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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2012

OR

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

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

Commission File Number: 0-25790

**PC MALL, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**95-4518700**

(I.R.S. Employer  
Identification Number)

**1940 E. Mariposa Avenue  
El Segundo, California 90245**

(Address of principal executive offices)

**(310) 354-5600**

(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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of November 6, 2012, the registrant had 11,996,437 shares of common stock outstanding.

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PC MALL, INC.  
TABLE OF CONTENTS

	<u>Page</u>
<u>PART I - FINANCIAL INFORMATION (unaudited)</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Balance Sheets as of September 30, 2012 and December 31, 2011</u>	2
<u>Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2012 and September 30, 2011</u>	3
<u>Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2012 and September 30, 2011</u>	4
<u>Consolidated Statement of Stockholders' Equity for the Nine Months Ended September 30, 2012</u>	5
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2012 and September 30, 2011</u>	6
<u>Notes to the Consolidated Financial Statements</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	31
<u>Item 4. Controls and Procedures</u>	32
<u>PART II - OTHER INFORMATION (unaudited)</u>	
<u>Item 1. Legal Proceedings</u>	32
<u>Item 1A. Risk Factors</u>	32
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	49
<u>Item 6. Exhibits</u>	49
<u>Signature</u>	51

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PC MALL, INC.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS  
(unaudited, in thousands, except per share amounts and share data)

	September 30, 2012	December 31, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 6,465	\$ 9,484
Accounts receivable, net of allowances of \$1,185 and \$1,642	199,219	207,985
Inventories, net	65,563	79,456
Prepaid expenses and other current assets	13,848	9,681
Deferred income taxes	3,419	3,937
Total current assets	288,514	310,543
Property and equipment, net	45,924	44,745
Deferred income taxes	264	247
Goodwill	25,510	25,510
Intangible assets, net	7,645	9,840
Other assets	2,087	2,387
Total assets	<u>\$ 369,944</u>	<u>\$ 393,272</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 117,349	\$ 122,523
Accrued expenses and other current liabilities	27,754	31,797
Deferred revenue	25,568	18,079
Line of credit	60,809	91,852
Notes payable — current	883	1,015
Total current liabilities	232,363	265,266
Notes payable and other long-term liabilities	16,645	11,574
Deferred income taxes	5,671	5,606
Total liabilities	254,679	282,446
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 5,000,000 shares authorized; none issued and outstanding	—	—
Common stock, \$0.001 par value; 30,000,000 shares authorized; 14,494,051 and 14,368,888 shares issued; and 12,042,367 and 11,995,704 shares outstanding, respectively	14	14
Additional paid-in capital	109,861	108,061
Treasury stock, at cost: 2,451,684 and 2,373,184 shares, respectively	(10,198)	(9,733)
Accumulated other comprehensive income	2,586	2,256
Retained earnings	13,002	10,228
Total stockholders' equity	115,265	110,826
Total liabilities and stockholders' equity	<u>\$ 369,944</u>	<u>\$ 393,272</u>

See Notes to the Consolidated Financial Statements.

PC MALL, INC.

**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(unaudited, in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net sales	\$ 364,583	\$ 367,547	\$ 1,069,522	\$ 1,065,395
Cost of goods sold	316,191	317,346	925,852	925,339
Gross profit	48,392	50,201	143,670	140,056
Selling, general and administrative expenses	44,331	46,350	136,230	132,509
Revaluation of earnout liability	68	—	(107)	(800)
Operating profit	3,993	3,851	7,547	8,347
Interest expense, net	967	823	2,807	2,381
Income before income taxes	3,026	3,028	4,740	5,966
Income tax expense	1,213	1,266	1,966	2,441
Net income	<u>\$ 1,813</u>	<u>\$ 1,762</u>	<u>\$ 2,774</u>	<u>\$ 3,525</u>
<b>Basic and Diluted Earnings Per Common Share</b>				
Basic	\$ 0.15	\$ 0.14	\$ 0.23	\$ 0.29
Diluted	0.15	0.14	0.23	0.28
Weighted average number of common shares outstanding:				
Basic	12,039	12,249	12,024	12,295
Diluted	12,177	12,442	12,205	12,600

See Notes to the Consolidated Financial Statements.

PC MALL, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(unaudited, in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30	
	2012	2011	2012	2011
Net income	\$ 1,813	\$ 1,762	\$ 2,774	\$ 3,525
Other comprehensive income (loss):				
Foreign currency translation adjustments	294	(664)	330	(416)
Total other comprehensive income (loss)	294	(664)	330	(416)
Comprehensive income	\$ 2,107	\$ 1,098	\$ 3,104	\$ 3,109

See Notes to the Consolidated Financial Statements.

PC MALL, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
(unaudited, in thousands)

	Common Stock		Additional Paid-in- Capital	Treasury Stock	Accumulated Other Comprehensive Income	Retained Earnings	Total
	Outstanding	Amount					
Balance at December 31, 2011	11,996	\$ 14	\$ 108,061	\$ (9,733)	\$ 2,256	\$ 10,228	\$ 110,826
Stock option exercises, including related income tax benefit	116	—	298	(45)	—	—	253
Purchase of common stock under a stock repurchase program	(70)	—	—	(420)	—	—	(420)
Stock-based compensation expense	—	—	1,502	—	—	—	1,502
Net Income	—	—	—	—	—	2,774	2,774
Translation adjustments	—	—	—	—	330	—	330
Balance at September 30, 2012	<u>12,042</u>	<u>\$ 14</u>	<u>\$ 109,861</u>	<u>\$ (10,198)</u>	<u>\$ 2,586</u>	<u>\$ 13,002</u>	<u>\$ 115,265</u>

See Notes to the Consolidated Financial Statements.

## PC MALL, INC.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(unaudited, in thousands)

	Nine Months Ended September 30,	
	2012	2011
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 2,774	\$ 3,525
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,418	7,205
Provision for deferred income taxes	2,514	2,157
Net tax benefit related to stock option exercises	92	1
Excess tax benefit related to stock option exercises	(141)	(658)
Non-cash stock-based compensation	1,502	1,649
Decrease in earnout liability	(107)	(800)
Gain on sale of fixed assets	—	(15)
Change in operating assets and liabilities:		
Accounts receivable	6,873	(3,088)
Inventories	13,893	5,542
Prepaid expenses and other current assets	(3,792)	(2,685)
Other assets	207	22
Accounts payable	(1,115)	(15,986)
Accrued expenses and other current liabilities	(5,026)	(1,740)
Deferred revenue	7,489	5,365
Total adjustments	31,807	(3,031)
Net cash provided by operating activities	34,581	494
<b>Cash Flows From Investing Activities</b>		
Purchase of El Segundo building	—	(9,565)
Purchases of property and equipment	(6,765)	(12,296)
Acquisition of eCost	—	(2,284)
Proceeds from sale of fixed assets	—	23
Net cash used in investing activities	(6,765)	(24,122)
<b>Cash Flows From Financing Activities</b>		
Net (payments) borrowings under line of credit	(31,043)	12,016
Capital lease proceeds	4,356	—
Borrowings under notes payable	2,859	7,198
Payments under notes payable	(813)	(565)
Change in book overdraft	(4,410)	3,322
Payment of earnout liability	—	(1,121)
Payments of obligations under capital lease	(1,666)	(870)
Proceeds from stock issued under stock option plans	206	715
Payment for deferred financing costs	—	(25)
Excess tax benefit related to stock option exercises	141	658
Common shares repurchased and held in treasury	(420)	(2,260)
Net cash (used in) provided by financing activities	(30,790)	19,068
Effect of foreign currency on cash flow	(45)	58
Net change in cash and cash equivalents	(3,019)	(4,502)
Cash and cash equivalents at beginning of the period	9,484	10,711
Cash and cash equivalents at end of the period	\$ 6,465	\$ 6,209
<b>Supplemental Cash Flow Information</b>		
Interest paid	\$ 2,459	\$ 2,054
Income taxes paid	1,404	3,938
<b>Supplemental Non-Cash Investing and Financing Activities</b>		
Purchase of infrastructure system	\$ 858	\$ 2,552
Deferred financing costs	—	346

See Notes to the Consolidated Financial Statements.

