internet and business-to-business markets, the Company formed a new subsidiary, eCOST.com, a multi-category Internet retail web site, in February 1999. In December 1999, the Company formed a new subsidiary, eLinux.com, to provide products, news, discussion groups, services and support to the Linux community.

During 1997, the Company completed two acquisitions. On August 29, 1997, the Company acquired the assets and assumed the liabilities of Milwaukee-based ComputAbility Ltd., a privately owned direct reseller of PC/WINTEL hardware, peripheral and software products, for $8.0 million. On October 15, 1997, the Company acquired substantially all the assets of Elek-Tek, Inc., a marketer of PC/WINTEL hardware, peripheral and software products located in the Midwest for $29.4 million plus direct costs of the acquisition.

In the fourth quarter of 1993, the Company shifted its principal distribution and marketing focus from retail showrooms to direct mail marketing distribution and relocated its mail order/catalog operations to a central location. In March 1994, the Company received authorization from Apple to offer the full retail line of Apple products via direct mail and the Company distributed the first edition of its MacMall catalog in April 1994. During 1997, 1998, and 1999, the Company distributed fourteen editions of its MacMall catalog per year with total MacMall circulation of approximately 36.0 million, 33.0 million, and 31.5 million, respectively. Total MacMall circulation decreased as the Company began to expand into the business-to-business and Internet channels.

In May 1995, the Company distributed its first PC Mall catalog focusing on the WINTEL personal computer market. During 1997, 1998, and 1999, the Company distributed fourteen editions of its PC Mall catalogs per year with a total circulation of 21.9 million, 25.8 million and 21.2 million, respectively.

In September 1997, the Company distributed its first ComputAbility catalog. During 1997, the Company distributed three ComputAbility catalogs to approximately 1.5 million previous and prospective customers. In 1998, total ComputAbility circulation was 9.1 million with thirteen editions. In 1999, the Company distributed thirteen Computability catalogs with a distribution of 6.3 million.

All catalogs feature new products and contain detailed information about product capabilities, specifications, key features and system requirements.

Net sales from mail order/catalog operations, as a percentage of net sales, were 84.7%, 87.6% and 76.3% in 1997, 1998 and 1999, respectively, with average order size being $471, $523 and $639 for those respective years. Net sales from the Internet, as a percentage of net sales, were 2.9%, 5.6% and 19.0% in 1997, 1998 and 1999, respectively, with average order size of $354, $299 and $414 for those respective years.

Net sales of the Company are derived primarily from the sale of personal computer hardware, software, peripherals, accessories and consumer electronics to individual consumers, home offices, small businesses and large corporations through direct response catalogs, dedicated inbound and outbound telemarketing sales executives, a direct sales force, retail showrooms and its Internet web sites. Gross profit consists of net sales less product and shipping costs. The Company receives marketing development funds ("MDF") from manufacturers of products included in the Company's catalogs, as well as co-operative advertising funds ("Co-Op") on products purchased from manufacturers and vendors.

A substantial portion of the Company’s business is dependent on sales of Apple computers and software and peripheral products used with Apple computers. Products manufactured by Apple represented approximately 21.4%, 20.0% and 25.4% of the Company's net sales in 1997, 1998 and 1999, respectively.

Results of Operations

The following table sets forth for the years indicated information derived from the Company’s consolidated statement of operations expressed as a percentage of net sales. Results for the years ended 1997 and 1998 have been restated to reflect the results of *u*Bid as discontinued operations. There can be no assurance that trends in sales growth or operating results will continue in the future.

	Percentage of Net Sales Year Ended December 31,		
	1997	1998	1999
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	87.2	89.1	89.1
Gross profit	12.8	10.9	10.9
Selling, general and administrative expenses	11.6	12.0	11.4
Expenses related to retail store closure	---	1.0	---
Income (loss) from operations	1.2	(2.1)	(0.5)
Interest (income) expense, net	---	0.1	---
Income (loss) before income taxes	1.2	(2.2)	(0.5)
Income taxes (benefit)	0.4	(0.8)	0.1
Income (loss) from continuing operations	0.8	(1.4)	(0.6)
Loss from discontinued operations	---	(1.4)	(0.9)
Net income (loss)	0.8%	(2.8)%	(1.5)%

Year Ended December 31, 1999 Compared to the Year Ended December 31, 1998

Net sales for the year ended December 31, 1999 were $732.0 million, an increase of $90.0 million or 14.0% over net sales for the year ended December 31, 1998 of $642.0 million. Mail order/catalog sales for 1999 were $558.2 million, a decrease of $4.1 million or 0.7% compared to 1998 mail order/catalog sales of $562.3 million. The decrease in mail order/catalog sales is primarily due to a decline in circulation resulting from a shift in marketing expenditures toward the Internet, offset by an increase in average order value. Net catalog circulation in 1999 decreased 15.1%, or 10.5 million catalogs to 59.0 million, of which MacMall comprised 31.5 million, PC Mall 21.2 million and ComputAbility 6.3 million. The DataCom Mall catalog was discontinued at the end of 1998. Internet sales in 1999 were $139.0 million, an increase of 284.5%, or $102.9 million over 1998. Retail net sales in 1999 were $34.7 million, a decrease of 20.3%, or $8.9 million from 1998. WINTEL net sales increased 8.1% to $381.4 million in 1999, versus $352.9 million in 1998.

Gross profit for the year ended December 31, 1999 was $79.6 million, an increase of $9.6 million or 13.6% from gross profit of $70.0 million for the year ended December 31, 1998. The increase in gross profit was primarily due to the increase in sales in 1999 over 1998. Gross profit as a percentage of sales was 10.9% in 1999, flat versus 1998. The gross profit percentage was negatively affected by lower margins experienced by eCOST.com and other factors, including outbound sales initiatives and fluctuations in key vendor support programs, offset by the impact of the 1998 write-offs.

Selling, general and administrative expenses (SG&A) were $83.7 million for the year ended December 31, 1999, an increase of $6.9 million or 9.0% over SG&A expenses of $76.8 million for the year ended December 31, 1998. As a percentage of net sales, SG&A expenses were 11.4% in 1999, versus 12.0% in 1998. The decrease is primarily the result of first quarter write-offs included in the prior year related to a more rapid decline in Mac sales and the effect of rapid price erosion at that time.

Net interest income was $0.2 million for the year ended December 31, 1999 compared to $0.3 million net interest expense for the year ended December 31, 1998. The change primarily resulted from the elimination of interest expense related to the 1997 borrowings to finance the acquisition of Elek-Tek.

Income tax provision for the year ended December 31, 1999 was $0.8 million versus a benefit of $5.0 million for the year ended December 31, 1998. The effective tax rate for 1999 increased to 20.8% from (36.3%) in 1998. The change in effective tax rate is primarily due to the provision of valuation allowance against deferred tax assets.

