PACIFIC MAGTRON INTERNATIONAL CORP
Form 10-Q
May 15, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended March 31, 2003

OR

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

For the transition period from __________ to __________

Commission file number 000-25277

PACIFIC MAGTRON INTERNATIONAL CORP.
(Exact Name of Registrant as Specified in Its Charter)

Nevada	88-0353141
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

1600 California Circle, Milpitas, California 95035
(Address of Principal Executive Offices)

(408) 956-8888
(Registrant's Telephone Number, Including Area Code)

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

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

Common Stock, $0.001 par value per share:
10,485,062 shares issued and outstanding at April 25, 2003

Part I. - Financial Information

Item 1. - Consolidated Financial Statements

Consolidated balance sheets as of March 31, 2003 and December 31, 2002 (Unaudited) 1-2

Consolidated statements of operations for the three months ended March 31, 2003 and 2002 (Unaudited) 3

Consolidated statements of cash flows for the three months ended March 31, 2003 and 2002 (Unaudited)	4
Notes to consolidated financial statements	5-11
Item 2. - Management's Discussion and Analysis of Financial Condition and Results of Operations	12-27
Item 3. - Quantitative and Qualitative Disclosures About Market Risk	28
Item 4. - Controls and Procedures	28
Part II - Other Information	
Item 1. - Legal Proceedings	29
Item 6. - Exhibits and Reports on Form 8-K	29
Signature	30
Certification	31

PACIFIC MAGTRON INTERNATIONAL CORP.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2003	December 31, 2002
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 2,643,500	$ 1,901,100
Restricted cash	250,000	250,000
Accounts receivable, net of allowance for doubtful accounts of $339,700 and $305,000 in 2003 and 2002, respectively	4,186,700	5,124,100
Inventories	3,532,100	3,370,500
Prepaid expenses and other current assets	435,700	459,100
Income tax refund receivable	--	1,472,800
Total Current Assets	11,048,000	12,577,600
Property and equipment, net	4,431,300	4,495,400
Deposits and other Assets	136,400	194,000
	$ 15,615,700	$ 17,267,000

See accompanying notes to consolidated financial statements.

PACIFIC MAGTRON INTERNATIONAL CORP.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2003	December 31, 2002

LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current portion of notes payable	$ 62,000	$ 60,800
Floor plan inventory loans	1,373,800	901,600
Accounts payable	6,319,800	7,781,800
Accrued expenses	631,500	559,100
Warrants	46,700	161,600
Total Current Liabilities	8,433,800	9,464,900
Notes Payable, less current portion	3,153,800	3,169,500
Commitments and Contingencies		
Preferred Stock, $0.001 par value; 5,000,000 Shares authorized; 4% Series A Redeemable Convertible Preferred Stock; 1,000 shares designated; 600 shares issued and outstanding (liquidation value of $620,200 as of March 31, 2003)	930,300	190,400
Shareholders' Equity:		
Common stock, $0.001 par value; 25,000,000 shares authorized; 10,485,100 shares issued and outstanding	10,500	10,500
Additional paid-in capital	2,013,700	2,007,900
Retained earnings	1,073,600	2,423,800
Total Shareholders' Equity	3,097,800	4,442,200
	$ 15,615,700	$ 17,267,000

See accompanying notes to consolidated financial statements.

PACIFIC MAGTRON INTERNATIONAL CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31,	
	2003	2002
Sales:		
Products	$ 18,946,500	$ 17,416,900
Services	249,100	215,400
Total Sales	19,195,600	17,632,300
Cost of Sales:		
Products	17,777,200	16,181,400
Services	97,800	139,200
Total Cost of Sales	17,875,000	16,320,600
Gross Margin	1,320,600	1,311,700
Selling, General and Administrative Expenses	1,909,900	2,387,100
Loss from Operations	(589,300)	(1,075,400)

Other Income (Expense):		
Interest income	800	6,600
Interest expense	(43,300)	(46,400)
Litigation settlement	(95,000)	--
Change in fair value of warrants issued	114,900	--
Other expense, net	1,600	(7,300)
Total Other Income (Expense)	(21,000)	(47,100)
Loss Before Income Tax Benefit and Minority Interest	(610,300)	(1,122,500)
Income Tax Benefit	--	384,000
Loss Before Minority Interest	(610,300)	(738,500)
Minority Interest in PMIGA Loss	--	2,200
Net Loss	(610,300)	(736,300)
Accretion of discount related to Series A Convertible Preferred Stock	(6,000)	--
Accretion of redemption value of Series A Convertible Preferred Stock	(733,900)	--
Net loss applicable to common shareholders	$ (1,350,200)	$ (736,300)
Basic and diluted loss per share	$ (0.13)	$ (0.07)
Shares used in basic and diluted per share calculation	10,485,100	10,485,100

See accompanying notes to consolidated financial statements.

PACIFIC MAGTRON INTERNATIONAL CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	THREE MONTHS ENDED MARCH 31,	
	2003	2002
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:		
Net loss	$ (610,300)	$ (736,300)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Deferred income taxes	--	(1,200)
Depreciation and amortization	90,400	75,300
Provision for doubtful accounts	34,700	--
Gain on disposal of fixed assets	--	(6,300)
Change in fair value of warrants	(114,900)	--
Minority interest losses	--	(2,200)
Changes in operating assets and liabilities:		
Accounts receivable	902,700	176,600
Inventories	(161,600)	(134,800)
Prepaid expenses and other current assets	23,400	43,800

Income taxes receivable	1,472,800	(388,500)
Accounts payable	(1,462,000)	613,700
Accrued expenses	72,400	(3,700)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	247,600	(363,600)
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES:		
Acquisition of property and equipment	(6,200)	(1,500)
Reduction in deposits and other assets	43,300	20,700
Advances to shareholder/officer	--	(30,000)
Proceeds from sale of property and equipment	--	20,500
NET CASH PROVIDED BY INVESTING ACTIVITIES	37,100	9,700
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES:		
Net increase (decrease) in floor plan inventory loans	472,200	(630,000)
Principal payments on notes payable	(14,500)	(13,300)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	457,700	(643,300)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	742,400	(997,200)
CASH AND CASH EQUIVALENTS:		
Beginning of period	1,901,100	3,110,000
End of period	$ 2,643,500	$ 2,112,800

See accompanying notes to consolidated financial statements.

-4-

PACIFIC MAGTRON INTERNATIONAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE COMPANY

The consolidated financial statements of Pacific Magtron International Corp. (the "Company" or "PMIC") include its subsidiaries, Pacific Magtron, Inc. (PMI), Pacific Magtron (GA) Inc. (PMIGA), Frontline Network Consulting, Inc. (FNC), Lea Publishing, Inc. (Lea), PMI Capital Corporation (PMICC), and LiveWarehouse, Inc. (LW).

PMI's principal activity consists of the importation and wholesale distribution of electronics products, computer components, and computer peripheral equipment throughout the United States.

The Company has incurred a net loss of $610,300 and a net loss applicable to common shareholders of $1,350,200 for the three months ended March 31, 2003. The Company has incurred a net loss of $2,835,900 and a net loss applicable to common shareholders of $3,110,100 for the year ended December 31, 2002. These conditions raise doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon

its ability to achieve profitability and generate sufficient cash flows to meet its obligations as they come due. Management believes that the downsizing or disposal of its subsidiaries, FNC and Lea and continued cost-cutting measures to reduce overhead at all of its subsidiaries will enable it to achieve profitability. Management is also pursuing additional capital and debt financing. However, there is no assurance that these efforts will be successful.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of PMIC and its wholly-owned subsidiaries, PMI, PMIGA, Lea, PMICC and LW and its majority-owned subsidiary, FNC. All inter-company accounts and transactions have been eliminated in consolidation.

FINANCIAL STATEMENT PRESENTATION

While the financial information is unaudited, the interim consolidated financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary for a fair presentation of consolidated financial position and results of operations for the periods presented. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes presented in the Company's Form 10-K for the year ended December 31, 2002. Interim operating results are not necessarily indicative of operating results expected for the entire year.