PC MALL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

**1. Basis of Presentation and Description of Company**

PC Mall, Inc. is a leading technology solutions provider to businesses, government and educational institutions and individual consumers. We go to market through our dedicated sales force of over 700 account executives. We also offer our products, services and solutions through our field service teams, various direct marketing techniques and a limited number of retail stores. Since our founding in 1987, we have served our customers in part by offering them multi-branded hardware solutions from leading brands including HP, Apple, Cisco, Microsoft and Lenovo. Through us, these and other manufacturers are able to reach multiple customer segments including consumers, small and medium sized businesses, large enterprise businesses, as well as state, local and federal governments and educational institutions. We add additional value to our manufacturer partners by being able to sell, deliver and incorporate their products and services into comprehensive solutions with a high degree of customization. Our model also facilitates an efficient supply chain and support mechanism for manufacturers by using a combination of direct marketing, centralized selling and support, and centralized product fulfillment.

We have prepared the unaudited consolidated financial statements included herein pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and in conformity with accounting principles generally accepted in the United States of America, or GAAP, which requires us to make estimates and assumptions that affect amounts reported herein. We base our estimates and assumptions on historical experience and on various other factors that we believe to be reasonable under the circumstances. Due to the inherent uncertainty involved in making estimates, our actual results reported in future periods may be affected by changes in those estimates. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations for interim financial reporting. In the opinion of management, all adjustments, consisting only of normal recurring items which are necessary for a fair presentation, have been included. The results for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the full year. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the SEC on March 15, 2012, our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2012 and June 30, 2012 filed with the SEC on May 10, 2012 and August 9, 2012, respectively, and all of our other periodic filings, including Current Reports on Form 8-K, filed with the SEC after the end of our 2011 fiscal year and through the date of this report.

In conjunction with our eCost.com acquisition, which is discussed in detail below, beginning with the first quarter of 2011, our management considered the OnSale and eCOST businesses together as a separate segment and reported their results accordingly. As such, in 2011, existing sales under the OnSale brand were no longer reported under the MacMall segment and we had five operating segments: SMB, MME, Public Sector, MacMall and OnSale.

In the first quarter of 2012, we determined that certain product sales in a daily deal format marketed under our OnSale segment's daily deal business can do considerably better than in a traditional ecommerce catalog format. As this "daily deal" market and its related customer buying behaviors have continued to evolve, the "daily deals" business model is rapidly expanding to include sales of IT products. In response to these developments, we determined that our strategic objectives can be best achieved by incorporating the best practices, technologies and methodologies we have developed in our stand alone "daily deals" business into our traditional eCommerce platform and no longer operating a stand-alone "daily deals" business. As a result, and in order to take advantage of this opportunity, we have determined that we will no longer operate a stand-alone "daily deals" business under OnSale. Instead, we have taken the best practices and technology we have developed in the OnSale daily deals business and incorporated them into our overall eCommerce offering. Beginning in the first quarter of 2012, we restored operating and reporting of the OnSale and MacMall businesses within a single segment. As a result, we now have four operating segments: SMB, MME, Public Sector and MacMall/OnSale. We include corporate related expenses such as legal, accounting, information technology, product management, certain support services and other administrative costs that are not otherwise allocated to our reportable operating segments in Corporate & Other. All historical segment financial information provided herein has been revised to reflect these new reportable operating segments.

During the three months ended September 30, 2012, we generated approximately 38% of our revenue in our MME segment, 32% of our revenue in our SMB segment, 16% of our revenue in our Public Sector segment and 14% of our revenue in our MacMall/OnSale segment. During the nine months ended September 30, 2012, we generated approximately 40% of our revenue in our MME segment, 33% of our revenue in our SMB segment, 15% of our revenue in our MacMall/OnSale segment and 12% of our revenue in our Public Sector segment.

Our SMB segment consists of sales made primarily to small and medium sized businesses, generally with less than 1,000 employees. The SMB segment utilizes an outbound phone based sales force and, where applicable, a field-based sales force, together with an online extranet customized for individual customers that enables them to manage their IT procurement process. In addition, the SMB segment markets to small businesses through its Small Business Network utilizing its own social network site at [www.pcmallsbn.com](http://www.pcmallsbn.com).

Our MME segment consists of sales made primarily to mid-market and enterprise-sized businesses, generally with more than 1,000 employees, under the SARCOM, NSPI and Abreon brands. The MME segment sells complex products, services and solutions, utilizing a field relationship-based selling model, an outbound phone based sales force, a field service organization and an online extranet.

Our Public Sector segment consists of sales made primarily to federal, state and local governments, as well as educational institutions. The Public Sector segment utilizes an outbound phone and field relationship-based selling model, as well as contract and bid business development teams and an online extranet.

Our MacMall/OnSale segment consists of sales made under our MacMall brand name via telephone, the Internet and four retail stores to consumers, small businesses and creative professionals, and sales made under our OnSale and eCost brand names via the Internet and inbound phone-based sales forces. The OnSale business has utilized traditional internet marketing as well as our recently developed "daily deals" business model.

## **2. Summary of New Accounting Standard**

In July 2012, the FASB issued ASU 2012-02, "Goodwill and Other - Testing Indefinite-Lived Intangible Assets for Impairment" (ASU 2012-02), which provides companies the option to perform a qualitative assessment to determine whether further impairment testing of indefinite-lived intangible assets is necessary. ASU 2012-02 prescribes an entity to perform a quantitative impairment test if qualitative factors indicate that it is more likely than not that its indefinite-lived intangible assets are impaired. The qualitative factors are similar to the guidance established for goodwill impairment testing and include identifying and assessing events and circumstances that would most significantly impact, individually or in the aggregate, the carrying value of the indefinite-lived intangible assets. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. We believe the adoption of this new standard will not have a material effect on our consolidated financial position or results of operations.

In June 2011, the FASB issued ASU 2011-12, "Comprehensive Income" (ASU 2011-12), which amended existing guidance by allowing only two options for presenting the components of net income and other comprehensive income: (1) in a single continuous financial statement, statement of comprehensive income or (2) in two separate but consecutive financial statements, consisting of an income statement followed by a separate statement of other comprehensive income. ASU 2011-12 requires retrospective application, and it is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. We adopted the two separate but consecutive financial statements presentation effective in our quarterly period ended March 31, 2012. The adoption of this new standard did not have any effect on our consolidated financial position or results of operations.

## **3. Property and Equipment**

### *El Segundo Building*

In March 2011, we completed the purchase of the real property comprising approximately 82,000 square feet of office space located at 1940 East Mariposa Avenue, El Segundo, California, which became our new corporate headquarters. We moved into this building from our prior headquarters located in Torrance, California in November 2011. The total purchase price was \$9.6 million. Based on the proportionate appraised values, we allocated \$7.4 million of the purchase price to land and \$2.2 million to building. In June 2011, we entered into a credit agreement to finance the purchase and improvement of this real property. The credit agreement provides a commitment for a loan up to \$10.9 million of which we drew down a total of \$10.1 million through September 30, 2012. At September 30, 2012, approximately \$9.8 million was outstanding under this credit agreement. See Note 6 below for more information.

## Capital Leases

In February, March and June 2012, we entered into capital lease agreements with a bank totaling approximately \$4.7 million related to various furniture and equipment at our El Segundo, California corporate headquarters office, our data center in Roswell, Georgia and our MME segment's headquarters office in Lewis Center, Ohio. Each of the capital leases has a five year term.

## 4. Acquisition

### eCOST.com

On February 18, 2011, we acquired certain assets, including approximately \$1 million of inventory, of eCOST.com, a subsidiary of PFSweb, Inc., for \$2.3 million. Also, as part of this acquisition, we assumed certain liabilities related to a web-based promotional membership program available on eCOST.com's website and liabilities with respect to customer warranty claims, credits, returns and refunds related to transactions of eCOST.com's business or through the website from and after the acquisition date. eCOST.com is an online marketplace featuring an assortment of product categories, including but not limited to computers, networking, electronics and entertainment, TVs, monitors and projectors, cameras and camcorders, memory and storage, apparel, and sports and leisure items. The website also features a proprietary and patented shopping format, Bargain Countdown®, which amongst other features, offers limited time, limited quantity deals, and supports its premium online membership shopping club. eCOST.com commenced business in 1999 as a subsidiary of PC Mall. In September 2004, eCOST.com completed an initial public offering of approximately 19.8% of its outstanding common stock. In April 2005, we completed a spin-off of eCOST.com by distributing all of our remaining ownership interest in eCOST.com to our stockholders. In February 2006, eCOST.com was acquired by PFSweb in a stock for stock merger.