During 1997, the Company operated four retail showrooms in Southern California under the name Creative Computers and three retail showrooms in Illinois and one retail showroom in Indiana under the name of Elek-Tek. During February 1998, the Company closed its Indiana showroom. On March 20, 1998, the Company closed six of its other retail showrooms to focus its efforts on its catalog, corporate and Internet channels. Net sales from the Company's retail showroom operations were $67.8 million and $43.6 million for the years ended December 31, 1997 and 1998, representing 12.4% and 6.8% of net sales, respectively. In the first quarter of 1998, the Company recorded a one-time pretax restructuring charge of $10.5 million relating to exit costs associated with the closing of retail operations. Recorded in selling, general and administrative costs were a $3.1 million write-off of goodwill, a $1.9 million write-off for fixed assets, a $1.5 million reserve for lease exit cost, and $0.3 million employee-related severance costs. Recorded as cost of sales were $3.7 million of reserves for store inventory. The reserves have been fully utilized as of December 31, 1998. In addition, during the first quarter of 1998, $7.0 million of pretax write-offs were taken primarily relating to a more rapid decline in Mac sales during the quarter and the effects of rapid price erosion and other changes in the industry on inventory and receivables during the quarter.

As a result of the spin-off of *u*Bid in June 1999, the Company recorded *u*Bid's results of operations in discontinued operations for 1999, 1998 and 1997.

Year Ended December 31, 1998 Compared to the Year Ended December 31, 1997

Net sales for the year ended December 31, 1998 were $642.0 million, an increase of $95.9 million or 18% over net sales for the year ended December 31, 1997 of $546.1 million. Mail order/catalog sales for 1998 were $562.3 million, an increase of $99.6 million or 21.5% over 1997 mail order/catalog sales of $462.7 million. The increase in direct marketing sales was primarily due to an increase in WINTEL sales, partially offset by a decrease in Mac sales. Catalog circulation in 1998 increased 11.6% to 69.4 million catalogs, of which MacMall comprised 33.1 million, PC Mall 25.8 million, ComputAbility 9.1 million and DataCom Mall 1.4 million. Internet sales were $36.1 million in 1998, an increase of 131.9% or $20.6 million over 1997. Retail net sales in 1998 were $43.6 million, a decrease of $24.3 million or 35.8% due to the closure of seven of the Company's stores in the first quarter of 1998. WINTEL net sales increased 64.8% to $364.6 million in 1998, versus $221.3 million in 1997.

Gross profit for the year ended December 31, 1998 was $70.0 million, a decrease of $0.1 million from gross profit of $70.1 million for the year ended December 31, 1997. The change in gross profit was primarily due to the increase in sales in 1998 over 1997, offset by the large first quarter write-off related to the retail store closures and slow-moving and excess inventory. Gross profit as a percentage of sales was 10.9% in 1998, versus 12.8% in 1997. The decrease in gross profit percentage was primarily due to the 1998 first quarter write-offs.

Selling, general and administrative expenses (SG&A) were $76.8 million for the year ended December 31, 1998, an increase of $13.5 million or 21% over SG&A expenses of $63.3 million for the year ended December 31, 1997. As a percentage of net sales, SG&A expenses were 12.0% in 1998, versus 11.6% in 1997. The increase is primarily due to the first quarter write-offs related to a more rapid decline in Mac sales and the effect of rapid price erosion and other charges related to the store closures in the first quarter of 1998.

Net interest expense was $0.3 million for the year ended December 31, 1998 compared with $0.1 million net interest income for the year ended December 31, 1997. The increase is primarily attributed to borrowings in conjunction with the acquisition of Elek-Tek.

Income tax benefit for the year ended December 31, 1998 was $5.0 million versus a provision of $2.6 million for the year ended December 31, 1997. The effective tax rate for 1998 decreased to (36.3%) from 38.0% in 1997. The decrease in effective tax rate is primarily due to the loss recorded in 1998.

Liquidity and Capital Resources

The Company's primary capital need has been funding the working capital requirements created by its rapid growth in sales. Historically, the Company's primary sources of financing have come from public offerings and borrowings from its stockholders, private investors and financial institutions. In April and August 1995, the Company completed an initial public offering and a follow-on offering of its Common Stock which resulted in aggregate net proceeds to the Company of approximately $46.6 million.

Cash flows from operations were $18.4 million, $13.7 million and $21.5 million for 1997, 1998 and 1999, respectively. Cash flows from operations in 1999 were favorable due to continuing improvements of inventory and payables management.

Inventory decreased $1.1 million in 1999 and inventory turns continued to improve from 13.5 in 1998 to 16.4 in 1999. Accounts receivable increased $7.2 million during 1999, primarily due to higher open account business-to-business sales.

During the year ended December 31, 1999, the Company's capital expenditures were $4.2 million as compared to $3.2 million in 1998 and $2.9 million in 1997. The Company's primary capital needs will continue to be funding its working capital requirements for anticipated sales growth, possible acquisitions and new business ventures.

As of December 31, 1999 and 1998, the Company had advances outstanding of $12.4 million and $38.0 million, respectively, under a $60.0 million line of credit with a finance company. The line of credit allows working capital advances up to $27.5 million and floorplan inventory financing up to $45.0 million; however, aggregate advances and floorplan financing cannot exceed $60.0 million. The advances outstanding at December 31, 1999 and 1998 relate to floorplan inventory financing to purchase inventory, which is included in accounts payable. There were no outstanding working capital advances at December 31, 1999 or 1998. Working capital advances are also limited to eligible accounts receivable and inventory collateral. The line of credit is secured by substantially all of the Company’s assets and is cancelable upon 90 days’ advance notice. Interest for amounts owed for working capital advances are calculated at the finance company’s prime rate (8.50% and 7.75% per annum at December 31, 1999 and 1998, respectively). Floorplan financing does not bear interest if paid within an average of 30 days of the inventory purchase date. Interest on floorplan financing not paid within an average of 45 days is charged at the finance company’s prime rate plus 2% (10.50% and 9.75% per annum at December 31, 1999 and 1998, respectively). The line of credit requires that the Company maintain a minimum tangible net worth, a minimum pretax earnings to interest expense ratio and limits debt as a ratio to tangible net worth. At December 31, 1999 and 1998, the Company was in compliance with these covenants. At December 31, 1999 and 1998, the Company had $47.6 million and $22.0 million available for working capital advances and floorplan inventory financing.

At December 31, 1999 and 1998, the Company had cash and short-term investments of $24.3 million and $6.4 million, respectively, and working capital of $18.7 million and $36.3 million, respectively. The Company believes that current working capital, together with cash flows from operations and available lines of credit, will be adequate to support the Company's current operating plans through 2000. However, if the Company needs extra funds, such as for acquisitions or expansion or to fund a significant downturn in sales that causes losses, there are no assurances that adequate financing will be available at acceptable terms, if at all.

In July 1996, the Company announced its plan to repurchase up to 1,000,000 shares of its Common Stock. The shares will be repurchased from time to time at prevailing market prices, through open market or negotiated transactions, depending upon market conditions. No limit was placed on the duration of the repurchase program. There is no guarantee as to the exact number of shares that the Company will repurchase. Subject to applicable securities laws, repurchases may be made at such times and in such amounts as the Company's management deems appropriate. The program can also be discontinued at any time management feels additional purchases are not warranted. The Company will finance the repurchase plan with existing working capital. As of December 31, 1999, the Company has repurchased 15,000 shares.

As part of its growth strategy, the Company may, in the future, acquire other companies in the same or complementary lines of business, and pursue other business ventures. Any launch of a new business venture or any acquisition and the ensuing integration of the operations of the acquired company with those of the Company would place additional demands on the Company's management, operating and financial resources. The Company currently has no definitive agreements with respect to any acquisitions.