-5-

STOCK-BASED COMPENSATION

FASB Statement No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION, requires the Company to provide pro forma information regarding net income and earnings per share as if compensation cost for the Company's stock option plan had been determined in accordance with the fair value based method prescribed in SFAS No. 123 as amended by SFAS No. 148. The Company estimates the fair value of stock options at the grant date by using the Black-Scholes option pricing-model. There were no options granted for the three months ended March 31, 2003 and 2002. Had the Company adopted the provisions of FASB Statement No. 123, the Company's net loss would have increased to the pro forma amounts indicated below:

THREE MONTHS ENDED MARCH 31,	2003	2002
Net loss:		
As reported	$ (1,350,200)	$ (736,300)
Add: total stock based employee compensation expense determined under fair value based method for all awards, net of tax	$ (11,300)	$ (9,400)
Pro forma	$ (1,361,500)	$ (745,700)
Basic and diluted loss per share:		
As reported	$ (0.13)	$ (0.07)
Pro forma	$ (0.13)	$ (0.07)

2. RECENT ACCOUNTING PRONOUNCEMENTS

In January 2003, the FASB issued Interpretation No. 46, CONSOLIDATION OF VARIABLE INTEREST ENTITIES (FIN 46). This interpretation of Accounting Research Bulletin No. 51, Consolidated Financial Statements, addresses consolidation by

business enterprises of variable interest entities. Under current practice, enterprises generally have been included in the consolidated financial statements of another enterprise because one enterprise controls the others through voting interests. FIN 46 defines the concept of "variable interests" and requires existing unconsolidated variable interest entities to be consolidated into the financial statements of their primary beneficiaries if the variable interest entities do not effectively disperse risks among the parties involved. This interpretation applies immediately to variable interest entities created after January 31, 2003. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. If it is reasonably possible that an enterprise will consolidate or disclose information about a variable interest entity when FIN 46 becomes effective, the enterprise must disclose information about those entities in all financial statements issued after January 31, 2003. The interpretation may be applied prospectively with a cumulative-effect adjustment as of the date on which it is first applied or by restating previously issued financial statements for one or more years, with a cumulative-effect adjustment as of the beginning of the first year restated. The adoption of FIN 46 did not have a material effect on the Company's consolidated financial statements.

In November 2002, the EITF issued Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." This issue addresses determination of whether an arrangement involving more than one deliverable contains more than one unit of accounting and how arrangement consideration should be measured and allocated to the separate units of accounting. EITF Issue No. 00-21 will be

-6-

effective for revenue arrangements entered into in fiscal quarters beginning after June 15, 2003, or the Company may elect to report the change in accounting as a cumulative-effect adjustment. The Company has reviewed EITF Issue No. 00-21 and has determined it will not have a material impact on its consolidated financial statements.

3. STATEMENTS OF CASH FLOWS

Cash was paid during the three months ended March 31, 2003 and 2002 for:

	THREE MONTHS ENDING MARCH 31,	
	2003	2002
Income taxes	$ 5,200	$ 4,100
Interest	$ 43,300	$ 47,200
The following are the noncash financing activities for the three months ended March 31, 2003 and 2002:		
Accretion of discount related to Series A Convertible Preferred Stock	$ 6,000	$ --
Accretion of redemption value of Series A Convertible Preferred Stock	$ 733,900	$ --

4. RELATED PARTY TRANSACTIONS

During the first quarter of 2002, the Company made short-term salary advances to a shareholder/officer totaling $30,000, without interest. These advances were

recorded as a salary paid to the shareholder/officer during the second quarter ended June 30, 2002.

The Company sells computer products to a company owned by a member of the Board of Directors and Audit Committee of the Company. Management believes that the terms of these sales transactions are no more favorable than those given to unrelated customers. For the three months ended March 31, 2003, and 2002, the Company recognized $59,200 and $136,700, respectively, in sales revenues from this customer. Included in accounts receivable as of March 31, 2003 and 2002 is $32,200 and $96,300, respectively, due from this related customer.

5. INCOME TAXES

In March 2002, the Job Creation and Worker Assistance Act of 2002 ("the Act") was enacted. The Act extended the general federal net operating loss carryback period from 2 years to 5 years for net operating losses incurred for any taxable year ending in 2001 and 2002. As a result, the Company did not record a valuation allowance on the portion of the deferred tax assets relating to unutilized federal net operating loss of $1,906,800 for the year ended December 31, 2001. On June 12, 2002, the Company received a federal income tax refund of $1,034,700 attributable to 2001 net operating losses carried back. The income tax benefits of $384,200 recorded for the three months ended March 31, 2002 primarily reflects the federal income tax refund attributable to the net operating loss incurred for the three months ended March 31, 2002. The Company does not expect to receive a tax benefit for losses incurred in 2003 which are not covered by the Act. As a result, no tax benefits were recorded for the three months ended March 31, 2003. On March 20, 2003, the Company received a federal income tax refund of $1,427,400 attributable to 2002 net operating loss carryback.

-7-

6. FLOOR PLAN INVENTORY LOANS AND LETTER OF CREDIT

On July 13, 2001, PMI and PMIGA (the Companies) obtained a $4 million (subject to credit and borrowing base limitations) accounts receivable and inventory financing facility from Transamerica Commercial Finance Corporation (Transamerica). This credit facility had a term of two years and was subject to automatic renewal from year to year thereafter. The credit facility could be terminated by Transamerica. Under certain conditions, the termination was subject to a fee of 1% of the credit limit. The facility included up to a $3 million inventory line (subject to a borrowing base of up to 85% of eligible accounts receivable plus up to $1,500,000 of eligible inventories) that included a sub-limit of $600,000 for working capital and a $1 million letter of credit facility used as security for inventory purchased on terms from vendors in Taiwan. Borrowings under the inventory loans were subject to 30 to 45 days repayment, at which time interest accrued at the prime rate, which was 4.25% at March 31, 2003. Draws on the working capital line also accrued interest at the prime rate. The credit facility was guaranteed by both PMIC and FNC.

Under the accounts receivable and inventory financing facility from Transamerica, the Companies were required to maintain certain financial covenants. As of December 31, 2001, the Companies were in violation of the minimum tangible net worth covenant. On March 6, 2002, Transamerica issued a waiver of the default and revised the covenants under the credit agreement retroactively to September 30, 2001. The revised covenants required the Companies to maintain certain financial ratios and to achieve certain levels of profitability. As of March 31, 2002, the Companies were in compliance with these covenants. As of June 30, 2002, the Companies did not meet the revised minimum tangible net worth and profitability covenants.

On October 23, 2002, Transamerica issued a waiver of the default occurring on

June 30, 2002 and revised the terms and covenants under the credit agreement. Under the revised terms, the credit facility includes FNC as an additional borrower and PMIC continues as a guarantor. Effective October 2002, the new credit limit was $3 million in aggregate for inventory loans and the letter of credit facility. The letter of credit facility was limited to $1 million. The credit limits for PMI and FNC were $1,750,000 and $250,000, respectively. At December 31, 2002 and September 30, 2002, the Companies did not meet the covenants as revised on October 23, 2002 relating to profitability and tangible net worth. This constituted a technical default and gave Transamerica, among other things, the right to call the loan and immediately terminate the credit facility.

On January 7, 2003, Transamerica elected to terminate the credit facility effective April 7, 2003. However, Transamerica continues its guarantee of the Letter of Credit Facility through July 25, 2003 and continues to accept payments according to the terms of the agreement. As of March 31, 2003, the Companies had an outstanding balance of $1,373,800 due under this credit facility. The entire outstanding balance is scheduled for repayment by May 20, 2003.

On April 9, 2003, PMI received a conditional approval letter from Textron Financial Corporation (Textron) for an inventory financing facility of $3,500,000 and a $1 million letter of credit facility used as security for inventory purchased on terms from vendors in Taiwan. The credit facility is guaranteed by PMIC, PMIGA, FNC, Lea, LW and two shareholders/officers of the Company. The Company is required to maintain collateral coverage equal to 120%

of the outstanding balance. A prepayment is required when the outstanding balance exceeds the sum of 70% of the eligible accounts receivables and 90% of the Textron-financed inventory and 100% of any cash assigned or pledged to Textron. PMI and PMIC are required to meet certain financial ratio covenants and levels of profitability. The Company is required to maintain $250,000 in a restricted account as a pledge to Textron.

7. NOTES PAYABLE

In 1997, the Company obtained financing of $3,498,000 for the purchase of its office and warehouse facility. Of the amount financed, $2,500,000 was in the form of a 10-year bank loan utilizing a 30-year amortization period. This loan bears interest at the bank's 90-day LIBOR rate (1.375% as of March 31, 2003) plus 2.5%, and is secured by a deed of trust on the property. The balance of the financing was obtained through a $998,000 Small Business Administration (SBA) loan due in monthly installments through April 2017. The SBA loan bears interest at 7.569%, and is secured by the underlying property.