## 5. Goodwill and Intangible Assets

### Goodwill

There was no change in goodwill during the nine months ended September 30, 2012. Goodwill totaled \$25.5 million as of September 30, 2012 and December 31, 2011, all of which related to our MME segment.

### Intangible Assets

The following table sets forth the amounts recorded for intangible assets as of the periods presented (in thousands):

	Weighted Average Estimated Useful Lives (years)	At September 30, 2012			At December 31, 2011		
		Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Patent, trademarks & URLs	4	\$ 5,808(1)	\$ 1,159	\$ 4,649	\$ 5,715(1)	\$ 372	\$ 5,343
Customer relationships	7	6,349	3,482	2,867	10,600	6,431	4,169
Non-compete agreements	3	580	451	129	1,070	742	328
Total intangible assets		<u>\$ 12,737</u>	<u>\$ 5,092</u>	<u>\$ 7,645</u>	<u>\$ 17,385</u>	<u>\$ 7,545</u>	<u>\$ 9,840</u>

(1) Included in the gross amounts for "Patent, trademarks & URLs" at September 30, 2012 and December 31, 2011 are \$2.9 million of trademarks with indefinite useful lives acquired in the SARCOM acquisition that are not amortized.

Amortization expense for intangible assets was approximately \$0.8 million and \$0.6 million for the three months ended September 30, 2012 and 2011, respectively, and approximately \$2.3 million and \$1.6 million for the nine months ended September 30, 2012 and 2011, respectively. Estimated amortization expense for intangible assets in each of the next five years and thereafter is as follows: \$0.5 million in the remainder of 2012; \$1.9 million in 2013, \$0.5 million in 2014, \$0.5 million in 2015, \$0.3 million in 2016 and \$0.9 million thereafter.

## 6. Line of Credit and Notes Payable

We maintain an asset-based revolving credit facility of up to \$160 million from a lending unit of a large commercial bank. The credit facility provides for, among other things, (i) a credit limit of \$160 million, which may be increased in increments of \$5 million up to a total credit limit of \$180 million, provided that any increase of the total credit limit in excess of \$160 million is subject to, among other things, an acceptance and commitment by the lenders to such excess amount and a line increase fee not to exceed 0.65% of the increased amount; (ii) LIBOR interest rate options that we can enter into with no limit on the maximum outstanding principal balance which may be subject to a LIBOR interest rate option; and (iii) a maturity date of March 31, 2015. The credit facility, which functions as a working capital line of credit with a borrowing base of inventory and accounts receivable, including certain credit card receivables, also includes a monthly unused line fee of 0.25% per year on the amount, if any, by which the Maximum Credit, as defined in the agreement, then in effect, exceeds the average daily principal balance of the outstanding borrowings during the immediately preceding month. There can be no assurance that the lenders, if we elected to increase the credit limit, will commit to the remaining excess \$20 million of credit beyond the \$160 million in any future period. As a result, we may not be able to access the credit facility beyond its current limit of \$160 million.

The credit facility is collateralized by substantially all of our assets. In addition to the security interest required by the credit facility, certain of our vendors have security interests in some of our assets related to their products. The credit facility has as its single financial covenant a minimum fixed charge coverage ratio (FCCR) requirement in the event an FCCR triggering event has occurred. An FCCR triggering event is comprised of maintaining certain specified daily and average excess availability thresholds. In the event the FCCR covenant applies, the fixed charge coverage ratio is 1.0 to 1.0 for each twelve-month period. At September 30, 2012, we were in compliance with our financial covenant.

Loan availability under the line of credit fluctuates daily and is affected by many factors, including eligible assets on-hand, opportunistic purchases of inventory and availability and utilization of early-pay discounts. At September 30, 2012, we had \$60.8 million of net working capital advances outstanding under the line of credit. At September 30, 2012, the maximum credit line was \$160 million and we had \$65.7 million available to borrow for working capital advances under the line of credit.

In connection with and as part of the amended credit facility, we entered into an amended term note on December 14, 2010 with a principal balance of \$2.87 million, payable in equal monthly principal installments beginning on January 1, 2011, plus interest at the prime rate with a LIBOR option. The amended term note matures in December 2017 or in the event of a default, termination or non-renewal of our credit facility, is payable in its entirety upon demand by our lender. At September 30, 2012, we had \$2.15 million outstanding under the amended term note. The remaining balance of our term note matures as follows: \$102,500 in the remainder of 2012 and \$410,000 annually in each of the years 2013 through 2017.

At September 30, 2012, our effective weighted average annual interest rate on outstanding amounts under the credit facility and term note was 2.33%.

At September 30, 2012, \$43,000 relating to the financing of our purchase of Microsoft AX (Axapta), which is a part of our ERP upgrade, was included in our "Notes payable - current" on our Consolidated Balance Sheets.

In June 2011, we entered into a credit agreement to finance the acquisition and improvement of the real property we purchased in March 2011 in El Segundo, California. The credit agreement provides for a lending commitment for a loan up to \$10.9 million with a five year term and a 25 year straight-line principal repayment amortization period with a balloon payment at maturity. Interest is variable, indexed to Prime plus a spread of 0.375% or LIBOR plus a spread of 2.375% at our option, payable monthly. At September 30, 2012, we had \$9.8 million outstanding under this credit agreement. The loan is secured by the real property and contains financial covenants substantially similar to those of our existing asset-based credit facility.

The carrying amounts of our line of credit borrowings and notes payable approximate their fair value based upon the current rates offered to us for obligations of similar terms and remaining maturities.

## 7. Rebranding Strategy and Cost Reduction Initiatives

Over the past several years, our company has grown into approximately a \$1.5 billion enterprise in part through our acquisition and internal cultivation of different brands. We have historically differentiated those brands primarily based on the identity of the customers they serve. After careful examination of the trends taking shape in the markets we serve, we have

determined that going forward, our commercial customers can benefit from a more unified and streamlined brand strategy. We are now consolidating our commercial brands and realigning our customer segments in an effort to realize significant growth and to achieve a more efficient cost structure. We believe this unification will lead to an improved customer experience, operational synergies and benefits to all of our stakeholders, providing a brand that better represents the technology solutions provider we are today.

Effective January 1, 2013, we will change the corporate name of PC Mall to PCM, Inc. and combine our primary commercial subsidiaries PC Mall Sales, Inc., Sarcom, Inc. and PC Mall Services, Inc. into a single subsidiary. The combined subsidiary will operate under the unified commercial brand PCM and will generally include our SMB, MME and portions of our Corporate & Other segments. Additionally, in connection with the rebranding, our PC Mall Gov, Inc. subsidiary will change its name to PCMG, Inc. and will operate under the brand PCM-G.

An important part of these initiatives is a focused reduction of our overhead expenses. To that end, we took actions in the first nine months of 2012 that resulted in annualized cost savings of \$7.3 million. These and other related actions resulted in severance and restructuring related expenses of approximately \$2.5 million in the first nine months of 2012.

A summary of our total restructuring costs, which are included in "Selling, general and administrative expenses" on our Consolidated Statements of Operations, is as follows by each of our reportable segments (in thousands) and no such costs were incurred in 2011 related to these efforts:

	MME	SMB	Public Sector	MacMall/ OnSale	Corporate & Other	Consolidated
<b>Three Months Ended September 30, 2012</b>						
Employee termination costs	\$ 45	\$ 38	\$ 1	\$ 15	\$ 591	\$ 690
Trademark amortization costs	229	—	—	—	—	229
Other costs	—	—	—	—	45	45
Total	<u>\$ 274</u>	<u>\$ 38</u>	<u>\$ 1</u>	<u>\$ 15</u>	<u>\$ 636</u>	<u>\$ 964</u>
<b>Nine Months Ended September 30, 2012</b>						
Employee termination costs	\$ 432	\$ 76	\$ 5	\$ 130	\$ 922	\$ 1,565
Trademark amortization costs	645	—	—	—	—	645
Other costs	—	—	—	—	292	292
Total	<u>\$ 1,077</u>	<u>\$ 76</u>	<u>\$ 5</u>	<u>\$ 130</u>	<u>\$ 1,214</u>	<u>\$ 2,502</u>

Employee termination costs include costs of severance and other discretionary payments upon employee terminations, and include estimated taxes and benefits associated with such payments. Trademark amortization costs include accelerated amortization of the Sarcom and NSPI trademarks compared to the previous year resulting from the anticipated consolidation of our commercial brands to PCM in January 2013. We will continue amortization at an incremental \$0.2 million per quarter throughout 2013 during the brand transitions from Sarcom and NSPI to PCM, after which point the Sarcom and NSPI trademarks will become fully amortized. Other costs in the table above represent legal and other costs related to various restructuring and related activities.