Year 2000

Computer systems, software packages, and microprocessor dependent equipment may cease to function or generate erroneous data during the year 2000 or thereafter. The problem affects those systems or products that are programmed to accept a two-digit code in date code fields. To correctly identify dates after December 31, 1999, a four-digit date code field must be created to be what is commonly termed "year 2000 compliant."

In prior reports, the Company has discussed the nature and progress of its plans to become year 2000 ready. In late 1999, the Company completed its testing and remediation of systems. As a result of those planning and implementation efforts, the Company experienced no significant disruptions in mission critical information technology and non-information technology systems, and the Company believes those systems successfully responded to the year 2000 date change. The Company expensed approximately $0.5 million during 1999 in connection with its testing and remediation efforts. The Company is not aware of any material problems resulting from year 2000 issues, either with its products, its internal systems, or the products and services of third parties. Although the Company has not experienced any material year 2000 problems or disruptions since January 1, 2000, there can be no assurance that such problems or disruptions will not occur in the future. The Company will continue to monitor its mission critical computer applications and those of its suppliers and vendors throughout the year 2000 to ensure that any latent year 2000 matters that may arise are addressed promptly.

Inflation

Inflation has not had a material impact upon operating results, and the Company does not expect it to have such an impact in the near future. There can be no assurances, however, that the Company's business will not be so affected by inflation.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's financial instruments include cash and long-term debt. At March 30, 2000, the carrying values of the Company's financial instruments approximated their fair values based on current market prices and rates.

It is the Company's policy not to enter into derivative financial instruments. The Company does not have any significant foreign currency exposure since it does not transact business in foreign currencies. Therefore, the Company does not have significant overall currency exposure at March 30, 2000.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is contained in the financial statements listed in Item 14(a) under the caption "Consolidated Financial Statements" and commencing on page F-1 of this Report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding directors of the Company is set forth under the caption “Election of Directors,” in the Company’s definitive Proxy Statement to be filed in connection with its 2000 Annual Meeting of Stockholders and such information is incorporated herein by reference. A list of executive officers of Registrant is included in Part I of this report.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is set forth under the caption “Executive Compensation and Other Information” and “Election of Directors – Compensation of Directors” in the Company’s definitive Proxy Statement to be filed in connection with its 2000 Annual Meeting of Stockholders and such information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is set forth under the caption “Security Ownership of Certain Beneficial Owners and Management” in the Company’s definitive Proxy Statement to be filed in connection with its 2000 Annual Meeting of Stockholders and such information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is set forth under the captions “Executive Compensation and Other Information -- Certain Relationships and Related Transactions and Compensation Committee Interlocks and Insider Participation” in the Company’s definitive Proxy Statement to be filed in connection with its 2000 Annual Meeting of Stockholders and such information is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

The following consolidated financial statements of Registrant are filed as part of this report:

(a) (1) Consolidated Financial Statements. See Index to Consolidated Financial Statements.

(2) Financial Statement Schedules. See Index to Consolidated Financial Statements.

(3) Exhibits.

The following exhibits are filed or incorporated by reference as part of this report:

Exhibit Number	Description
3.1	Certificate of Incorporation of the Company (1)
3.2	Bylaws of the Company (1)
10.1*	1994 Stock Incentive Plan and form of stock option agreement (1)
10.2*	Employment Agreement dated January 1, 1995, between Creative Computers, Inc. and Frank F. Khulusi (1)
10.4*	Employment Agreement dated January 1, 1994, between Creative Computers, Inc. and Dan DeVries (1)
10.5	Standard Industrial/Commercial Single-Tenant Lease-Net dated February 10, 1993 between Herman Platt and Marjorie Platt, as Co-Trustees of the Herman Platt and Marjorie Platt Trust dated October 11, 1985 and Creative Computers, Inc. for the premises located at 2645 Maricopa Street, Torrance, California (2)
10.6	ITT Commercial Financial Corporation ("ITT") financing arrangements: a. Agreement for Wholesale Financing (Security Agreement-Arbitration) dated April 4, 1991, as amended, between ITT and Creative Computers, Inc. (1)
10.18*	Directors' Non-Qualified Stock Option Plan, amended and restated as of May 18, 1999 (7)
10.22	Agreement dated August 1, 1995 between Creative Computers, Inc. and Deutsche Financial Services (formerly known as ITT Commercial Finance Corp.) (2)
10.25	Industrial Lease Agreement between Corporate Estates, Inc. and Creative Computers, Inc. dated September 15, 1995 for the premises located at 4515 E. Shelby Drive, Memphis, Tennessee, filed in connection with the Company's 10-Q for the quarter ended September 30, 1995 (4)
10.28	Authorized Apple Dealer U.S. Sales Agreement dated August 29, 1996; Authorized Apple Catalog Reseller Sales Agreement dated August 29, 1996; Dealer Apple Authorized Service Provider Agreement dated August 29, 1996; Apple Corporate Alliance Program Addendum to the Authorized Apple Dealer Sales Agreement dated August 29, 1996 (4)
10.29	Amendment to Agreement for Wholesale Financing dated February 25, 1997 (4)
10.30	Asset Purchase Agreement dated September 27, 1997 between Creative Computers, Inc. and Elek-Tek (3)
10.31	Business Credit and Security Agreement dated October 14, 1997 between Deutsche Financial Service Corporation and Elek-Tek Acquisition Corp. (3)
10.32	Business Credit and Security Agreement dated October 14, 1997 between Deutsche Financial Service Corporation and Creative Computers, Inc. (3)
10.33	Asset Purchase Agreement dated August 29, 1997 between Creative Computers, Inc. and ComputAbility, Ltd. (5)

10.34	Registration Rights Agreement by and between Creative Computers, Inc. and *u*Bid, Inc., dated as of December 7, 1998 (6)
10.35	Separation and Distribution Agreement by and between Creative Computers, Inc. and *u*Bid, Inc., dated as of December 7, 1998, as amended (7)
10.36	Services Agreement by and between Creative Computers, Inc. and *u*Bid, Inc., dated as of December 7, 1998 (6)
10.37 (A)	Tax Indemnification and Allocation Agreement by and between Creative Computers, Inc. and *u*Bid, Inc., dated as of December 7, 1998, as amended (8)
10.37 (B)	Amendment No. 1 to the Tax Indemnification and Allocation Agreement by and among *u*Bid, Creative Computers and CMGI, Inc., dated as of February 9, 2000 (10)
10.38	Sublease Agreement between Creative Computers, Inc. and *u*Bid, Inc., dated as of July 1, 1998 (6)
10.39	Agreement Restricting Transfer of Assets and Letter Agreement dated as of September 23, 1998 by and between Deutsche Financial Services Corporation and Creative Computers, Inc. and *u*Bid, Inc. (6)
10.40	Assignment and License Agreement by and between Creative Computers, Inc. and *u*Bid, Inc., dated as of November 30, 1998 (6)
10.41	Sublease Agreement between Creative Computers, Inc. and uBid, Inc., dated as of December 1, 1999
10.42*	Employment Agreement dated July 22, 1999, between Creative Computers, Inc. and Scott Klein (9)
21.1	Subsidiaries
23.1	Consent of PricewaterhouseCoopers LLP
27.1	Financial Data Schedule (filed with EDGAR version only)