Under the bank loan for the purchase of the Company's office and warehouse facility, the Company is required, among other things, to maintain a minimum debt service coverage, a maximum debt to tangible net worth ratio, no consecutive quarterly losses, and net income on an annual basis. During 2002, the Company was in violation of two of these covenants which is an event of default under the loan agreement that gives the bank the right to call the loan. While a waiver of the loan covenant violations was obtained from the bank through December 31, 2003, the Company is required to maintain $250,000 in a restricted account as a reserve for debt servicing. This amount has been reflected as restricted cash in the accompanying consolidated financial statements.

8. SEGMENT INFORMATION

The Company has five reportable segments: PMI, PMIGA, FNC, Lea and LW. PMI imports and distributes electronic products, computer components, and computer

peripheral equipment to various distributors and retailers throughout the United States. PMIGA imports and distributes similar products focusing on customers located in the east coast of the United States. LW sells similar products as PMI to end-users through a website. FNC serves the networking and personal computer requirements of corporate customers. Lea designs and installs advanced solutions and applications for internet users, resellers and providers. The accounting policies of the segments are the same as those described in the summary of significant accounting policies presented in the Company's Form 10-K. The Company evaluates performance based on income or loss before income taxes and minority interest, not including nonrecurring gains or losses. Inter-segment transfers between reportable segments have been insignificant. The Company's reportable segments are separate strategic business units. They are managed separately because each business requires different technology and/or marketing strategies. PMI and PMIGA are comparable businesses with different locations of operations and customers. Sales to foreign countries have been insignificant for the Company.

The following table presents information about reported segment profit or loss for the three months ended March 31, 2003:

	Revenues External Customers	Segment loss before income taxes and Minority Interest
PMI	$14,744,000	$ (416,800)
PMIGA	2,002,500	(113,000)
FNC	970,600(1)	(94,900)
LEA	99,500(2)	(46,200)
LW	1,379,000	(46,300)
TOTAL	$19,195,600	$ (717,200)

The following table presents information about reported segment profit or loss for the three months ended March 31, 2002:

	Revenues External Customers	Segment loss before income taxes and Minority Interest
PMI	$13,430,700	$ (305,500)
PMIGA	3,445,000	(142,000)
FNC	599,600(1)	(338,400)
LEA	135,600(2)	(266,300)
LW	21,400	(70,300)
TOTAL	$17,632,300	$(1,122,500)

(1) Includes service revenues of $149,600 and $79,800 in 2003 and 2002, respectively.
(2) Includes service revenues of $99,600 and $135,600 in 2003 and 2002, respectively.

The following is a reconciliation of reportable segment loss before income taxes to the Company's consolidated total:

Three Months Ended March 31,

	2003	2002
Total loss before income taxes and minority interest for reportable segments	$ (717,200)	$ (1,122,500)
Change in fair value of warrants issued	114,900	--
Amortization of warrant issuance costs	(8,000)	--
Consolidated loss before income taxes and minority interest	$ (610,300)	$ (1,122,500)

9. ACCOUNTS RECEIVABLE FACTORING AGREEMENT

Pursuant to a non-notification accounts receivable factoring agreement, the Company factored certain of its accounts receivable with GE Capital Commercial Services, Inc. (GE) on a pre-approved nonrecourse basis. The factoring

commission charge was 0.375% and 2.375% of specific approved domestic and foreign receivables, respectively. The agreement, which expired February 28, 2003 and was renewed through March 31, 2003, provided for the Company to pay a minimum of $200,000 (pro-rated for March 2003) in annual commission to GE. The Company's obligations to GE were collateralized by the related accounts receivable sold and assigned to GE and the underlying inventory. However, any collateral assigned to GE was subordinated to the collateral rights held by Transamerica, the Company's floor plan inventory lender. GE agreed to remit to Transamerica, on behalf of the Company, any collections on assigned accounts to repay amounts due Transamerica under the Company's inventory floor line of credit.

In April 2003, the Company entered into a financing agreement with ENX, Inc. for its accounts receivables for one year beginning April 7, 2003. Under the agreement, the Company factors its accounts receivable on pre-approved customers with pre-approved credit limits. The factoring commission is 0.5% of the invoice amounts with a minimum annual commission of $50,000. The Company also has a credit insurance policy covering certain accounts receivable up to $2,000,000 of losses.

10. LITIGATION SETTLEMENT

In April 2003, the Company settled a lawsuit relating to a counterfeit products claim for $95,000 which is included in other expense in the first quarter 2003.

11. SUBSEQUENT EVENTS

On February 28, 2003, Nasdaq notified the Company that its common stock had failed to comply with the minimum market value of publicly held shares requirement of Nasdaq Marketplace Rule. On March 6, 2003 the Company requested a hearing before a Listing Qualifications Panel, at which it would seek continued listing. The hearing was held on April 24, 2003. The Company was also notified by Nasdaq that the Company did not comply with the Marketplace Rule that requires a minimum bid price of $1.00 per share of common stock. Subsequent to the hearing on April 24, 2003, Nasdaq notified the Company that its common stock would be delisted from the Nasdaq SmallCap Market effective and such delisting took place on April 30, 2003. The Company's common stock is eligible to be traded on the Over the Counter Bulletin Board (OCTBB). The delisting of the Company's common stock enables the holder of the Company's Series A Redeemable Convertible Preferred Shares to request the repurchase of such shares 60 days after the delisting date. As of March 31, 2003, the redemption value of the Series A Preferred Stock, if the holder had required the Company to redeem the

Series A Preferred Stock as of that date, was $930,300. The Company has increased the carrying value of the Series A Redeemable Convertible Preferred Stock to its redemption value and has recorded an increase in loss applicable to common shareholders of $733,900 in the accompanying consolidated statement of operations.

In March and April 2003, the Company entered into letters of intent with a third party to sell substantially all of the assets of FNC and with certain employees to sell substantially all of the assets of Lea. The Company is engaged in on-going preliminary discussions with the prospective buyers and is unable to conclude that a sale is probable at this time.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

The accompanying discussion and analysis of financial condition and results of operations is based on the consolidated financial statements, which are included elsewhere in this Quarterly Report. The following discussion and analysis should be read in conjunction with the accompanying financial statements and related notes thereto. This discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Our actual results could differ materially from those set forth in the forward-looking statements. Forward-looking statements, by their very nature, include risks and uncertainties. Accordingly, our actual results could differ materially from those discussed in this Report. A wide variety of factors could adversely impact revenues, profitability, cash flows and capital needs. Such factors, many of which are beyond our control, include, but are not limited to, those identified in the Company's Form 10-K for the fiscal year ended December 31, 2002 under the heading "Cautionary Factors That May Affect Future Results", such as our ability to reverse our trend of negative earnings, respond to technological changes, obtain insurance and potential excess liability, the diminished marketability of inventory, the need for additional capital, the delisting of our common stock from the Nasdaq SmallCap Market, increased warranty costs, competition, recruitment and retention of technical personnel, dependence on continued manufacturer certification, dependence on certain suppliers, risks associated with the projects in which we are engaged to complete, and dependence on key personnel.

GENERAL

As used herein and unless otherwise indicated, the terms "Company," "we," and "our" refer to Pacific Magtron International Corp. and each of our subsidiaries. We provide solutions to customers in several segments of the computer industry. Our business is organized into five divisions: PMI, PMIGA, FNC, Lea and LW. Our subsidiaries, PMI and PMIGA, provide for the wholesale distribution of computer multimedia and storage peripheral products and provide value-added packaged solutions to a wide range of resellers, vendors, OEMs and systems integrators. PMIGA commenced operations in October 2000 and distributes PMI's products in the southeastern United States market. We established the FrontLine Network Consulting division in 1998 to provide professional services to mid-market companies focused on consulting, implementation and support services of Internet technology solutions. During 2000, this division was incorporated as FNC. On September 30, 2001, FNC acquired certain assets of Technical Insights, Inc. (Technical Insights"), a computer technical support company, in exchange for 16,142 shares of our common stock then valued at $20,000. The acquired business unit, Technical Insights, enables FNC to provide computer technical training services to corporate clients. We signed a letter of intent to sell

substantially all of the assets of FNC to a third party. However, there is no assurance that the sale will be consummated.