A summary rollforward of our restructuring costs, which are recorded as part of "Accrued expenses and other current liabilities" on our Consolidated Balance Sheets, is as follows (in thousands):

	Balance as of December 31, 2011	Costs Charged to Expense	Payments	Adjustments	Balance as of September 30, 2012
Employee termination costs	\$ —	\$ 1,565	\$ (1,101)	\$ —	\$ 464
Other costs	—	292	(228)	—	64

## 8. Income Taxes

### *Accounting for Uncertainty in Income Taxes*

We had no unrecognized tax benefits and no accrued interest or penalties recognized as of September 30, 2012. There were no changes in our unrecognized tax benefits, and we had no accrued interest or penalties as of September 30, 2012.

We are subject to U.S. and foreign income tax examinations for years subsequent to 2008, and state income tax examinations for years following 2006. In addition, certain federal and state net operating loss carryforwards generated after 2002 and 1997, respectively, and used in a subsequent year, may still be adjusted by a taxing authority upon examination.

## 9. Stockholders' Equity

On September 13, 2012, our Board of Directors approved a \$10 million increase to our discretionary stock repurchase program. Our stock repurchase program was originally adopted in October 2008 with an authorized maximum of \$10 million. Since the inception of the program through September 30, 2012, we repurchased an aggregate total of 2,026,610 shares of our common stock for a total cost of \$9.1 million, of which 70,104 shares were repurchased for a cost of \$0.4 million during the quarter ended September 30, 2012. The repurchased shares are held as treasury stock. As a result of the \$10 million increase, as of September 30, 2012, we had \$10.9 million available in stock repurchases under the program, subject to any limitations that may apply from time to time under our credit facility agreement dated December 14, 2010, as amended.

Under the approved stock repurchase program, the shares may be repurchased from time to time at prevailing market prices, through open market or unsolicited negotiated transactions, depending on market conditions. We expect that the repurchase of our common stock under the program will be financed with existing working capital and amounts available under our existing credit facility. No limit was placed on the duration of the repurchase program. There is no guarantee as to the exact number of shares that we will repurchase. Subject to applicable securities laws, repurchases may be made at such times and in such amounts as our management deems appropriate. The program can also be discontinued at any time management feels additional purchases are not warranted.

## 10. Earnings Per Share

Basic earnings per share ("EPS") excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding during the reported periods. Diluted EPS reflects the potential dilution that could occur under the treasury stock method if stock options and other commitments to issue common stock were exercised, except in loss periods where the effect would be antidilutive. As such, potential common shares of approximately 1,774,000 and 516,000 for the three months ended September 30, 2012 and 2011, and approximately 1,791,000 and 863,000 for the nine months ended September 30, 2012 and 2011 have been excluded from the calculation of diluted EPS because the effect of their inclusion would be antidilutive.

The reconciliation of the amounts used in the basic and diluted EPS computation was as follows (in thousands, except per share amounts):

	Net Income	Shares	Per Share Amounts
<b>Three Months Ended September 30, 2012:</b>			
Basic EPS			
Net income	\$ 1,813	12,039	\$ <u>0.15</u>
Effect of dilutive securities			
Dilutive effect of stock options	<u>—</u>	<u>138</u>	
Diluted EPS			
Adjusted net income	\$ <u>1,813</u>	<u>12,177</u>	\$ <u>0.15</u>
<b>Three Months Ended September 30, 2011:</b>			
Basic EPS			
Net income	\$ 1,762	12,249	\$ <u>0.14</u>
Effect of dilutive securities			
Dilutive effect of stock options	<u>—</u>	<u>193</u>	
Diluted EPS			
Adjusted net income	\$ <u>1,762</u>	<u>12,442</u>	\$ <u>0.14</u>

**Nine Months Ended September 30, 2012:**

Basic EPS					
Net income	\$	2,774	12,024	\$	<u>0.23</u>
Effect of dilutive securities					
Dilutive effect of stock options		—	181		
Diluted EPS					
Adjusted net income	\$	<u>2,774</u>	<u>12,205</u>	\$	<u>0.23</u>

**Nine Months Ended September 30, 2011:**

Basic EPS					
Net income	\$	3,525	12,295	\$	<u>0.29</u>
Effect of dilutive securities					
Dilutive effect of stock options		—	305		
Diluted EPS					
Adjusted net income	\$	<u>3,525</u>	<u>12,600</u>	\$	<u>0.28</u>

**11. Segment Information**

Summarized segment information for our continuing operations for the periods presented is as follows (in thousands):

	MME	SMB	Public Sector	MacMall/ OnSale	Corporate & Other	Consolidated
<b>Three Months Ended September 30, 2012</b>						
Net sales	\$ 137,069	\$ 118,633	\$ 56,981	\$ 51,903	\$ (3)	\$ 364,583
Gross profit	20,687	16,374	5,342	5,887	102	48,392
Depreciation and amortization expense(1)	1,187	2	25	244	1,658	3,116
Operating profit (loss)	7,437	9,062	1,943	765	(15,214)	3,993
<b>Three Months Ended September 30, 2011</b>						
Net sales	\$ 136,447	\$ 119,840	\$ 59,463	\$ 52,441	\$ (644)	\$ 367,547
Gross profit	21,269	16,481	5,807	6,583	61	50,201
Depreciation and amortization expense(1)	927	2	43	244	1,370	2,586
Operating profit (loss)	7,353	9,417	1,564	400	(14,883)	3,851
<b>Nine Months Ended September 30, 2012</b>						
Net sales	\$ 423,450	\$ 351,793	\$ 130,857	\$ 163,456	\$ (34)	\$ 1,069,522
Gross profit	62,349	49,952	12,799	18,450	120	143,670
Depreciation and amortization expense(1)	3,547	5	87	776	5,003	9,418
Operating profit (loss)	21,871	28,002	1,739	1,838	(45,903)	7,547
<b>Nine Months Ended September 30, 2011</b>						
Net sales	\$ 375,580	\$ 389,848	\$ 132,544	\$ 168,787	\$ (1,364)	\$ 1,065,395
Gross profit (loss)	59,114	50,236	12,360	18,700	(354)	140,056
Depreciation and amortization expense(1)	2,690	6	139	604	3,766	7,205
Operating profit (loss)	20,209	27,606	1,261	999	(41,728)	8,347

(1) Primary fixed assets relating to network and servers are managed by the Corporate headquarters. As such, depreciation expense relating to such assets is included as part of Corporate & Other.

As of September 30, 2012 and December 31, 2011, we had total consolidated assets of \$369.9 million and \$393.3 million. Our management does not have available to them and does not use total assets measured at the segment level in allocating resources. Therefore, such information relating to segment assets is not provided herein.

## **12. Commitments and Contingencies**

Total rent expense under our operating leases, net of sublease income, was \$1.3 million and \$1.7 million in each of the three month periods ended September 30, 2012 and September 30, 2011 and \$4.0 million and \$4.9 million in each of the nine month periods ended September 30, 2012 and September 30, 2011. Some of our leases contain renewal options and escalation clauses, and require us to pay taxes, insurance and maintenance costs.

### *Legal Proceedings*

We are not currently a party to any material legal proceedings, other than ordinary routine litigation incidental to the business. From time to time, we receive claims of and become subject to consumer protection, employment, intellectual property and other litigation related to the conduct of our business. Any such litigation could be costly and time consuming and could divert our management and key personnel from our business operations. In connection with any such litigation, we may be subject to significant damages or equitable remedies relating to the operation of our business. Any such litigation may materially harm our business, results of operations and financial condition.