(1)	Incorporated by reference to the Company's Registration Statement on Form S-1 (33-89572) declared effective on April 4, 1995.
(2)	Incorporated by reference to the Company's Registration Statement on Form S-1 (33-95416) declared effective on August 23, 1995.
(3)	Incorporated by reference to the Company's Form 8-K dated October 11, 1997, filed with the Commission on October 30, 1997
(4)	Incorporated by reference to the Company's 1996 Form 10-K, filed with the Commission on March 31, 1997.
(5)	Incorporated by reference to the Company's 1997 Form 10-K, filed with the Commission on March 31, 1998.
(6)	Incorporated by reference to the Registration Statement on Form S-1 of *u*Bid, Inc. (File No. 333-58477), on file with the Commission.
(7)	Incorporated by reference to the Company's Report on Form 10-Q for the quarter ended June 30, 1999, filed with the Commission on August 16, 1999.
(8)	Incorporated by reference to the Company's Report on Form 10-Q for the quarter ended March 31, 1999, filed with the Commission on May 17, 1999.
(9)	Incorporated by reference to the Company's Report on Form 10-Q for the quarter ended September 30, 1999, filed with the Commission on November 15, 1999.
(10)	Incorporated by reference to the Annual Report on 10-K of *u*Bid, Inc. (Commission File No. 000-25119) for the year ended December 31, 1999

* The referenced exhibit is a compensatory contract, plan or arrangement.

(b) Reports on Form 8-K.

No reports on Form 8-K were filed during the fourth quarter of the period covered by this Report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Torrance, State of California, on March 30, 2000.

CREATIVE COMPUTERS, INC.

By: /s/ FRANK F. KHULUSI__________
Frank F. Khulusi
Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Frank F. Khulusi and Theodore R. Sanders, and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Report on Form 10-K, and to file the same, with exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

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

Signature	Title	Date
/s/ FRANK F. KHULUSI__________ Frank F. Khulusi	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	March 30, 2000
/s/ THEODORE R. SANDERS______ Theodore R. Sanders	Chief Financial Officer (Principal Financial and Accounting Officer)	March 30, 2000
/s/ SAM U. KHULUSI__ ________ Sam U. Khulusi	Director	March 30, 2000
/s/ THOMAS MALOOF _________ Thomas Maloof	Director	March 30, 2000
/s/ RONALD B. RECK _________ Ronald B. Reck	Director	March 30, 2000

CREATIVE COMPUTERS, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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All other schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of Creative Computers, Inc.

In our opinion, based upon our audits and the report of other auditors, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Creative Computers, Inc. and its subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We did not audit the financial statements of *u*Bid, Inc., a former majority-owned subsidiary, for the year ended December 31, 1998, which statements reflect total assets of $34,625,000 and total liabilities of $15,992,000 at December 31, 1998, and total revenues of $48,232,000 and net loss of $10,169,000 for the year then ended. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for *u*Bid, Inc. at December 31, 1998 and for the year then ended, is based solely on the report of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for the opinion expressed above.

/s/ PRICEWATERHOUSECOOPERS LLP

Los Angeles, California
February 4, 2000

CREATIVE COMPUTERS, INC.
CONSOLIDATED BALANCE SHEET

(in thousands, except share data)

	December 31, 1999	December 31, 1998
ASSETS		
Current assets:		
Cash and cash equivalents	$ 24,326	$ 6,442
Accounts receivable, net of allowance for doubtful accounts of $1,483 and $3,676	47,618	40,429
Inventories	38,068	39,158
Prepaid expenses and other current assets	5,781	5,374
Net assets of *u*Bid discontinued segment, net of minority interest of $3,708 in 1998	-	14,925
Income tax refund receivable	177	190
Notes receivable	3,331	-
Deferred income taxes	2,047	5,216
Total current assets	121,348	111,734
Notes receivable	-	3,331
Property, plant and equipment, net	14,569	14,391
Goodwill, net	11,836	12,318
Deferred income taxes	3,738	1,262
Other assets	42	138
	$151,533	$143,174
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 86,609	$ 62,129
Accrued expenses and other current liabilities	15,894	13,198
Capital leases - current portion	142	116
Notes payable - current portion	6	6
Total current liabilities	102,651	75,449
Capital leases	136	6
Notes payable	148	155
Total liabilities	102,935	75,610
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Common stock, $.001 par value; 15,000,000 shares authorized; 10,404,069 and 10,264,539 shares issued	11	10
Preferred stock, $.001 par value; 5,000,000 shares authorized; none issued and outstanding	-	-
Additional paid-in capital	74,337	82,361
Treasury stock, at cost: 15,000 shares	(91)	(91)
Retained earnings (accumulated deficit)	(25,659)	(14,716)
Total stockholders' equity	48,598	67,564
	$151,533	$143,174

See accompanying notes to consolidated financial statements.

CREATIVE COMPUTERS, INC.

CONSOLIDATED STATEMENT OF OPERATIONS
(in thousands, except per share data)

	Year ended December 31,		
	1999	1998	1997
Net sales	$ 731,955	$ 642,006	$ 546,122
Cost of goods sold	652,404	568,309	476,053
Retail store closure inventory reserve	-	3,679	-
Gross profit	79,551	70,018	70,069
Selling, general and administrative expenses	83,687	76,812	63,252
Expenses related to retail store closures	-	6,773	-
Income (loss) from operations	(4,136)	(13,567)	6,817
Interest income (expense), net	245	(291)	144
Income (loss) before income taxes	(3,891)	(13,858)	6,961
Income tax provision (benefit)	812	(5,034)	2,642
Income (loss) from continuing operations	(4,703)	(8,824)	4,319
Loss from discontinued operations, net of minority interest of $1,500 and $1,198 in 1999 and 1998	(6,240)	(8,971)	(194)
Net income (loss)	$ (10,943)	$ (17,795)	$ 4,125
Basic earnings (loss) per share			
Continuing operations	$ (0.45)	$ (0.87)	$ 0.44
Discontinued operations	(0.60)	(0.88)	(0.02)
	$ (1.05)	$ (1.75)	$ 0.42
Diluted earnings (loss) per share			
Continuing operations	$ (0.45)	$ (0.87)	$ 0.43
Discontinued operations	(0.60)	(0.88)	(0.02)
	$ (1.05)	$ (1.75)	$ 0.41
Basic weighted average number of shares outstanding	10,383	10,176	9,895
Diluted weighted average number of shares outstanding	10,383	10,176	10,030

See accompanying notes to consolidated financial statements.

CREATIVE COMPUTERS, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(in thousands)

	Common Stock		Additional Paid-in	Retained Earnings	Treasury	
	Shares	Amount	Capital	(Deficit)	Stock	Total
Balance at December 31, 1996	9,792	$ 10	$ 53,932	$ (1,046)	$ (91)	$ 52,805
Issuance of stock in connection with acquisition	272		2,500			2,500
Stock option exercises, including related income tax benefit	41		340			340
Net income				4,125		4,125
Balance at December 31, 1997	10,105	10	56,772	3,079	(91)	59,770
Capital contributed by minority stockholders of subsidiary			18,943			18,943
*u*Bid stock-based compensation			5,267			5,267
Stock option exercises, including related income tax benefit	160		1,379			1,379
Net loss				(17,795)		(17,795)
Balance at December 31, 1998	10,265	10	82,361	(14,716)	(91)	67,564
Spin-off of *u*Bid subsidiary			(8,877)			(8,877)
Stock option exercises	139	1	853			854
Net loss				(10,943)		(10,943)
Balance at December 31, 1999	10,404	$ 11	$ 74,337	$ (25,659)	$ (91)	$ 48,598

See accompanying notes to consolidated financial statements.