In 1999 we invested in a 50%-owned joint software venture, Lea Publishing, LLC, to focus on Internet-based software application technologies to enhance corporate IT services. Lea was a development stage company. In June 2000, we increased our direct and indirect interest in Lea to 62.5% by completing our

-12-

purchase of 25% of the outstanding common stock of Rising Edge Technologies, Ltd. ("Rising Edge"), the other 50% owner of Lea. In December 2001, we entered into an agreement with Rising Edge and its principal owners to exchange the 50% Rising Edge ownership in Lea for our 25% interest in Rising Edge. As a consequence, we own 100% of Lea and no longer have an interest in Rising Edge. Certain LiveMarket assets, which were initially purchased through PMICC, were transferred to Lea in the fourth quarter of 2001. On May 28, 2002, Lea Publishing, Inc. was incorporated in California. Effective June 1, 2002, Lea Publishing, LLC transferred all of its assets and liabilities to Lea. We signed a letter of intent to sell substantially all the assets of Lea to certain of Lea's employees. However, there is no assurance that the sale will be consummated.

In December 2001, LW was incorporated as a wholly-owned subsidiary of PMIC, to provide consumers a convenient way to purchase computer products via the internet.

CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are described in Note 1 to the consolidated financial statements included as Part II Item 8 to the Form 10-K for the year ended December 31, 2002. The following are our critical accounting policies:

REVENUE RECOGNITION

The Company recognizes sales of computer and related products upon delivery of goods to the customer (generally upon shipment) provided no significant obligations remain and collectibility is probable. A provision for estimated product returns is established at the time of sale based upon historical return rates, which have typically been insignificant, adjusted for current economic conditions. The Company generally does not provide volume discounts or rebates to its customers. Revenues relating to services performed by FNC are recognized upon completion of the contracts. Software and service revenues relating to software design and installation performed by FNC and Lea, are recognized upon completion of the installation and customer acceptance.

LONG-LIVED ASSETS

The Company periodically reviews its long-lived assets for impairment. When events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable, the Company adjusts the asset group to its estimated fair value. The fair value of an asset group is determined by the Company as the amount at which that asset group could be bought or sold in a current transaction between willing parties or the present value of the estimated future cash flows from the asset. The asset value recoverability test is performed by the Company on an on-going basis.

ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Company grants credit to its customers after undertaking an investigation of credit risk for all significant amounts. An allowance for doubtful accounts is provided for estimated credit losses at a level deemed appropriate to adequately

provide for known and inherent risks related to such amounts. The allowance is based on reviews of loss, adjustment history, current economic conditions, level of credit insurance and other factors that deserve recognition in estimating potential losses. While management uses the best information available in making its determination, the ultimate recovery of recorded accounts receivable is also dependent upon future economic and other conditions that may be beyond management's control.

INVENTORY

Our inventories, consisting primarily of finished goods, are stated at the lower of cost (moving weighted average method) or market. We regularly review inventory quantities on hand and record a provision, if necessary, for excess and obsolete inventory based primarily on our estimated forecast of product demand. Due to a relatively high inventory turnover rate and the inclusion of provisions in the vendor agreements common to industry practice that provide us price protections or credits for declines in inventory value and the right to return certain unsold inventory, we believe that our risk for a decrease in inventory value is minimized. No assurance can be given, however, that we can continue to turn over our inventory as quickly in the future or that we can negotiate such provisions in each of our vendor contracts or that such industry practice will continue.

INCOME TAXES

The Company reports income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, ACCOUNTING FOR INCOME TAXES, which requires an asset and liability approach. This approach results in the recognition of deferred tax assets (future tax benefits) and liabilities for the expected future tax consequences of temporary differences between the book carrying amounts and the tax basis of assets and liabilities. The deferred tax assets and liabilities represent the future tax consequences of those differences, which will either be deductible or taxable when the assets and liabilities are recovered or settled. Future tax benefits are subject to a valuation allowance when management believes it is more likely than not that the deferred tax assets will not be realized.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, certain selected financial data as a percentage of sales:

	Three Months Ended March 31,	
	2003	2002
Sales	100.0%	100.0%
Cost of sales	93.1	92.6
Gross margin	6.9	7.4
Operating expenses	10.0	13.6
Loss from operations	(3.1)	(6.2)
Other income (expense), net	(0.1)	(0.2)
Income taxes (benefit) expense	0.0	(2.2)
Minority interest	0.0	0.0
Net loss	(3.2%)	(4.2%)

THREE MONTHS ENDED MARCH 31, 2003 COMPARED TO THREE MONTHS ENDED MARCH 31, 2002

Sales for the three months ended March 31, 2003 were $19,195,600, an increase of $1,563,300, or approximately 8.9%, compared to $17,632,300 for the three months ended March 31, 2002. The combined sales of PMI and PMIGA were $16,746,500 for the three months ended March 31, 2003, a decrease of $129,200 or approximately 0.8%, compared to $16,875,700 for the three months ended March 31, 2002. Sales

for PMI increased by $1,313,300 or 9.8% from $13,430,700 for the three months ended March 31, 2002 to $14,744,000 for the three months ended March 31, 2003. PMIGA's sales decreased by $1,442,500 or 41.9% from $3,445,000 for the three months ended March 31, 2002 to $2,002,500 for the three months ended March 31, 2003. The increase in PMI sales was due to an improved computer component market condition in the first quarter of 2003 compared to the same period last year. The decrease in PMIGA's sales was due to the intense competition and a decrease in market share on the U.S. east coast.

Sales recognized by FNC for the three months ended March 31, 2003 were $970,600, an increase of $371,000 or 61.9%, compared to $599,600 for the three month ended March 31, 2002. The increase in FNC sales is due to the increase in capital expenditures by its customers.

Lea generated $99,500 in revenues for the three months ended March 31, 2003, a decrease of $36,100 or 26.5%, compared to $135,600 for the three months ended march 31, 2002. The decrease in revenues was due to the pricing pressure on our services.

Sales generated by LW were $21,400 for the three months ended March 31, 2002, compared to $1,379,000 for the three months ended March 31, 2003, an increase of $1,357,600. LW was an operating entity during the three months ended March 31, 2003, whereas it was in a development stage during the three months ended March 31, 2002.

Consolidated gross margin for the three months ended March 31, 2003 was $1,320,600, or 6.9% of sales, compared to $1,311,700, or 7.4% of sales for the three months ended March 31, 2002. The combined gross margin for PMI and PMIGA was $940,000, or 5.6% of sales for the three months ended March 31, 2003, compared to $1,197,300 or 7.1% of sales for the three months ended March 31, 2002. PMI's gross margin was $815,800 or 5.5% of sales for the three months ended March 31, 2003, compared to $1,024,900 or 7.6% for the three months ended March 31, 2002. PMIGA's gross margin was $124,200 or 6.2% of sales for the three months ended March 31, 2003, compared to $172,400 or 5.0% of sales for the three months ended March 31, 2002. The decrease in gross margin for PMI was due to the intense price competition in the market for several major products sold by PMI. We anticipate the intense price competition will continue in the computer component products market in the next 12 months. The increase in gross margin as a percentage of sales for PMIGA was due to more products with higher margins were being sold during the three months ended March 31, 2003 compared to the three months ended March 31, 2002.

FNC's gross margin was $180,800, or 18.6% of sales for the three months ended March 31, 2003, compared to $81,500 or 13.4% of sales for the three months ended March 31, 2002. The higher gross margin percentage in the three months ended March 31, 2003 was due to an increase in service revenues earned as a percent of total sales for the three months ended March 31, 2003, compared to the three months ended March 31, 2002. Service revenues were $149,600 for the three months ended March 31, 2003, compared to $79,800 for the three months ended March 31, 2002. In general, FNC has a higher gross margin on consulting and implementation service revenues than product sales revenues.

Lea`s gross margin was $66,500, or 66.8% of sales for the three months ended March 31, 2003, compared to $28,400, or 21.0% of sales for the three months ended March 31, 2002. The increase in gross margin was due to more billable development work for the three months ended March 31, 2003, compared to the same period in 2002.

-15-

Gross margin for LW was $133,300 or 9.7% of sales for the three months ended March 31, 2003, compared to $4,500, or 21% of sales for the three months ended March 31, 2002. LW was in a development stage during the three months ended March 31, 2002.

Consolidated operating expenses, which consist of selling, general and administrative expenses, were $1,909,900 for the three months ended March 31, 2003, a decrease of $477,200, or 20.0%, compared to $2,387,100 for the three months ended March 31, 2002. The Company continued its effort in cost cutting during the three months ended March 31, 2003. Substantially all of the expenses were reduced for the three months ended March 31, 2003, compared to the same period in 2002. Employee count was reduced from 103 at March 31, 2002 to 96 at March 31, 2003. Through a combination of reducing the number of employees and salary reductions, payroll expense declined by $234,500 for the three months ended March 31, 2003, compared to the same period in 2002. The Company has also experienced a lower level of bad debt write-offs. The consolidated bad debt expense decreased by $98,800 for the three months ended March 31, 2003 compared to the same period in 2002. Consolidated promotional expenses for our Company's stock, products and services decreased by $64,700 for the three months ended March 31, 2003, compared to the same period in 2002.