## **13. Subsequent Event**

Effective October 3, 2012, we extended the lease term of our primary distribution center through May 31, 2016. The leased property, which is approximately 212,000 square feet of real property located in Memphis, Tennessee, serves as our primary distribution center. The lease amendment also provides for options to extend the lease up to three additional 36 month periods each, contingent upon meeting specific conditions and prevailing rates as specified in the amendment.

\* \*

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

*You should read the following Management's Discussion and Analysis of Financial Condition and Results of Operations together with the consolidated financial statements and related notes thereto included elsewhere in this report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those described under "Risk Factors" in Item 1A and elsewhere in this report.*

### BUSINESS OVERVIEW

PC Mall, Inc. is a leading technology solutions provider to businesses, government and educational institutions and individual consumers. We go to market through our dedicated sales force of over 700 account executives. We also offer our products, services and solutions through our field service teams, various direct marketing techniques and a limited number of retail stores. Since our founding in 1987, we have served our customers in part by offering them multi-branded hardware solutions from leading brands including HP, Apple, Cisco, Microsoft and Lenovo. Through us, these and other manufacturers are able to reach multiple customer segments including consumers, small and medium sized businesses, large enterprise businesses, as well as state, local and federal governments and educational institutions. We add additional value to our manufacturer partners by being able to sell, deliver and incorporate their products and services into comprehensive solutions with a high degree of customization. Our model also facilitates an efficient supply chain and support mechanism for manufacturers by using a combination of direct marketing, centralized selling and support, and centralized product fulfillment.

In conjunction with our eCost.com acquisition, which is discussed in detail below, beginning with the first quarter of 2011, our management considered the OnSale and eCOST businesses together as a separate segment and reported their results accordingly. As such, in 2011, existing sales under the OnSale brand were no longer reported under the MacMall segment and we had five operating segments: SMB, MME, Public Sector, MacMall and OnSale.

In the first quarter of 2012, we determined that certain product sales in a daily deal format marketed under our OnSale segment's daily deal business can do considerably better than in a traditional ecommerce catalog format. As this "daily deal" market and its related customer buying behaviors have continued to evolve, the "daily deals" business model is rapidly expanding to include sales of IT products. In response to these developments, we determined that our strategic objectives can be best achieved by incorporating the best practices, technologies and methodologies we have developed in our stand alone "daily deals" business into our traditional eCommerce platform and no longer operating a stand alone "daily deals" business. As a result, and in order to take advantage of this opportunity, we have determined that we will no longer operate a stand-alone "daily deals" business under OnSale. Instead, we have taken the best practices and technology we have developed in the OnSale daily deals business and incorporated them into our overall eCommerce offering. Beginning in the first quarter of 2012, we restored operating and reporting of the OnSale and MacMall businesses within a single segment. As a result, we now have four operating segments: SMB, MME, Public Sector and MacMall/OnSale. We include corporate related expenses such as legal, accounting, information technology, product management, certain support services and other administrative costs that are not otherwise allocated to our reportable operating segments in Corporate & Other. All historical segment financial information provided herein has been revised to reflect these new reportable operating segments.

During the three months ended September 30, 2012, we generated approximately 38% of our revenue in our MME segment, 32% of our revenue in our SMB segment, 16% of our revenue in our Public Sector segment and 14% of our revenue in our MacMall/OnSale segment. During the nine months ended September 30, 2012, we generated approximately 40% of our revenue in our MME segment, 33% of our revenue in our SMB segment, 15% of our revenue in our MacMall/OnSale segment and 12% of our revenue in our Public Sector segment.

Our SMB segment consists of sales made primarily to small and medium sized businesses, generally with less than 1,000 employees. The SMB segment utilizes an outbound phone based sales force and, where applicable, a field-based sales force, together with an online extranet customized for individual customers that enables them to manage their IT procurement process. In addition, the SMB segment markets to small businesses through its Small Business Network utilizing its own social network site at [www.pcmallsbn.com](http://www.pcmallsbn.com).

Our MME segment consists of sales made primarily to mid-market and enterprise-sized businesses, generally with more than 1,000 employees, under the SARCOM, NSPI and Abreon brands. The MME segment sells complex products, services and solutions, utilizing a field relationship-based selling model, an outbound phone based sales force, a field service organization and an online extranet.

Our Public Sector segment consists of sales made primarily to federal, state and local governments, as well as educational institutions. The Public Sector segment utilizes an outbound phone and field relationship-based selling model, as well as contract and bid business development teams and an online extranet.

Our MacMall/OnSale segment consists of sales made under our MacMall brand name via telephone, the Internet and four retail stores to consumers, small businesses and creative professionals, and sales made under our OnSale and eCost brand names via the Internet and inbound phone-based sales forces. The OnSale business has utilized traditional internet marketing as well as our recently developed "daily deals" business model.

We experience variability in our net sales and operating results on a quarterly basis as a result of many factors. We experience some seasonal trends in our sales of technology products, services and solutions to businesses, government and educational institutions and individual customers. For example, the timing of capital budget authorizations for our customers in the small and medium sized business sector and the mid-market and enterprise sector can affect when these companies can procure IT products and services. The fiscal year-ends of Public Sector customers vary for those in the federal government space and those in the state and local government and educational institution ("SLED") sector. We generally see an increase in our second quarter sales related to customers in the SLED sector and in our third quarter sales related to customers in the federal government space as these customers close out their budgets for their fiscal year. Also, consumer holiday spending contributes to variances in our quarterly results. As such, the results of interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the full year.

There has been substantial ongoing uncertainty in the global economic environment and recent disruptions in the capital and credit markets. General economic conditions have an effect on our business and results of operations across all of our segments. If economic growth in the U.S. and other countries' economies slows or declines, government, consumer and business spending rates could be significantly reduced. These developments could also increase the risk of uncollectible accounts receivable from our customers. Continued and future changes and uncertainties in the economic climate in the U.S. and elsewhere could have a similar negative impact on the rate of information technology spending of our current and potential customers, which would likely have a negative impact on our business and results of operations, and could significantly hinder our growth. These factors could result in reductions in sales of our products, longer sales cycles, slower adoption of new technologies and increased price competition, which could materially and adversely affect our business, results of operations and financial condition. In response to these uncertainties, we have continued to focus our efforts on cost reduction initiatives, competitive pricing strategies and driving higher margin service and solution sales, while continuing to make selective investments in our sales force personnel, service and solutions capabilities and IT infrastructure and tools in an effort to position us for enhanced productivity and future growth.

Our planned operating expenditures each quarter are based in large part on sales forecasts for the quarter. If our sales do not meet expectations in any given quarter, our operating results for the quarter may be materially adversely affected. Our narrow gross margins may magnify the impact of these factors on our operating results. Management regularly reviews our operating performance using a variety of financial and non-financial metrics including sales, shipments, gross margin, vendor consideration, advertising expense, personnel costs, account executive productivity, accounts receivable aging, inventory turnover, liquidity and cash resources. Our management monitors the various metrics against goals and budgets, and makes necessary adjustments intended to enhance our performance.

A substantial portion of our business is dependent on sales of Apple, HP, and products purchased from other vendors including Adobe, APC, Cisco, Dell, IBM, Ingram Micro, Lenovo, Microsoft, Tech Data and VMware. Products manufactured by Apple represented approximately 17% and 16% of our net sales in the three months ended September 30, 2012 and 2011, and 17% and 20% of our net sales in the nine months ended September 30, 2012 and 2011. Products manufactured by HP represented 19% and 22% of our net sales in the three months ended September 30, 2012 and 2011, and 20% and 21% of our net sales in the nine months ended September 30, 2012 and 2011.

One element of our business strategy involves expansion through the acquisition of businesses, assets, personnel or technologies that allow us to complement our existing operations, expand our market coverage, or add new business capabilities. While we believe that the fragmented nature of the technology reseller industry and industry consolidation trends may continue to present acquisition opportunities for us, these continued trends may make acquisitions more competitive.

We evaluate acquisition opportunities based on our assessment of several factors, including the perceived value of the opportunity, our available financing sources, and potential synergies of the acquisition target with our business. Our ability to complete acquisitions in the future will depend on our ability to fund such acquisitions with our internally available cash, cash generated from operations, amounts available under our existing credit facilities, additional borrowings or from the issuance of additional securities. As more fully discussed under "Liquidity and Capital Resources" below, certain trends in our operating results may impact our available cash resources and availability under our credit facilities, which in turn may impact our ability to pursue our acquisition strategy.