CREATIVE COMPUTERS, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands)

	Year ended December 31,		
	1999	1998	1997
Cash flows from operating activities:			
Net income (loss)	$ (10,943)	$ (17,795)	$ 4,125
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	4,961	3,882	2,333
Loss on disposal of property, plant and equipment	-	1,950	783
Loss on impairment of goodwill	-	3,095	-
Loss from discontinued operations	6,240	8,971	194
Changes in assets and liabilities, net of acquisitions and spin-off:			
Accounts receivable	(7,189)	2,017	(5,773)
Inventories	1,090	3,483	17,416
Prepaid expenses and other current assets	(471)	(2,561)	926
Other assets	96	(742)	3
Accounts payable	24,480	16,171	(6,827)
Accrued expenses and other current liabilities	2,504	(75)	1,063
Income tax refund receivable	13	279	1,723
Total adjustments	32,417	31,453	14,310
Net cash provided by operating activities	21,474	13,658	18,435
Cash flows from investing activities:			
Redemptions of securities available for sale	-	-	1,536
Purchase of securities available for sale	-	-	(1,015)
Acquisition of Elek-Tek	-	-	(9,083)
Acquisition of ComputAbility	-	-	(5,482)
Acquisition of property, plant and equipment	(4,185)	(3,209)	(2,945)
Advances to *u*Bid	-	(2,661)	-
Proceeds from sale of equipment	-	-	13
Net cash used in investing activities	(4,185)	(5,870)	(16,976)
Cash flows from financing activities:			
Net line of credit payments	-	(9,956)	(10,775)
Payments under notes payable	(7)	(210)	(81)
Principal payments of obligations under capital leases	(252)	(233)	(254)
Proceeds from stock issued under stock option plans	854	1,035	340
Net cash provided by (used in) financing activities	595	(9,364)	(10,770)
Net increase (decrease) in cash and cash equivalents	17,884	(1,576)	(9,311)
Cash and cash equivalents:			
Beginning of year	6,442	8,018	17,329
End of year	$ 24,326	$ 6,442	$ 8,018

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

Description of Company

Creative Computers, Inc. (the "Company"), founded in 1987, is a direct marketer of personal computer hardware, software and peripheral products, as well as consumer electronics. The Company offers products to individual consumers, home offices, small businesses and large corporations through direct response catalogs, dedicated inbound and outbound telemarketing sales executives, a direct sales force, a retail showroom and multiple Internet web sites. The Company offers a broad selection of products through its distinctive, full-color catalogs, MacMall, PC Mall, PC Mall.Com, MacMall Buyers Software Guide and ComputAbility, the Company's worldwide web sites on the Internet, and other promotional materials.

During 1997, the Company acquired and assimilated two marketers of personal computer hardware and software products, Elek-Tek, Inc. and ComputAbility, Ltd. In September 1997, the Company formed a wholly owned subsidiary, *u*Bid, Inc. ("*u*Bid") to sell computer-related products and consumer electronics through an auction format on the Internet. In December 1998, *u*Bid completed an initial public offering of 1,817,000 shares of its common stock. On June 7, 1999, the Company divested its ownership in *u*Bid by means of a tax-free distribution of all of its remaining 7.3 million shares of *u*Bid common stock to the Company's shareholders of record as of May 24, 1999. In accordance with Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations," *u*Bid's revenues and expenses have been excluded from the Company's consolidated revenues and expenses from continuing operations. The Company's share of *u*Bid's operating results, net of taxes, for the periods presented have been reported as a separate line item on the Company's consolidated statement of operations under the caption "Loss from discontinued operations." The Company's consolidated balance sheet and consolidated statement of cash flows have also been restated for all periods presented to reflect the divestiture of *u*Bid. *u*Bid's revenues were $9 and $48,232 for the years ended December 31, 1997 and 1998, respectively, and $64,784 for the period ended June 7, 1999.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the respective reporting periods. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Revenue Recognition

Net sales include product sales net of returns and allowances, and gross outbound shipping and handling charges. The Company recognizes revenue from product sales, net of discounts, coupon redemption and estimated sales returns, when the products are shipped to customers. The Company provides an allowance for sales returns, which is based on historical experience. For all product sales shipped directly from suppliers to customers, the Company takes title to the products sold upon shipment, bears credit risk, and bears inventory risk for returned products that are not successfully returned to suppliers, although some of these risks are mitigated through arrangements with the Company's shippers and suppliers.

(in thousands, except share data)

Cash Equivalents

All highly liquid investments with initial maturities of three months or less are considered cash equivalents.

Concentration of Credit Risk

Accounts receivable potentially subject the Company to credit risk. The Company extends credit to its customers based upon an evaluation of each customer's financial condition and credit history and generally does not require collateral. The Company has historically incurred minimal credit losses. At December 31, 1999 and 1998, receivables from one large customer were $6.0 million and $8.8 million, respectively.

Inventories

Inventories consist primarily of finished goods, and are stated at cost (determined under the first-in, first-out cost method) or market, whichever is lower. At December 31, 1999 and 1998, the Company had reserves of $2,331 and $4,740, respectively, for demonstration inventory, lower of cost or market pricing and potential excess and obsolete inventory.

Deferred Advertising Costs and Revenue

The Company produces and circulates catalogs at various dates throughout the year. The Company receives market development funds and cooperative (co-op) advertising funds from vendors included in each catalog. These funds are recognized based on sales generated over the life of the catalog, which approximates eight weeks. The costs of developing and circulating each catalog are deferred and charged to advertising expense in the same time period as the co-op funds based on sales over the life of the catalog. Advertising expense, net of advertising revenue earned, included in selling, general and administrative expenses, was $7,325, $4,157 and $1,387 in 1999, 1998, and 1997, respectively. Deferred advertising costs were $4,870 and $4,684 at December 31, 1999 and 1998, respectively, and are included in prepaid expenses and other current assets in the consolidated balance sheet.

Property, Plant and Equipment

Property, plant and equipment (including equipment acquired under capital leases) are stated at cost and are depreciated using straight-line methods over the estimated useful lives of the assets, as follows:

Furniture and fixtures	5 - 7 years
Leasehold improvements	Life of lease--not to exceed 15 years
Computers, machinery and equipment	3 - 7 years
Building	31.5 years

Disclosures About Fair Value of Financial Instruments

The carrying amount of cash, cash equivalents, accounts receivable, accounts payable and accrued expenses and other current liabilities approximates fair value because of the short-term maturity of these instruments. The carrying amount of the Company's notes payable approximate fair value based upon the current rates offered to the Company for obligations of similar terms and remaining maturities.

Goodwill

Goodwill, resulting from acquisitions, is amortized using the straight-line method over periods not exceeding twenty-five years and is subject to periodic review for impairment. Accumulated amortization at December 31, 1999 and 1998 was $1,086 and $604, respectively. Amortization expense totaled $482, $514 and $90 in 1999, 1998 and 1997, respectively. During 1998, in conjunction with the store closures, the Company determined that goodwill related to acquired retail stores was impaired and, accordingly, the Company recorded a write-off of $3,095.