PMI's operating expenses were $1,067,500 for the three months ended March 31, 2003, compared to $1,357,600 for the three months ended March 31, 2002. The decrease of $253,100 or 21.4%, was mainly due to the decrease in payroll expenses of approximately $53,300 and the decrease in bad debt expense of $113,000 and promotional expenses of $51,800.

PMIGA's operating expenses were $235,900 for the three months ended March 31, 2003, a decrease of $78,800, or 25.0%, compared to $314,700 for the three months ended March 31, 2002. The decrease was primarily due to a decrease in expenses for accounts receivable collection of approximately $21,300 and the decrease in promotional expense of $10,700.

FNC's operating expenses were $310,900 for the three months ended March 31, 2003, a decrease of $84,500, or 21.4%, compared to $395,400 for the three months ended March 31, 2002. The decrease was mainly due to the decrease in payroll expenses of approximately $76,700.

Lea's operating expenses were $112,700 for the three months ended March 31, 2003, a decrease of $182,100, or 61.8%, compared to $294,800 for the three months ended March 31, 2002. The decrease was mainly due to a decrease in payroll expense of approximately $92,200 and a decrease in professional service expenses of approximately $50,100. Rent expense was reduced by $26,600 for the three months ended March 31, 2003, compared to the same period in 2002 primarily as a result of the elimination of Lea's office in Utah in the fourth quarter of 2002.

LW's operating expenses were $174,900 for the three months ended March 31, 2003, an increase of $100,400, or 134.8%, compared to $74,500 for the three months ended March 31, 2002. LW was in a development stage during the three months ended March 31, 2002. The increase was mainly due to the increase in payroll expenses, bad debt expense, bank charges, and e-commerce service fees of approximately $44,100, $14,700, $13,600, and $18,600, respectively.

Consolidated loss from operations for the three months ended March 31, 2003 was $589,300, compared to $1,075,400 for the three months ended March 31, 2002, a

decrease of $486,100 or 45.2%. As a percent of sales, consolidated loss from operations was 3.1% for the three months ended March 31, 2003, compared to 6.2% for the three months ended March 31, 2002. The decrease in consolidated loss from operations was primarily due to a 20.0% decrease in consolidated operating expenses. Loss from operations for the three months ended March 31, 2003, including allocations of PMIC corporate expenses, for PMI, PMIGA, FNC, Lea and LW was $390,800, $56,000, $40,300, $23,700, and $72,600, respectively. Loss from operations for the three months ended March 31, 2002, including allocations of PMIC corporate expenses, for PMI, PMIGA, FNC, Lea and LW was $332,700, $142,400, $264,000, $266,300, and $70,000, respectively.

Consolidated interest expense was $43,300 for the three months ended March 31, 2003, compared to $46,400 for the three months ended March 31, 2002. The decrease in interest expense was largely due to a rate decrease on the floating interest rate charged on one of our mortgages for our office building facility located in Milpitas, California.

Other income for the three months ended March 31, 2003 included $114,900 related to the change in fair value of the warrants issued to a preferred stock investor and a broker on May 31, 2002.

Other expenses for the three months ended March 31, 2003 included $95,000 for the settlement of a lawsuit relating to a counterfeit products claim.

In March 2002, the Job Creation and Worker Assistance Act of 2002 ("the Act") was enacted. The Act extended the general federal net operating loss carryback period from 2 years to 5 years for net operating losses incurred for any taxable year ending in 2001 and 2002. As a result, the Company did not record a valuation allowance on the portion of the deferred tax assets relating to unutilized federal net operating loss of $1,906,800 for the year ended December 31, 2001. On June 12, 2002, the Company received a federal income tax refund of $1,034,700 attributable to 2001 net operating losses carried back. The income tax benefits of $384,200 recorded for the three months ended March 31, 2002 primarily reflects the federal income tax refund attributable to the net operating loss incurred for the three months ended March 31, 2002. The Company does not expect to receive a tax benefit for losses incurred in 2003 which are not covered by the Act. As a result, no tax benefits were recorded for the three months ended March 31, 2003. On March 20, 2003, the Company received a federal income tax refund of $1,427,400 attributable to the 2002 net operating loss carryback.

On February 28, 2003, Nasdaq notified the Company that its common stock had failed to comply with the minimum market value of publicly held shares requirement of Nasdaq Marketplace Rule. On March 6, 2003 the Company requested a hearing before a Listing Qualifications Panel, at which it would seek continued listing. The hearing was held on April 24, 2003. The Company was also notified by Nasdaq that the Company did not comply with the Marketplace Rule that requires a minimum bid price of $1.00 per share of common stock. Subsequent to the hearing on April 24, 2003, Nasdaq notified the Company that its common stock would be delisted from the Nasdaq SmallCap Market effective and such delisting took place on April 30, 2003. The Company's common stock is eligible to be traded on the Over the Counter Bulletin Board (OCTBB). The delisting of the Company's common stock enables the holder of the Company's Series A Redeemable Convertible Preferred Shares to request the repurchase of such shares 60 days after the delisting date. As of March 31, 2003, the redemption value of the Series A Preferred Stock, if the holder had required the Company to redeem the

Series A Preferred Stock as of that date, was $930,300. The Company has

increased the carrying value of the Series A Redeemable Convertible Preferred Stock to its redemption value and has recorded an increase in loss applicable to common shareholders of $733,900 in the accompanying consolidated statement of operations.

LIQUIDITY AND CAPITAL RESOURCES

The Company has incurred a net loss of $610,300 and a net loss applicable to common shareholders of $1,350,200 for the three months ended March 31, 2003. The Company has incurred a net loss of $2,835,900 and a net loss applicable to common shareholders of $3,110,100 for the year ended December 31, 2002. These conditions raise doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to achieve profitability and generate sufficient cash flows to meet its obligations as they come due. Management believes that the downsizing or disposal of its subsidiaries, FNC and Lea and continued cost-cutting measures to reduce overhead at all of its subsidiaries will enable it to achieve profitability. Management is also pursuing additional capital and debt financing. However, there is no assurance that these efforts will be successful.

At March 31, 2003, we had consolidated cash and cash equivalents totaling $2,643,500 (excluding $250,000 in restricted cash) and working capital of $2,614,200. At December 31, 2002, we had consolidated cash and cash equivalents of $1,901,100 (excluding $250,000 in restricted cash) and working capital of $3,112,700.

Net cash provided by operating activities for the three months ended March 31, 2003 was $247,600, which principally reflected the receipt of a federal income tax refund of $1,427,400 and a decrease in accounts receivable of $902,700 which was partially offset by a decrease in accounts payable of $1,462,000, an increase in inventories of $161,600 and a net loss of $610,300 incurred in the three months ended March 31, 2003. Net cash used in operating activities during the three months ended March 31, 2002 was $363,600, which principally reflected the net loss incurred during the period, and an increase in income taxes receivable and inventories, which was partially offset by an increase in accounts payable and a decrease in accounts receivable.

Net cash provided by investing activities was $37,100 for the three months ended March 31, 2003, primarily resulting from decrease in deposits and other assets of $43,300. Net cash provided by investing activities during the three months ended March 31, 2002 was $9,700, primarily resulting from the proceeds of sales of property and equipment and decrease in deposits and other assets, which was partially offset by the $30,000 advanced to a shareholder/officer.

Net cash provided by financing activities was $457,700 for the three months ended March 31, 2003, primarily resulting from an increase in floor plan inventory loans of $472,200. Net cash used in financing activities was $643,300 for the three months ended March 31, 2002, primarily from a $630,000 decrease in the floor plan inventory loans.

On July 13, 2001, PMI and PMIGA (the Companies) obtained a $4 million (subject to credit and borrowing base limitations) accounts receivable and inventory financing facility from Transamerica Commercial Finance Corporation (Transamerica). This credit facility had a term of two years and was subject to automatic renewal from year to year thereafter. The credit facility could be terminated by Transamerica. Under certain conditions the termination was subject

to a fee of 1% of the credit limit. The facility included up to a $3 million inventory line (subject to a borrowing base of up to 85% of eligible accounts receivable plus up to $1,500,000 of eligible inventories) that included a sub-limit of $600,000 for working capital and a $1 million letter of credit facility used as security for inventory purchased on terms from vendors in Taiwan. Borrowings under the inventory loans were subject to 30 to 45 days repayment, at which time interest accrued at the prime rate, which was 4.25% at March 31, 2003. Draws on the working capital line also accrued interest at the prime rate. The credit facility was guaranteed by both PMIC and FNC.