## **STRATEGIC DEVELOPMENTS**

### *Rebranding Strategy and Cost Reduction Initiatives*

Over the past several years, our company has grown into approximately a \$1.5 billion enterprise in part through our acquisition and internal cultivation of different brands. We have historically differentiated those brands primarily based on the identity of the customers they serve. After careful examination of the trends taking shape in the markets we serve, we have determined that going forward, our commercial customers can benefit from a more unified and streamlined brand strategy. We are now consolidating our commercial brands and realigning our customer segments in an effort to realize significant growth and to achieve a more efficient cost structure. We believe this unification will lead to an improved customer experience, operational synergies and benefits to all of our stakeholders, providing a brand that better represents the technology solutions provider we are today.

Effective January 1, 2013, we will change the corporate name of PC Mall to PCM, Inc. and combine our primary commercial subsidiaries PC Mall Sales, Inc., Sarcom, Inc. and PC Mall Services, Inc. into a single subsidiary. The combined subsidiary will operate under the unified commercial brand PCM and will generally include our SMB, MME and portions of our Corporate & Other segments. Additionally, in connection with the rebranding, our PC Mall Gov, Inc. subsidiary will change its name to PCMG, Inc. and will operate under the brand PCM-G.

An important part of these initiatives is a focused reduction of our overhead expenses. To that end, we took actions in the first nine months of 2012 that resulted in annualized cost savings of \$7.3 million. These and other related actions resulted in severance and restructuring related expenses of approximately \$2.5 million in the first nine months of 2012.

### *ERP and Web Infrastructure Upgrades*

We are currently upgrading many of our IT systems. We have purchased licenses for Microsoft Dynamics AX (Axapta) and other related tools, such as workflow software, web development tools and other related items, to upgrade our ERP and eCommerce systems. We initiated the implementation and upgrade of our eCommerce system in the second half of 2008 and have completed and launched a new generation of our public sites at macmall.com, onsale.com and pcmall.com. We are currently working on the implementation of the ERP modules and the upgrade of the ERP systems, including additional enhancements and features, and we expect to be completed with a substantial portion of the implementation of the ERP systems by the end of 2013. We believe the implementation and upgrade should help us to gain further efficiencies across our organization. While it is difficult to estimate costs based on the complexity of the systems design, customization and implementation, based on our estimates, which are subject to change, we currently expect to incur a cost of approximately \$16 million for the major phases of these IT system upgrades. To date, we have incurred approximately \$13.3 million of such costs. In addition to the above expenditures, we expect on an ongoing basis to make periodic upgrades to our IT systems.

### *Real Estate Transaction*

On March 11, 2011, we completed the purchase of real property comprising approximately 184,000 square feet of land, which includes approximately 84,000 square feet of office space located at 1940 East Mariposa Avenue, El Segundo, California, which became our new corporate headquarters effective November 14, 2011. We purchased and have improved this building, located strategically adjacent to the Los Angeles International Airport (LAX), because we want it to be a compelling destination for customers who want to experience new and cutting edge IT solutions in person. The new headquarters was designed to drive higher productivity and efficiency for our employees and to provide a state-of-the-art demo center for our customers and vendor partners, as well as increase capacity to support our growth well into the future. In conjunction with the move, we relocated and substantially upgraded our primary data center from Torrance, California to our own hosting facility in Atlanta, Georgia, which incorporates state of the art monitoring and disaster recovery capabilities. As a result of this relocation certain of our subsidiaries now have geographically redundant web and information systems. We are in the process of developing a formal disaster recovery plan for our critical systems.

## *eCOST.com Acquisition*

On February 18, 2011, we acquired certain assets, including approximately \$1 million of inventory, of eCOST.com, a subsidiary of PFSweb, Inc., for \$2.3 million. eCOST.com is an online marketplace featuring an assortment of product categories, including but not limited to computers, networking, electronics and entertainment, TVs, monitors and projectors, cameras and camcorders, memory and storage, apparel, and sports and leisure items. The website also features a proprietary and patented shopping format, Bargain Countdown®, which amongst other features, offers limited time, limited quantity deals, and supports its premium online membership shopping club. eCOST.com commenced business in 1999 as a subsidiary of PC Mall. In September 2004, eCOST.com completed an initial public offering of approximately 19.8% of its outstanding common stock. In April 2005, we completed a spin-off of eCOST.com by distributing all of our remaining ownership interest in eCOST.com to our stockholders. In February 2006, eCOST.com was acquired by PFSweb in a stock for stock merger.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of our consolidated financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, net sales and expenses, as well as the disclosure of contingent assets and liabilities. Management bases its estimates, judgments and assumptions on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Due to the inherent uncertainty involved in making estimates, actual results reported for future periods may be affected by changes in those estimates, and revisions to estimates are included in our results for the period in which the actual amounts become known.

Management considers an accounting estimate to be critical if:

- it requires assumptions to be made that were uncertain at the time the estimate was made; and
- changes in the estimate or different estimates that could have been selected could have a material impact on our consolidated results of operations or financial position.

Management has discussed the development and selection of these critical accounting policies and estimates with the audit committee of our board of directors. We believe the critical accounting policies described below affect the more significant judgments and estimates used in the preparation of our consolidated financial statements. For a summary of our significant accounting policies, including those discussed below, see Note 2 of the Notes to the Consolidated Financial Statements in Item 8, Part II, of our Annual Report on Form 10-K for the year ended December 31, 2011.

*Revenue Recognition.* We adhere to the revised guidelines and principles of sales recognition described in ASC 605. Under ASC 605, product sales are recognized when the title and risk of loss are passed to the customer, there is persuasive evidence of an arrangement for sale, delivery has occurred and/or services have been rendered, the sales price is fixed and determinable and collectability is reasonably assured. Under these guidelines, the majority of our sales, including revenue from product sales and gross outbound shipping and handling charges, are recognized upon receipt of the product by the customer. In accordance with our revenue recognition policy, we perform an analysis to estimate the number of days products we have shipped are in transit to our customers using data from our third party carriers and other factors. We record an adjustment to reverse the impact of sale transactions based on the estimated value of products that have shipped, but have not yet been received by our customers, and we recognize such amounts in the subsequent period when delivery has occurred. Changes in delivery patterns or unforeseen shipping delays beyond our control could have a material impact on our revenue recognition for the current period.

For all product sales shipped directly from suppliers to customers, we take title to the products sold upon shipment, bear credit risk, and bear inventory risk for returned products that are not successfully returned to suppliers; therefore, these revenues are recognized at gross sales amounts.

Certain software assurance or subscription products and extended warranties that we sell (for which we are not the primary obligor) are recognized on a net basis in accordance with ASC 605. Accordingly, such revenues are recognized in net sales either at the time of sale or over the contract period, based on the nature of the contract, at the net amount retained by us, with no cost of goods sold.

When a customer order contains multiple deliverables such as hardware, software and services which are delivered at varying times, we determine whether the delivered items can be considered separate units of accounting as prescribed under ASC 605. For arrangements with multiple units of accounting, arrangement consideration is allocated among the units of accounting, where separable, based on their relative selling price. Relative selling price is determined based on vendor-specific objective evidence, if it exists. Otherwise, third-party evidence of selling price is used, when it is available, and in circumstances when neither vendor-specific objective evidence nor third-party evidence of selling price is available, management's best estimate of selling price is used.

Sales are reported net of estimated returns and allowances, discounts, mail-in rebate redemptions and credit card chargebacks. If the actual sales returns, allowances, discounts, mail-in rebate redemptions or credit card chargebacks are greater than estimated by management, additional expense may be incurred.

*Allowance for Doubtful Accounts Receivable.* We maintain an allowance for doubtful accounts receivable based upon estimates of future collection. We extend credit to our customers based upon an evaluation of each customer's financial condition and credit history, and generally do not require collateral. We regularly evaluate our customers' financial condition and credit history in determining the adequacy of our allowance for doubtful accounts. We also maintain an allowance for uncollectible vendor receivables, which arise from vendor rebate programs, price protections and other promotions. We determine the sufficiency of the vendor receivable allowance based upon various factors, including payment history. Amounts received from vendors may vary from amounts recorded because of potential non-compliance with certain elements of vendor programs. If the estimated allowance for uncollectible accounts or vendor receivables subsequently proves to be insufficient, additional allowance may be required.