Accounting for the Impairment of Long-Lived Assets

The Company reviews long-lived assets and certain intangible assets for impairment when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. In the event the sum of the expected undiscounted future cash flows resulting from the use of the asset is less than the carrying amount of the asset, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded.

Income Taxes

The Company accounts for income taxes under the liability method. Under this method, deferred income taxes are recognized by applying enacted statutory tax rates applicable to future years to differences between the tax bases and financial reporting amounts of existing assets and liabilities. A valuation allowance is provided when it is more likely than not that all or some portion of deferred tax assets will not be realized.

Earnings (Loss) per Share

Basic EPS excludes dilution and is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the reported periods. Diluted EPS reflects the potential dilution that could occur if stock options and other commitments to issue common stock were exercised using the treasury stock method.

(in thousands, except share data)

The composition of Basic and Diluted EPS is as follows:

	1999	1998	1997
Income (loss) from continuing operations	$ (4,703)	$ (8,824)	$ 4,319
Loss from discontinued operations	(6,240)	(8,971)	(194)
Net income (loss)	$ (10,943)	$ (17,795)	$ 4,125
Weighted average shares – Basic	10,383,052	10,175,864	9,895,179
Effect of dilutive stock options and warrants	-	-	135,238
Weighted average shares – Diluted	10,383,052	10,175,864	10,030,417
Basic earnings (loss) per share			
Continuing operations	(0.45)	(0.87)	0.44
Discontinued operations	(0.60)	(0.88)	(.02)
	$ (1.05)	$ (1.75)	$ 0.42
Diluted earnings (loss) per share			
Continuing operations	(0.45)	(0.87)	0.43
Discontinued operations	(0.60)	(0.88)	(.02)
	$ (1.05)	$ (1.75)	$ 0.41

Accounting for Stock-Based Compensation

The Company accounts for employee stock-based compensation in accordance with Accounting Principles Board Opinion No. 25 and related interpretations. The disclosures required by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), have been included in Note 7.

Reclassifications

Certain reclassifications have been made to the 1997 and 1998 financial statement amounts to conform to the 1999 presentation.

2. Property, Plant and Equipment

Property, plant and equipment consist of the following as of December 31:

	1999	1998
Furniture and fixtures	$ 2,216	$ 2,370
Leasehold improvements	3,181	2,703
Computers, machinery and equipment	18,507	14,474
Building	2,827	2,827
Land	1,446	1,446
	28,177	23,820
Less: Accumulated depreciation and amortization	(13,608)	(9,429)
	$ 14,569	$ 14,391

Depreciation expense in 1999, 1998 and 1997 totaled $4,415, $3,307 and $2,247, respectively.

(in thousands, except share data)

3. Line of Credit

As of December 31, 1999 and 1998, the Company had advances outstanding of $12,362 and $37,971, respectively, under a $60,000 line of credit with a finance company. The line of credit allows working capital advances up to $27,500 and floorplan inventory financing up to $45,000, however, total advances and floorplan financing cannot exceed $60,000. The advances outstanding at December 31, 1999 and 1998 relate to floorplan inventory financing to purchase inventory which is included in accounts payable. There were no outstanding working capital advances at December 31, 1999 or 1998. Working capital advances are also limited to eligible accounts receivable and inventory collateral. The line of credit is collateralized by substantially all of the Company's assets and is cancelable upon 90 days' advance notice. Interest for amounts owed for working capital advances are calculated at the finance company's prime rate (8.50% and 7.75% per annum at December 31, 1999 and 1998, respectively). Floorplan financing does not bear interest if paid within an average of 30 days of the inventory purchase date. Interest on floorplan financing not paid within an average of 45 days is charged at the finance company's prime rate plus 2% (10.50% and 9.75% per annum at December 31, 1999 and 1998, respectively). The line of credit requires that the Company maintain a minimum tangible net worth, a minimum pretax earnings to interest expense ratio and limits debt as a ratio to tangible net worth. At December 31, 1999 and 1998, the Company was in compliance with these covenants. At December 31, 1999 and 1998, the Company had $47,638 and $22,029 available for working capital advances and floorplan inventory financing.

4. Income Taxes

The provision (benefit) for income taxes consists of the following for the years ended December 31:

	1999	1998	1997
Current			
Federal	$ 106	$ (100)	$ 103
State	13	83	70
	119	(17)	173
Deferred			
Federal	620	(4,584)	2,207
State	73	(433)	262
	693	(5,017)	2,469
	$ 812	$ (5,034)	$ 2,642

The provision (benefit) for income taxes differed from the amount computed by applying the U.S. federal statutory rate to income (loss) before income taxes due to the effects of the following:

	1999	1998	1997
Expected taxes at federal statutory tax rate	(34.0)%	(34.0)%	34.0%
State income taxes, net of federal income tax benefit	(2.9)%	(1.5)%	5.0%
Change in valuation allowance	53.7%	--	--
Other	4.0%	(0.8)%	(1.0)%
	20.8%	(36.3)%	38.0%

(in thousands, except share data)

The significant components of deferred tax assets and liabilities are as follows at December 31:

	1999	1998
Accounts receivable	$ 638	$ 1,439
Inventories	356	786
Property, plant and equipment	(162)	(1,194)
Amortization	(462)	(394)
Accrued expenses and reserves	621	606
Tax credits and loss carryforwards	8,171	5,232
Other	3	3
Less: Valuation allowance	(3,380)	0
Net deferred tax assets	$ 5,785	$ 6,478

At December 31, 1999, the Company had federal net operating loss carryforwards of $22,046, which expire between 2018 and 2019. At December 31, 1999, the Company had various state net operating loss carryforwards ranging in amounts from $53 to $4,792, which expire between 2003 and 2004. At December 31, 1999, the Company also had federal and state capital loss carryforwards of $71, which expire between 2000 and 2001.

5. Commitments and Contingencies

Leases

The Company occupies office and warehouse space under various operating leases which provide for minimum annual rentals and escalations based on increases in real estate taxes and other operating expenses.

Minimum annual rentals at December 31, 1999 were as follows:

2000	$ 2,530
2001	2,502
2002	1,882
2003	273
2004	207
Thereafter	13
Total	$ 7,407

In 1999, 1998 and 1997 rent expense included in selling, general and administrative costs was $3,206, $2,486 and $1,978, respectively. Some of the leases contain renewal options and escalation clauses and require the Company to pay taxes, insurance and maintenance costs.

Legal Proceedings

Various claims and actions, considered normal to the Company's business, have been asserted and are pending against the Company. The Company believes that such claims and actions will not have any material adverse effect upon the Company's consolidated financial position or results of operations.

6. Stockholders' Equity

Initial Public Offering and Spin-off of *u*Bid, Inc.

On December 9, 1998, *u*Bid, Inc., a subsidiary of the Company at that time, completed an initial public offering (the "Offering") of 1,817,000 shares of common stock at an offering price of $15.00 per share. Net proceeds to *u*Bid were $23,847. The shares sold to the public in the offering represented approximately 19.9% of *u*Bid's outstanding common stock. As a result of the Offering, the Company's share of the amount of the Offering Proceeds in excess of the corresponding carrying value of *u*Bid equity in the amount of $18,943 was credited to additional paid-in capital. As discussed in Note 1, the Company's remaining interest in *u*Bid was subsequently spun off to the Company's shareholders in June 1999, resulting in a charge of $8,877 to additional paid-in capital in 1999.