Under the accounts receivable and inventory financing facility from Transamerica, the Companies were required to maintain certain financial covenants. As of December 31, 2001, the Companies were in violation of the minimum tangible net worth covenant. On March 6, 2002, Transamerica issued a waiver of the default and revised the covenants under the credit agreement retroactively to September 30, 2001. The revised covenants required the Companies to maintain certain financial ratios and to achieve certain levels of profitability. As of March 31, 2002, the Companies were in compliance with these covenants. As of June 30, 2002, the Companies did not meet the revised minimum tangible net worth and profitability covenants.

On October 23, 2002, Transamerica issued a waiver of the default occurring on June 30, 2002 and revised the terms and covenants under the credit agreement. Under the revised terms, the credit facility includes FNC as an additional borrower and PMIC continues as a guarantor. Effective October 2002, the new credit limit was $3 million in aggregate for inventory loans and the letter of credit facility. The letter of credit facility was limited to $1 million. The credit limits for PMI and FNC were $1,750,000 and $250,000, respectively. At December 31, 2002 and September 30, 2002, the Companies did not meet the covenants as revised on October 23, 2002 relating to profitability and tangible net worth. This constituted a technical default and gave Transamerica, among other things, the right to call the loan and immediately terminate the credit facility.

On January 7, 2003, Transamerica elected to terminate the credit facility effective April 7, 2003. However, Transamerica continues its guarantee of the Letter of Credit Facility through July 25, 2003 and continues to accept payments according to the terms of the agreement. As of March 31, 2003, the Companies had an outstanding balance of $1,373,800 due under this credit facility. The entire outstanding balance is scheduled for repayment by May 20, 2003.

On April 9, 2003, PMI received a conditional approval letter from Textron Financial Corporation (Textron) for an inventory financing facility of $3,500,000 and a $1 million letter of credit facility used as security for inventory purchased on terms from vendors in Taiwan. The credit facility is guaranteed by PMIC, PMIGA, FNC, Lea, LW and two shareholders/officers of the Company. The Company is required to maintain collateral coverage equal to 120% of the outstanding balance. A prepayment is required when the outstanding balance exceeds the sum of 70% of the eligible accounts receivables and 90% of the Textron-financed inventory and 100% of any cash assigned or pledged to Textron. PMI and PMIC are required to meet certain financial ratio covenants and levels of profitability. The Company will be required to maintain $250,000 in a restricted account as a pledge to Textron.

Pursuant to one of our bank mortgage loans, with a $2,381,300 balance at March 31, 2003, we are required to maintain a minimum debt service coverage, a maximum

-19-

debt to tangible net worth ratio, no consecutive quarterly losses, and achieve net income on an annual basis. During 2002 and 2001, the Company was in

violation of two of these covenants which constituted an event of default under the loan agreement and gave the bank the right to call the loan. A waiver of the loan covenant violations was obtained from the bank in March 2002, retroactive to September 30, 2001, and through December 31, 2002. In March 2003, the bank extended the waiver through December 31, 2003. As a condition for this waiver, the Company transferred $250,000 to a restricted account as a reserve for debt servicing. This amount has been reflected as restricted cash in the accompanying consolidated financial statements.

On May 31, 2002 we received net proceeds of $477,500 from the sale of 600 shares of 4% Series A Preferred Stock. An additional 400 shares were to be sold after the completion of the registration of the underlying common stock. Even though we completed the required registration of the underlying common stock in October 2002, there is no assurance that the remaining 400 shares will be sold or, even if we do, that we will be able to obtain additional capital beyond the issuance of the 1,000 shares of Preferred stock. Upon the occurrence of a Triggering Event, such as if the Company were a party in a "Change of Control Transaction," among others, as defined, the holder of the preferred stock has the rights to require us to redeem its preferred stock in cash at a minimum of 1.5 times the Stated Value. On February 28, 2003, Nasdaq notified the Company that its common stock had failed to comply with the minimum market value of publicly held shares requirement of Nasdaq Marketplace Rule. On March 6, 2003 the Company requested a hearing before a Listing Qualifications Panel, at which it would seek continued listing. The hearing was held on April 24, 2003. The Company was also notified by Nasdaq that the Company did not comply with the Marketplace Rule that requires a minimum bid price of $1.00 per share of common stock. Subsequent to the hearing on April 24, 2003, Nasdaq notified the Company that its common stock would be delisted from the Nasdaq SmallCap Market effective and such delisting took place on April 30, 2003. The Company's common stock is eligible to be traded on the Over the Counter Bulletin Board (OCTBB). The delisting of the Company's common stock enables the holder of the Company's Series A Redeemable Convertible Preferred Shares to request the repurchase of such shares 60 days after the delisting date. As of March 31, 2003, the redemption value of the Series A Preferred Stock, if the holder had required the Company to redeem the Series A Preferred Stock as of that date, was $930,300. The Company has increased the carrying value of the Series A Redeemable Convertible Preferred Stock to its redemption value and has recorded an increase in loss applicable to common shareholders of $733,900 in the accompanying consolidated statement of operations. In the event we are required to redeem our Series A Preferred Stock in cash, we might experience a reduction in our ability to operate the business at its current level.

We are actively seeking additional capital to augment our working capital and to finance our new business. However, there is no assurance that we can obtain such capital, or if we can obtain capital that it will be on terms that are acceptable to us.

In March and April 2003, the Company entered into letters of intent with a third party to sell substantially all of the assets of FNC and with certain employees to sell substantially all of the assets of Lea. The Company is engaged in on-going preliminary discussions with the prospective buyers and is unable to conclude that a sale is probable at this time. There is no assurance that the sales will be consummated.

-20-

RELATED PARTY TRANSACTIONS

During the first quarter of 2002, the Company made short-term salary advances to a shareholder/officer totaling $30,000, without interest. These advances were recorded as a salary paid to the shareholder/officer during the second quarter ended June 30, 2002.

The Company sells computer products to a company owned by a member of the Board of Directors and Audit Committee of the Company. Management believes that the terms of these sales transactions are no more favorable than those given to unrelated customers. For the three months ended March 31, 2003, and 2002, the Company recognized $59,200 and $136,700, respectively, in sales revenues from this customer. Included in accounts receivable as of March 31, 2003 and 2002 is $32,200 and $96,300, respectively, due from this related customer.

RECENT ACCOUNTING PRONOUNCEMENTS

In January 2003, the FASB issued Interpretation No. 46, CONSOLIDATION OF VARIABLE INTEREST ENTITIES (FIN 46). This interpretation of Accounting Research Bulletin No. 51, Consolidated Financial Statements, addresses consolidation by business enterprises of variable interest entities. Under current practice, enterprises generally have been included in the consolidated financial statements of another enterprise because one enterprise controls the others through voting interests. FIN 46 defines the concept of "variable interests" and requires existing unconsolidated variable interest entities to be consolidated into the financial statements of their primary beneficiaries if the variable interest entities do not effectively disperse risks among the parties involved. This interpretation applies immediately to variable interest entities created after January 31, 2003. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. If it is reasonably possible that an enterprise will consolidate or disclose information about a variable interest entity when FIN 46 becomes effective, the enterprise must disclose information about those entities in all financial statements issued after January 31, 2003. The interpretation may be applied prospectively with a cumulative-effect adjustment as of the date on which it is first applied or by restating previously issued financial statements for one or more years, with a cumulative-effect adjustment as of the beginning of the first year restated. The adoption of FIN 46 did not have a material effect on the Company's consolidated financial statements.

In November 2002, the EITF issued Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." This issue addresses determination of whether an arrangement involving more than one deliverable contains more than one unit of accounting and how arrangement consideration should be measured and allocated to the separate units of accounting. EITF Issue No. 00-21 will be effective for revenue arrangements entered into in fiscal quarters beginning after June 15, 2003, or the Company may elect to report the change in accounting as a cumulative-effect adjustment. The Company has reviewed EITF Issue No. 00-21 and has determined it will not have a material impact on its consolidated financial statements.