*Reserve for Inventory Obsolescence.* We maintain an allowance for the valuation of our inventory by estimating obsolete or unmarketable inventory based on the difference between inventory cost and market value, which is determined by general market conditions, nature, age and type of each product and assumptions about future demand. We regularly evaluate the adequacy of our inventory reserve. If our inventory reserve subsequently proves to be insufficient, additional allowance may be required.

*Vendor Consideration.* We receive vendor consideration from our vendors in the form of cooperative marketing allowances, volume incentive rebates and other programs to support our marketing of their products. Most of our vendor consideration is accrued, when performance required for recognition is completed, as an offset to cost of sales in accordance with ASC 605-50 since such funds are not a reimbursement of specific, incremental, identifiable costs incurred by us in selling the vendors' products. At the end of any given period, unbilled receivables related to our vendor consideration are included in our "Accounts receivable, net of allowances."

*Stock-Based Compensation.* We account for stock-based compensation in accordance with ASC 718, using the modified prospective application transition method. ASC 718 addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for either equity instruments of the enterprise or liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. ASC 718 generally requires that such transactions be accounted for using a fair value based method and recognized as expenses in our Consolidated Statements of Operations.

Pursuant to ASC 718, we estimate the grant date fair value of each stock option grant awarded pursuant to ASC 718 using the Black-Scholes option pricing model and management assumptions made regarding various factors, including expected volatility of our common stock, expected life of options granted and estimated forfeiture rates, which require extensive use of accounting judgment and financial estimates. In estimating our assumption regarding expected term for options we granted during the nine months ended September 30, 2012 and 2011, we computed the expected term based upon an analysis of historical exercises of stock options by our employees. We compute our expected volatility using historical prices of our common stock for a period equal to the expected term of the options. The risk free interest rate is determined using the implied yield on U.S. Treasury issues with a remaining term within the contractual life of the award. We estimate an annual forfeiture rate based on our historical forfeiture data, which rate will be revised, if necessary, in future periods if actual forfeitures differ from those estimates. Any material change in the estimates used in calculating the stock-based compensation expense could result in a material impact on our results of operations.

*Goodwill and Intangible Assets.* Goodwill and indefinite-lived intangible assets are carried at historical cost, subject to write-down, as needed, based upon an impairment analysis that we perform annually, or sooner if an event occurs or circumstances change that would more likely than not result in an impairment loss. We perform our annual impairment test for goodwill and

indefinite-lived intangible assets as of December 31 of each year. Under ASC 350, goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. Events that may create an impairment include, but are not limited to, significant and sustained decline in our stock price or market capitalization, significant underperformance of operating units and significant changes in market conditions. Changes in estimates of future cash flows or changes in market values could result in a write-down of our goodwill in a future period. If an impairment loss results from any impairment analysis as described above, such loss will be recorded as a pre-tax charge to our operating income.

Goodwill impairment testing is a two-step process. Step one involves comparing the fair value of our reporting units to their carrying amount. If the fair value of the reporting unit is greater than its carrying amount, there is no impairment and no further testing is required. If the reporting unit's carrying amount is greater than the fair value, the second step must be completed to measure the amount of impairment, if any. Step two calculates the implied fair value of goodwill by deducting the fair value of all tangible and intangible assets, excluding goodwill, of the reporting unit from the fair value of the reporting unit as determined in step one. The implied fair value of goodwill determined in this step is compared to the carrying value of goodwill. If the implied fair value of goodwill is less than the carrying value of goodwill, an impairment loss is recognized equal to the difference.

Fair value is determined by using a weighted combination of a market-based approach and an income approach, as this combination is deemed to be the most indicative of fair value in an orderly transaction between market participants. Under the market-based approach, we utilize information regarding our company and publicly available comparable company and industry information to determine cash flow multiples and revenue multiples that are used to value our reporting units. Under the income approach, we determine fair value based on estimated future cash flows of each reporting unit, discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of a reporting unit and the rate of return an outside investor would expect to earn.

In addition, fair values of our trademarks are determined using the relief from royalty method under the income approach to value. This method applies a market based royalty rate to projected revenues that are associated with the trademarks. Applying the royalty rate to projected revenues result in an indication of the pre-tax royalty savings associated with ownership of the trademarks. Projected after-tax royalty savings are discounted to present value at the reporting unit's weighted average cost of capital, and a tax amortization benefit (calculated based on a 15 year life for tax purposes) is added.

Given continuing economic uncertainties and related risks to our business, there can be no assurance that our estimates and assumptions made for purposes of our goodwill and indefinite-lived intangible assets impairment testing as of December 31, 2011 will prove to be accurate predictions of the future. We may be required to record additional goodwill impairment charges in future periods, whether in connection with our next annual impairment testing as of December 31, 2012 or prior to that, if any change constitutes a triggering event outside of the quarter from when the annual goodwill and indefinite-lived intangible assets impairment test is performed. It is not possible at this time to determine if any such future impairment charge would result or, if it does, whether such charge would be material.

We amortize other intangible assets with definite lives generally on a straight-line basis over their estimated useful lives.

## RESULTS OF OPERATIONS

### Consolidated Statements of Operations Data

The following table sets forth, for the periods indicated, our Consolidated Statements of Operations (in thousands, unaudited) and information derived from our Consolidated Statements of Operations expressed as a percentage of net sales. There can be no assurance that trends in our net sales, gross profit or operating results will continue in the future.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net sales	\$ 364,583	\$ 367,547	\$ 1,069,522	\$ 1,065,395
Cost of goods sold	316,191	317,346	925,852	925,339
Gross profit	48,392	50,201	143,670	140,056
Selling, general and administrative expenses	44,331	46,350	136,230	132,509
Revaluation of earnout liability	68	—	(107)	(800)
Operating profit	3,993	3,851	7,547	8,347
Interest expense, net	967	823	2,807	2,381
Income before income taxes	3,026	3,028	4,740	5,966
Income tax expense	1,213	1,266	1,996	2,441
Net income	\$ 1,813	\$ 1,762	\$ 2,774	\$ 3,525

### Basic and Diluted Earnings Per Common Share

Basic	\$ 0.15	\$ 0.14	\$ 0.23	\$ 0.29
Diluted	0.15	0.14	0.23	0.28

Weighted average number of common shares outstanding:

Basic	12,039	12,249	12,024	12,295
Diluted	12,177	12,442	12,205	12,600

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	86.7	86.4	86.6	86.9
Gross profit	13.3	13.6	13.4	13.1
Selling, general and administrative expenses	12.2	12.6	12.7	12.4
Revaluation of earnout liability	—	—	—	(0.1)
Operating profit	1.1	1.0	0.7	0.8
Interest expense, net	0.3	0.2	0.3	0.2
Income before income taxes	0.8	0.8	0.4	0.6
Income tax expense	0.3	0.3	0.2	0.2
Net income	0.5%	0.5%	0.2%	0.4%

### Three Months Ended September 30, 2012 Compared to the Three Months Ended September 30, 2011

*Net Sales.* The following table presents our net sales, by segment, for the periods presented (dollars in thousands):

	Three Months Ended September 30,		Change	
	2012	2011	\$	%
MME	\$ 137,069	\$ 136,447	\$ 622	0.5%
SMB	118,633	119,840	(1,207)	(1.0)
Public Sector	56,981	59,463	(2,482)	(4.2)
MacMall/OnSale	51,903	52,441	(538)	(1.0)
Corporate & Other	(3)	(644)	641	NMF(1)
Consolidated net sales	<u>\$ 364,583</u>	<u>\$ 367,547</u>	<u>\$ (2,964)</u>	<u>(0.8)%</u>

(1) Not meaningful.

Our consolidated net sales for the third quarter of 2012 were \$364.6 million, a decrease of \$2.9 million, or 1%, from consolidated net sales of \$367.5 million in the third quarter of 2011.

Our MME segment net sales increased by \$0.7 million, or 1%, in the third quarter of 2012 to \$137.1 million from \$136.4 million in the third quarter of 2011. This increase was primarily due to an 11% increase in sales of services, primarily driven by increased project consulting services, partially offset by a 2% decrease in net sales of products in the third quarter of 2012 compared to the third quarter of 2011. The decrease in product sales was primarily due to soft demand in the marketplace towards the end of the third quarter of 2012. As a result, in the third quarter of 2012, sales of services increased to 21% of MME segment sales from 19% of sales in the third quarter of 2011.