Treasury Stock

In July 1996, the Company announced its plan to repurchase up to 1,000,000 shares of its Common Stock. The shares will be repurchased from time to time at prevailing market prices, through open market or negotiated transactions, depending upon market conditions. No limit was placed on the duration of the repurchase program. There is no guarantee as to the exact number of shares that the Company will repurchase. Subject to applicable securities laws, repurchases may be made at such times and in such amounts as the Company's management deems appropriate. The program can also be discontinued at any time management feels additional purchases are not warranted. The Company will finance the repurchase plan with existing working capital. As of December 31, 1999, the Company has repurchased 15,000 shares.

7. Employee Benefits

401(k) Savings Plan

Effective January 1, 1994, the Company adopted a 401(k) Savings Plan which covers substantially all full-time employees who meet the plan's eligibility requirements. Participants may make tax-deferred contributions of up to 15% of annual compensation (subject to other limitations specified by the Internal Revenue Code). In December 1995, the Company amended the Plan to make a 25% matching contribution for amounts which do not exceed 4% of the participants' annual compensation. During 1999, 1998 and 1997, the Company incurred $142, $87 and $84, respectively, of expenses related to the 401(k) matching component of this plan.

1994 Employee Stock Option Plan

In November 1994, the Board of Directors and stockholders of the Company approved the 1994 Stock Option Plan (the "1994 Plan"), which provides for the grant of stock options to employees and consultants of the Company. Under the 1994 Plan, the Company may grant options ("Incentive Stock Options") within the meaning of Section 422A of the Internal Revenue Code, or options not intended to qualify as Incentive Stock Options ("Nonstatutory Stock Options"). A total of 1,950,000 shares are reserved for issuance upon the exercise of options granted under the 1994 Plan, and 150,706 shares of authorized but unissued shares are available for future grants as of December 31, 1999. All options granted through December 31, 1999 have been Nonstatutory Stock Options.

(in thousands, except share data)

The 1994 Plan is administered by the Compensation and Stock Option Committee of the Board of Directors. Subject to the provisions of the 1994 Plan, the Committee has the authority to select the employees and consultants to whom options are granted and determine the terms of each option, including (i) the number of shares of common stock covered by the option, (ii) when the option becomes exercisable, (iii) the option exercise price, which must be at least 100%, with respect to Incentive Stock Options, and at least 85%, with respect to Nonstatutory Stock Options, of the fair market value of the common stock as of the date of grant, and (iv) the duration of the option (which may not exceed ten years). All options generally vest annually over five years, and are nontransferable other than by will or by the laws of descent and distribution.

1995 Director Stock Option Plan

The Company adopted the Directors' Non-Qualified Stock Option Plan (the "Director Plan") in 1995. In 1999, the Company increased the total number of shares reserved for issuance under the Director Plan to 100,000 from 50,000, of which options to purchase 33,000 shares are outstanding as of December 31, 1999.

Under the Director Plan each non-employee director of the Company ("Non-Employee Director") receives a non-qualified option to purchase 5,000 shares of Common Stock (an "Initial Grant") upon his or her first election or appointment to the Board of Directors. In addition, the Director Plan provides that each Non-Employee Director who is a director immediately prior to an annual meeting of the Company's stockholders and who continues to be a director after such meeting will be granted an option to purchase 5,000 shares of Common Stock (a "Subsequent Grant"); provided that no Subsequent Grant will be made to any Non-Employee Director who has not served as a director of the Company, as of the time of such annual meeting, for at least one year. The exercise price per share of each option granted under the Director Plan will be the fair market value of the Company's Common Stock on the date the option is granted. Options granted under the Director Plan vest on the first anniversary of the date of grant, subject to earlier vesting upon a change of control or corporate transaction.

The following table summarizes stock option activity:

	Number	Weighted Average Exercise Price
Outstanding at December 31, 1996	720,714	$ 6.36
Granted	351,750	7.61
Canceled	(176,593)	7.00
Exercised	(41,694)	5.42
Outstanding at December 31, 1997	854,177	6.80
Granted	500,100	8.43
Canceled	(290,893)	8.04
Exercised	(159,031)	6.26
Outstanding at December 31, 1998	904,353	7.34
Granted	1,758,048	5.04
Canceled	(1,014,907)	7.72
Exercised	(139,029)	6.15
Outstanding at December 31, 1999	1,508,465	4.54

(in thousands, except share data)

Of the options outstanding at December 31, 1999, 1998 and 1997, options to purchase 361,632, 306,483 and 274,914 shares were exercisable at weighted average prices of $1.88, $6.41 and $6.21 per share, respectively. The following table summarizes information concerning currently outstanding and exercisable stock options:

	Options Outstanding at December 31, 1999			Options exercisable at December 31, 1999	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$1.33-$ 1.96	536,090	7.35	$1.73	286,083	$1.70
$1.99-$ 6.88	661,400	9.33	$5.54	75,349	$2.55
$7.00-$10.63	310,975	9.45	$7.26	200	$8.50
	1,508,465			361,632	

The fair value of each stock option grant has been estimated pursuant to SFAS 123 on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	1999	1998	1997
Risk free interest rates	6.10%	4.89%	6.34%
Expected dividend yield	none	none	none
Expected lives	7 yrs.	7 yrs.	6 yrs.
Expected volatility	124.0%	100.0%	80.0%

The weighted average grant date fair values of options granted under the Plans during 1999, 1998 and 1997 were $7.41, $7.11 and $5.55, respectively.

1999 eCOST.com Employee Stock Option Plan

The Company adopted the eCOST.com Employee Stock Option Plan in 1999. During 1999, options to purchase 537,000 shares of eCOST.com common stock were granted at a weighted average exercise price of $0.20. Options generally vest annually over five years, and are nontransferable other than by will or by the laws of descent and distribution.

FAS 123 Pro Forma Information

The Company accounts for its stock option plans under APB Opinion No. 25. Had compensation expense for these plans been determined consistent with SFAS 123, the Company's net income (loss) and net income (loss) per share would have been adjusted to the pro forma amounts in the following table.

		1999	1998	1997
Net income (loss)	As Reported	$ (10,943)	$ (17,795)	$ 4,125
	Pro Forma	$ (12,943)	$ (18,097)	$ 3,549
Diluted net income (loss) per share	As Reported	$ (1.05)	$ (1.75)	$ 0.41
	Pro Forma	$ (1.25)	$ (1.78)	$ 0.37

(in thousands, except share data)

8. Supplemental Disclosures of Cash Flow Information

	1999	1998	1997
Cash paid during the year ending December 31:			
Interest	$ 407	$ 851	$ 488
Income taxes	$ 12	$ 281	$ 538
Non-cash investing and financing activities:			
Borrowing incurred in connection with the acquisition of Elek-Tek, Inc.	—	—	$20,731
Equipment acquired under capital lease obligations	$ 409	—	$ 73
Notes payable assumed in connection with acquisition of ComputAbility	—	—	$ 380

9. Acquisitions

On August 29, 1997, the Company acquired the assets and assumed the liabilities of Milwaukee-based ComputAbility, Ltd., ("ComputAbility") a privately held direct market reseller of PC/WINTEL hardware, peripheral and software products, for $8,000 consisting of $5,500 paid in cash and the remainder through the issuance of 271,739 shares of common stock valued at $2,500. The acquisition of ComputAbility has been accounted for using the purchase method and the operating results of ComputAbility have been combined with those of the Company since the date of acquisition. The total cost of the acquisition exceeded the fair value of the net assets acquired and liabilities assumed by $6,763 and, accordingly, the excess has been recorded as goodwill and is being amortized using the straight-line basis over 25 years.