-21-

CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS

OUR REPORT OF INDEPENDENT AUDITORS CONTAINS A GOING CONCERN QUALIFICATION

We received a going concern opinion from our auditors for the financial statements for the year ended December 31, 2002. The opinion raises substantial doubts our ability to continue as a going concern. If we fail to replace our Transamerica floor plan line of credit or if we cannot reverse our trend of negative earnings an investor could lose his/her entire investment.

WE HAVE INCURRED OPERATING LOSSES AND DECREASED REVENUES FOR THE LAST TWO FISCAL YEARS AND WE CANNOT ASSURE YOU THAT THIS TREND WILL CHANGE

We have incurred a net loss of $610,300 and a net loss applicable to common

shareholders of $1,350,200 for the three months ended March 31, 2003. We also have incurred a net loss of $2,835,900 and a net loss applicable to common shareholders of $3,110,100 for the year ended December 31, 2002 and we may continue to incur losses. In addition, our revenues decreased 6.2% during the year ended December 31, 2002 as compared to 2001. Our future ability to execute our business plan will depend on our efforts to increase revenues, reduce costs and return to profitability. We have implemented plans to reduce overhead and operating costs, and to build upon our core business. No assurance can be given, however, that these actions will result in increased revenues and profitable operations. If we are unable to return to profitable operations we may be unable to continue as a going concern.

WE CAN PROVIDE NO ASSURANCE THAT WE WILL BE ABLE TO SECURE ADDITIONAL CAPITAL REQUIRED BY OUR BUSINESS

In the second quarter of 2002, we completed a private placement of 600 shares of our Series A Convertible Preferred Stock at a stated price of $1,000 per share for gross proceeds of $600,000 and net proceeds of $477,500. We also issued common stock purchase warrants to the same purchaser exercisable to purchase 400,000 shares of our common stock at $1.20 per share at any time within three years from the date of issuance.

Based on our projected downsized operations we anticipate that our working capital, including the $477,500 raised in our second quarter 2002 placement and a recently received tax refund of $1,427,400, will satisfy our working capital needs for the next twelve months. However, if we fail to raise additional working capital prior to that time or if we are unable to replace our Transamerica Flooring line in a timely fashion, we will be unable to pursue our business plan. We may give no assurance that we will be able to obtain additional capital when needed or, if available, that such capital will be available at terms acceptable to us.

OUR COMMON STOCK IS NOT CURRENTLY LISTED ON THE NASDAQ SMALLCAP MARKET

On February 28, 2003, Nasdaq notified the Company that its common stock had failed to comply with the minimum market value of publicly held shares requirement of Nasdaq Marketplace Rule. The Company's common stock was, therefore, subject to delisting from the SmallCap Market. On March 6, 2003 the Company requested a hearing before a Listing Qualifications Panel, at which it would seek continued listing. The hearing was scheduled on April 24, 2003. The Company has also been notified by Nasdaq that the Company has not complied with Marketplace Rule, which requires a minimum bid price of $1.00 per share of common stock. Subsequent to the hearing on April 24, 2003, Nasdaq notified the Company that its common stock had been delisted from the Nasdaq SmallCap Market effective April 30, 2003. The Company's common stock is eligible to be traded on the Over the Counter Bulletin Board (OCTBB). The market for our common stock is

-22-

not as broad as if it were traded on the Nasdaq SmallCap Market and it is more difficult to trade in our common stock.

POTENTIAL SALES OF ADDITIONAL COMMON STOCK AND SECURITIES CONVERTIBLE INTO OUR COMMON STOCK MAY DILUTE THE VOTING POWER OF CURRENT HOLDERS

We may issue equity securities in the future whose terms and rights are superior to those of our common stock. Our Articles of Incorporation authorize the issuance of up to 5,000,000 shares of preferred stock. These are "blank check" preferred shares, meaning our board of directors is authorized to designate and issue the shares from time to time without shareholder consent. As of March 31, 2003 we had 600 shares of Series A Preferred outstanding. The Series A Preferred are convertible based on a sliding scale conversion price referenced to the

market price of our common stock. As of March 31, 2003, the Series A Preferred was convertible into 826,900 shares of common stock based on the floor conversion price of $.75. Any additional shares of preferred stock that may be issued in the future could be given voting and conversion rights that could dilute the voting power and equity of existing holders of shares of common stock and have preferences over shares of common stock with respect to dividends and liquidation rights. At the time of issuance of the Series A Preferred Stock, it was intended that an additional 400 shares be issued to the same investor; however, the purchaser has not fulfilled its obligations to close this transaction as of the date of this filing, and we do not anticipate that such sale will occur.

WE HAVE VIOLATED CERTAIN FINANCIAL COVENANTS CONTAINED IN OUR LOANS AND MAY DO SO AGAIN IN THE FUTURE

We have a mortgage on our offices with Wells Fargo Bank, under which we must maintain the following financial covenants:

i) Total liabilities must not be more than twice our tangible net worth;

ii) Net income after taxes must not be less than one dollar on an annual basis and for no more than two consecutive quarters; and

iii) We must maintain annual EBITDA of one and one half times our debt.

We are currently in violation of covenants (ii) and (iii), but we have received a waiver for such violation through December 31, 2003. We cannot assure you that we will be able to meet all of these financial covenants in the future. If we fail to meet the covenants, Wells Fargo may declare us in default and accelerate the loan.

On January 7, 2003, Transamerica terminated its credit facility with us effective April 7, 2003. However, Transamerica will continue its guarantee of the Letter of Credit Facility through July 25, 2003. Unless we did not perform our obligations in accordance with the agreement and certain covenants were not materially worse than the condition at the level on January 7, 2003, Transamerica would continue to accept payments according to the terms of the agreement prior to April 7, 2003. The remaining outstanding balance is due and payable in accordance with the terms of the agreement. As of March 31, 2003, we had an outstanding balance of $1,373,800 due under this credit facility. We would be unable to continue our operations without replacement loans or other alternative financing. We are in the process of replacing Transamerica Flooring line with a similar line from Textron Financial. However, we cannot assure you

that we will be able to maintain the Textron flooring line if we continue our losses.

OUR FAILURE TO ANTICIPATE OR RESPOND TO TECHNOLOGICAL CHANGES COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS

The market for computer systems and products is characterized by constant technological change, frequent new product introductions and evolving industry standards. Our future success is dependent upon the continuation of a number of trends in the computer industry, including the migration by end-users to multi-vendor and multi- system computing environments, the overall increase in the sophistication and interdependency of computing technology, and a focus by managers on cost-efficient information technology management. These trends have resulted in a movement toward outsourcing and an increased demand for product and support service providers that have the ability to provide a broad range of multi-vendor product and support services. There can be no assurance these

trends will continue in the future. Our failure to anticipate or respond adequately to technological developments and customer requirements could have a material adverse effect on our business, operating results and financial condition.

IF WE ARE UNABLE TO SECURE PRICE PROTECTION PROVISIONS IN OUR VENDOR AGREEMENTS, THE VALUE OF OUR INVENTORY WOULD QUICKLY DIMINISH

As a distributor, we incur the risk that the value of our inventory will be adversely affected by industry wide forces. Rapid technology change is commonplace in the industry and can quickly diminish the marketability of certain items, whose functionality and demand decline with the appearance of new products. These changes and price reductions by vendors may cause rapid obsolescence of inventory and corresponding valuation reductions in that inventory. We currently seek provisions in the vendor agreements common to industry practice that provide price protections or credits for declines in inventory value and the right to return unsold inventory. No assurance can be given, however, that we can negotiate such provisions in each of our contracts or that such industry practice will continue.

EXCESSIVE CLAIMS AGAINST WARRANTIES THAT WE PROVIDE COULD ADVERSELY EFFECT OUR BUSINESS

Our suppliers generally warrant the products that we distribute and allow us to return defective products, including those that have been returned to us by customers. We do not independently warrant the products that we distribute, except that we do warrant services provided in connection with the products that we configure for customers and that we build to order from components purchased from other sources. If excessive claims were made against these warranties, our results of operations would suffer.

WE MAY NOT BE ABLE TO SUCCESSFULLY COMPETE WITH SOME OF OUR COMPETITORS

All aspects of our business are highly competitive. Competition within the computer products distribution industry is based on product availability, credit availability, price, speed and accuracy of delivery, effectiveness of sales and marketing programs, ability to tailor specific solutions to customer needs, quality and breadth of product lines and services, and the availability of product and technical support information. We also compete with manufacturers that sell directly to resellers and end users.