On October 15, 1997, the Company acquired substantially all of the assets of Elek-Tek, Inc. ("Elek-Tek"), a Delaware corporation, for a purchase price of $29,400 plus direct costs of the acquisition pursuant to an Asset Purchase Agreement dated September 17, 1997, as amended. Such assets consisted primarily of accounts receivable, inventory, property, plant and equipment, certain intangibles and customer lists and the businesses associated with mail order, direct sales and retail activities. The acquisition was completed as a result of bankruptcy court approval of the agreement signed by the Company and Elek-Tek in connection with the September 17, 1997 filing by Elek-Tek for protection under Chapter 11 of the U.S. Bankruptcy Code. Elek-Tek currently operates as a wholly owned subsidiary of the Company under the name CCIT.

The Elek-Tek acquisition was accounted for as a purchase. Accordingly, the operating results of Elek-Tek have been combined with those of the Company since the date of acquisition. The Company borrowed $20.7 million of the purchase price from Deutsche Financial Services Corporation, and the remaining $8.7 million was paid in cash. The purchase price was allocated to the net assets acquired based upon their estimated fair values at the date of acquisition. The excess of the purchase price over the net assets acquired of $8,468 is being amortized using the straight line basis over 25 years. In connection with the acquisition of Elek-Tek, the Company incurred expenses of $1,470 in the fourth quarter of 1997. These expenses related primarily to integrating Elek-Tek's sales force and customer base into the Company.

The following table reflects unaudited pro forma combined results of operations of the Company, ComputAbility and Elek-Tek as if these acquisitions had occurred at the beginning of the year presented. However, these pro forma results are not necessarily indicative of the actual results of operations that would have occurred.

(in thousands, except share data)

	1997
Net sales	$ 791,345
Net income	$ 1,046
Diluted earnings per share	$ 0.10

10. Headquarters Move

In November 1997, the Company consolidated its headquarters and telemarketing facilities into a 160 thousand square foot building in Torrance, CA. The charge associated with the move was $815, and was expensed in the fourth quarter of 1997.

11. Retail Store Closures

During February 1998, the Company closed its Indiana retail showroom. On March 20, 1998, the Company closed six retail showrooms to focus its efforts on its catalog, corporate and Internet channels of distribution. The Company recorded a one-time pretax restructuring charge of $10.5 million in 1998 relating to exit costs associated with the closing of retail operations. Recorded in selling, general and administrative costs were $3.1 million in write-offs of goodwill, $1.9 million in write-offs of fixed assets, a $1.5 million reserve for lease exit costs, and $0.3 million in employee-related severance costs. Recorded in cost of sales were $3.7 million of reserves for store inventory. All reserves were utilized by December 31, 1998.

12. Segment Information

The Company operates in two reportable segments: 1) a direct marketer of personal computers, hardware, software, peripheral products and consumer electronics under the PCMall, MacMall, ComputAbility and CCIT brands; and 2) a Multi-Category Internet retailer under the eCOST.com brand.

Summarized segment information for continuing operations for the year ended December 31, 1999 is as follows:

	Direct Marketer	**Multi-Category Internet**	**Consolidated**
Net sales	$695,165	$ 36,790	$731,955
Gross profit	79,290	261	79,551
Operating income (loss)	2,047	(6,183)	(4,136)
Total assets	146,185	5,348	151,533

Segment information is not provided for the years ended December 31, 1998 and December 31, 1997, as the Company did not operate in the Multi-Category Internet segment until the formation of eCOST.com in April 1999.

The Company no longer operates in the Internet Auction segment as a result of the spin-off of *u*Bid, Inc. in 1999.

CREATIVE COMPUTERS, INC.

QUARTERLY FINANCIAL INFORMATION

(unaudited)

(in thousands, except per share data)

	1999			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net Sales	$ 176,289	$ 161,535	$ 172,377	$ 221,754
Gross Profit	20,037	18,982	18,215	22,317
Income (loss) from continuing operations	388	(277)	(2,533)	(2,281)
Loss from discontinued operations	(2,685)	(3,555)	-	-
Net income (loss)	(2,297)	(3,832)	(2,533)	(2,281)
Basic earnings (loss) per share				
Continuing operations	$ 0.04	$ (0.03)	$ (0.24)	$ (0.22)
Discontinued operations	(0.26)	(0.34)	-	-
	$ (0.22)	$ (0.37)	$ (0.24)	$ (0.22)
Diluted earnings (loss) per share				
Continuing operations	$ 0.04	$ (0.03)	$ (0.24)	$ (0.22)
Discontinued operations	(0.26)	(0.34)	-	-
	$ (0.22)	$ (0.37)	$ (0.24)	$ (0.22)

See Note 1 to the consolidated financial statements for a discussion of the *u*Bid spin-off.

	1998			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net Sales	$ 162,059	$ 143,183	$ 170,442	$ 166,322
Gross Profit	12,394	18,002	20,041	19,581
Income (loss) from continuing operations	(12,234)	808	1,112	1,490
Loss from discontinued operations	(575)	(596)	(677)	(7,123)
Net income (loss)	(12,809)	212	435	(5,633)
Basic earnings (loss) per share				
Continuing operations	$ (1.21)	$ 0.08	$ 0.11	$ 0.15
Discontinued operations	(0.05)	(0.06)	(0.07)	(0.70)
	$ (1.26)	$ 0.02	$ 0.04	$ (0.55)
Diluted earnings (loss) per share				
Continuing operations	$ (1.21)	$ 0.08	$ 0.11	$ 0.15
Discontinued operations	(0.05)	(0.06)	(0.07)	(0.70)
	$ (1.26)	$ 0.02	$ 0.04	$ (0.55)

See Note 11 to the consolidated financial statements for a discussion of special charges for the year ended December 31, 1998.

SCHEDULE II

CREATIVE COMPUTERS, INC.

Valuation and Qualifying Accounts
For the years ended December 31, 1997, 1998 and 1999
(in thousands)

	Balance at Beginning of Year	Additions Charged to Operations	Deduction from Reserves	Balance at End of Year
Allowance for doubtful accounts for the year ended:				
December 31, 1997	$ 2,134	$ 5,680	$(4,955)	$ 2,859
December 31, 1998	2,859	3,927	(3,110)	3,676
December 31, 1999	3,676	3,206	(5,399)	1,483
Reserve for inventory for the year ended:				
December 31, 1997	6,304	6,548	(7,488)	5,364
December 31, 1998	5,364	6,172	(6,796)	4,740
December 31, 1999	4,740	2,019	(4,428)	2,331
Restructuring reserve for the year ended:				
December 31, 1998	-	10,452	(10,452)	-
Deferred tax asset valuation allowance for the year ended:				
December 31, 1999	-	3,380	-	3,380

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-848, No. 333-76851, No. 333-79337, and No. 333-82257) of Creative Computers, Inc. of our report dated February 4, 2000 relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP
Los Angeles, California
March 30, 2000