Competition within the corporate information systems industry is based primarily on flexibility in providing customized network solutions, resources and contracts to provide products for integrated systems and consultant and employee expertise needed to optimize network performance and stability. A number of our competitors in the computer distribution industry, and most of our competitors in the information technology consulting industry, are substantially larger and have greater financial and other resources than we do.

FAILURE TO RECRUIT AND RETAIN TECHNICAL PERSONNEL WILL HARM OUR BUSINESS

Our success depends upon our ability to attract, hire and retain technical personnel who possess the skills and experience necessary to meet our personnel needs and the staffing requirements of our clients. Competition for individuals with proven technical skills is intense, and the computer industry in general experiences a high rate of attrition of such personnel. We compete for such individuals with other systems integrators and providers of outsourcing services, as well as temporary personnel agencies, computer systems consultants, clients and potential clients. Failure to attract and retain sufficient technical personnel would have a material adverse effect on our business,

operating results and financial condition.

WE DEPEND UPON CONTINUED CERTIFICATION FROM CERTAIN OF OUR SUPPLIERS

The future success of FNC depends in part on our continued certification from leading manufacturers. Without such authorizations, we would be unable to provide the range of services currently offered. There can be no assurance that such manufacturers will continue to certify us as an approved service provider, and the loss of one or more of such authorizations could have a material adverse effect on FNC and thus to our business, operating results and financial condition.

WE DEPEND ON KEY SUPPLIERS FOR A LARGE PORTION OF OUR INVENTORY, LOSS OF THOSE SUPPLIERS COULD HARM OUR BUSINESS

One supplier, Sunnyview/CompTronic ("Sunnyview"), accounted for approximately 21.2% and 9.0% of our total purchases for the three months ended March 31, 2003 and 2002, respectively. We do not have a supply contract with Sunnyview, but rather purchase products from it through individual purchase orders, none of which has been large enough to be material to us. Although we have not experienced significant problems with Sunnyview or our other suppliers, and we believe we could obtain the products that Sunnyview supplies from other sources, there can be no assurance that our relationship with Sunnyview and with our other suppliers, will continue or, in the event of a termination of our relationship with any given supplier, that we would be able to obtain alternative sources of supply on comparable terms without a material disruption in our ability to provide products and services to our clients. This may cause a loss of sales that could have a material adverse effect on our business, financial condition and operating results.

IF A CLAIM IS MADE AGAINST US IN EXCESS OF OUR INSURANCE LIMITS WE WOULD BE SUBJECT TO POTENTIAL EXCESS LIABILITY

The nature of our corporate information systems engagements exposes us to a variety of risks. Many of our engagements involve projects that are critical to the operations of a client's business. Our failure or inability to meet a client's expectations in the performance of services or to do so in the time frame required by such client could result in a claim for substantial damages,

-25-

regardless of whether we were responsible for such failure. We are in the business of employing people and placing them in the workplace of other businesses. Therefore, we are also exposed to liability with respect to actions taken by our employees while on assignment, such as damages caused by employee errors and omissions, misuse of client proprietary information, misappropriation of funds, discrimination and harassment, theft of client property, other criminal activity or torts and other claims. Although we maintain general liability insurance coverage, there can be no assurance that such coverage will continue to be available on reasonable terms or in sufficient amounts to cover one or more large claims, or that the insurer will not disclaim coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage or changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, operating results and financial condition.

WE ARE DEPENDENT ON KEY PERSONNEL

Our continued success will depend to a significant extent upon our senior management, including Theodore Li, President, and Hui Cynthia Lee, Executive Vice President and head of sales operations, and Steve Flynn, general manager of

FrontLine. The loss of the services of Messrs. Li or Flynn or Ms. Lee, or one or more other key employees, could have a material adverse effect on our business, financial condition or operating results. We do not have key man insurance on the lives of any of members of our senior management.

WE CANNOT ASSURE YOU THAT OUR PURSUIT OF NEW BUSINESS THROUGH LIVEMARKET WILL BE SUCCESSFUL

We plan to enter the proprietary software development business through Lea. We have limited experience in developing commercial software products. We have conducted no independent, formal market studies regarding the demand for the software currently in development and planned to be developed. We have, however, conducted informal surveys of our customers and have relied on business experience in evaluating this market. Further, while we have experience in marketing computer related products, we have not marketed software or a proprietary line of our own products. This market is very competitive and nearly all of the software publishers or distributors with whom Lea will compete have greater financial and other resources than Lea. There can be no assurance Lea will be successful in developing commercial software products, or even if Lea develops such products, that it will find market acceptance for them. There can be no assurance that Lea will generate a profit. We have signed a letter of intent to sell substantially all the assets of Lea to certain of Lea's employees. There is no assurance that the sale will be consummated.

ESTABLISHMENT OF OUR NEW BUSINESS-TO-CONSUMER WEBSITE LIVEWAREHOUSE.COM MAY NOT BE SUCCESSFUL

We have established a new business-to-consumer website, LiveWarehouse.com. We cannot assure you that we will achieve market acceptance for this project and achieve a profitable level of operations, that we will be able to hire and retain personnel with experience in online retail marketing and management, that we will be able to execute our business plan with respect to this market segment or that we will be able to adapt to technological changes once operational. Further, while we have experience in the wholesale marketing of computer-related

-26-

products, we have virtually no experience in retail marketing. This market is very competitive and many of our competitors have substantially greater resources and experience than we have.

WE ARE SUBJECT TO RISKS BEYOND OUR CONTROL SUCH AS ECONOMIC AND GENERAL RISKS OF OUR BUSINESS

Our success will depend upon factors that may be beyond our control and cannot clearly be predicted at this time. Such factors include general economic conditions, both nationally and internationally, changes in tax laws, fluctuating operating expenses, changes in governmental regulations, including regulations imposed under federal, state or local environmental laws, labor laws, and trade laws and other trade barriers.

INFLATION

Inflation has not had a material effect upon our results of operations to date. In the event the rate of inflation should accelerate in the future, it is expected that to the extent increased costs are not offset by increased revenues, our operations may be adversely affected.

-27-

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk for changes in interest rates relates primarily to our bank mortgage loan with a $2,381,300 balance at March 31, 2003 which bears fluctuating interest based on the bank's 90-day LIBOR rate. We believe that fluctuations in interest rates in the near term would not materially affect our consolidated operating results. We are not exposed to material risk based on exchange rate fluctuation or commodity price fluctuation.

ITEM 4. CONTROLS AND PROCEDURES

Within the 90 days prior to the date of this Form 10-Q, we carried out an evaluation under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-14(c) and Rule 15d-14(c) of the Securities Exchange Act of 1934. Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective in timely alerting them to material information relating to us (including our consolidated subsidiaries) required to be included in this quarterly report Form 10-Q. There have been no significant changes in our internal controls and procedures or in other factors that could significantly affect internal controls subsequent to the date we carried out this evaluation.

-28-

PART II

ITEM 1. - LEGAL PROCEEDINGS

Adaptec, Inc. filed a lawsuit against Pacific Magtron, Inc. and thirteen other defendants, claiming amongst other things, copyright and trademark infringement, and unfair business practices. The Company has denied these allegations. On April 4, 2003 Pacific Magtron, Inc. agreed to a out-of-court settlement of this claim with Adaptec, Inc. for $95,000 after giving consideration to the on-going legal costs.

ITEM 6. - EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit	Description	Reference
3.1	Articles of Incorporation	(1)
3.2	Bylaws, as amended and restated	(1)
99.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	*

(1) Incorporated by reference from the Company's registration statement on Form 10SB-12G filed January 20, 1999.

* Filed herewith

(b) Reports on Form 8-K

The Company filed a current report on Form 8-K on April 30, 2003 under Item 5 reporting the delisting of the Company's common stock from the Nasdaq SmallCap Market.

The Company filed a current report on Form 8-K on March 7, 2003 under Item 5

reporting that the Company had been informed that its shares of common stock would be subject to delisting from the Nasdaq SmallCap Market. The Company requested a hearing on this matter.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PACIFIC MAGTRON INTERNATIONAL CORP.,
a Nevada corporation

Date: May 15, 2003

By /s/ Theodore S. Li

Theodore S. Li
President and Chief Financial Officer

CERTIFICATION

I, Theodore Li, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pacific Magtron International Corp.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and I have:

   a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this quarterly report is being prepared;
   b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
   c. presented in this quarterly report my conclusion about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of

directors (or persons performing the equivalent function):

a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of my most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

By: /s/ Theodore S. Li

Theodore S. Li
Chief Executive Officer/Chief
Financial Officer