Our SMB segment net sales decreased by \$1.2 million, or 1%, in the third quarter of 2012 to \$118.6 million from \$119.8 million in the third quarter of 2011. This decrease was primarily due to a \$7.2 million decline in sales to promotional companies as a result of a program change in the fourth quarter of 2011 by a large vendor primarily impacting our SMB and MacMall/OnSale segments as we had disclosed in our fourth quarter 2011 results. This decrease was partially offset by a \$6.0 million, or 6%, increase in sales to customers outside that program. As we indicated previously, we expect the effects of this program change to continue to impact year over year comparisons for the remainder of 2012. In the third quarter and fourth quarter of 2011, sales under this program were approximately \$12.7 million and \$8.8 million respectively.

Our Public Sector segment net sales decreased by \$2.5 million, or 4%, in the third quarter of 2012 to \$57.0 million compared to \$59.5 million in the third quarter of 2011. This decrease in Public Sector net sales was due to a decrease of \$2.2 million, or 7%, in our federal government business. Our state and local government and educational institutions (SLED) business remained flat in the third quarter of 2012 compared to the third quarter 2011.

Our MacMall/OnSale segment net sales were \$51.9 million in the third quarter of 2012 compared to \$52.4 million in the third quarter of 2011, a decrease of \$0.5 million, or 1%. The decrease in MacMall/OnSale net sales was primarily due to soft demand resulting from market anticipation of major product releases which did not occur until the fourth quarter of 2012, as compared to new product releases in the prior year which occurred in third quarter of 2011.

*Gross Profit and Gross Profit Margin.* The following table presents our gross profit and gross profit margin, by segment, for the periods presented (dollars in thousands):

	Three Months Ended September 30,				Change	
	2012		2011		\$	Margin
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin		
MME	\$ 20,687	15.1%	\$ 21,269	15.6%	\$ (582)	(0.5)%
SMB	16,374	13.8	16,481	13.8	(107)	—
Public Sector	5,342	9.4	5,807	9.8	(465)	(0.4)
MacMall/OnSale	5,887	11.3	6,583	12.6	(696)	(1.3)
Corporate & Other	102	NMF(1)	61	NMF(1)	41	NMF(1)
Consolidated gross profit and gross profit margin	<u>\$ 48,392</u>	<u>13.3%</u>	<u>\$ 50,201</u>	<u>13.7%</u>	<u>\$ (1,809)</u>	<u>(0.4)%</u>

(1) Not meaningful

Consolidated gross profit for the third quarter of 2012 was \$48.4 million compared to \$50.2 million in the third quarter of 2011, a decrease of \$1.8 million, or 4%. Consolidated gross profit margin was 13.3% in the third quarter of 2012 compared to 13.7% in the third quarter of 2011.

Gross profit for our MME segment decreased by \$0.6 million, or 3%, to \$20.7 million in the third quarter of 2012 compared to \$21.3 million in the third quarter of 2011. MME gross profit margin decreased to 15.1% in the third quarter of 2012 compared to 15.5% in the third quarter of 2011. The decrease in MME gross profit and gross profit margin was primarily due to a decrease of \$0.6 million, or 42 basis points, in vendor consideration as a percentage of sales. The decrease in vendor consideration as a percentage of sales was due to lower demand for certain product categories as compared to third quarter of 2011.

Gross profit for our SMB decreased by \$0.1 million, or 1%, to \$16.4 million in the third quarter of 2012 compared to \$16.5 million in the third quarter of 2011. SMB gross profit margin remained flat at 13.8% in the third quarter of 2012 and in the third quarter of 2011.

Gross profit for our Public Sector segment decreased by \$0.5 million, or 8%, to \$5.3 million in the third quarter of 2012 compared to \$5.8 million in the third quarter of 2011. Public Sector gross profit margin decreased by 40 basis points to 9.4% in the third quarter of 2012 compared to 9.8% in the third quarter of 2011. The decrease in Public Sector gross profit and gross profit margin was primarily due to the decrease in sales and changes in product mix.

Gross profit for our MacMall/OnSale segment decreased by \$0.7 million, or 11%, to \$5.9 million in the third quarter of 2012 compared to \$6.6 million in the third quarter of 2011. MacMall/OnSale gross profit margin decreased by 130 basis points to 11.3% in the third quarter of 2012 compared to 12.6% in the third quarter of 2011. The decrease in MacMall/OnSale gross profit and gross profit margin in the third quarter of 2012 was primarily due to the significant sales of HP Touchpads in the third quarter of 2011, which resulted from an extraordinary market-wide price reduction of these tablets when HP announced its exit from the category.

*Operating Profit (Loss) and Operating Profit (Loss) Margin.* The following table presents our operating profit and operating profit margin, by segment, for the periods presented (dollars in thousands):

	Three Months Ended September 30,						Change	
	2012		2011		\$	Margin		
	Operating Profit (Loss)	Operating Profit (Loss) Margin(1)	Operating Profit (Loss)	Operating Profit (Loss) Margin(1)				
MME	\$ 7,437	5.4%	\$ 7,353	5.4%	\$ 84	—%		
SMB	9,062	7.6	9,417	7.9	(355)	(0.3)		
Public Sector	1,943	3.4	1,564	2.6	379	0.8		
MacMall/OnSale	765	1.5	400	0.8	365	0.7		
Corporate & Other	(15,214)	(4.2)(1)	(14,883)	(4.0)(1)	(331)	(0.2)(1)		
Consolidated operating profit and operating profit margin	<u>\$ 3,993</u>	1.1%	<u>\$ 3,851</u>	1.0%	<u>\$ 142</u>	0.1%		

(1) Operating profit margin for Corporate & Other is computed based on consolidated net sales. Operating profit margin for each of the other segments is computed based on the respective segment's net sales.

Consolidated operating profit for the third quarter of 2012 was \$4.0 million compared to \$3.9 million in the third quarter of 2011, an increase of \$0.1 million, or 4%. Consolidated operating profit margin for the third quarter of 2012 was 1.1% compared to 1.0% in the third quarter of 2011.

Our MME operating profit in the third quarter of 2012 remained flat at \$7.4 million in the third quarter of 2012 and in the third quarter of 2011. MME operating profit was affected by the decrease in MME gross profit discussed above, primarily offset by a decrease in personnel costs of \$0.7 million, which was mainly related to a decrease in variable compensation costs.

Our SMB segment operating profit decreased by \$0.3 million, or 4%, to \$9.1 million in the third quarter of 2012 compared to \$9.4 million in the third quarter of 2011. This decrease resulted primarily from an increase in personnel costs of \$0.2 million and the decrease in SMB gross profit discussed above.

Our Public Sector segment operating profit increased by \$0.3 million, or 24% to \$1.9 million in the third quarter of 2012 compared to \$1.6 million in the third quarter of 2011. The increase in Public Sector operating profit was primarily due to a \$0.7 million decrease in personnel costs, partially offset by a decrease in Public Sector gross profit as discussed above.

Our MacMall/OnSale operating profit increased by \$0.4 million, or 91%, to \$0.8 million in the third quarter of 2012 compared to \$0.4 million in the third quarter 2011. This increase in MacMall/OnSale operating profit was primarily due to a decrease in personnel costs of \$0.7 million and small improvements in a number of components of selling, general and administrative expenses, partially offset by a decrease in MacMall/OnSale gross profit discussed above.

Corporate & Other operating expenses includes corporate related expenses such as legal, accounting, information technology, product management and certain professional and pre-sales support services and other administrative costs that are not otherwise included in our reportable operating segments. Third quarter 2012 Corporate & Other operating expenses increased by \$0.3 million, or 2%, to \$15.2 million from \$14.9 million in the third quarter of 2011. The increase in the third quarter of 2012 was primarily related to a \$0.6 million increase in employee severance costs associated with our restructuring efforts and a \$0.3 million increase in depreciation expense associated with the completed portions of our on-going systems upgrades, partially offset by a \$0.4 million decrease in litigation costs.

*Net Interest Expense.* Total net interest expense for the third quarter of 2012 increased to \$1.0 million compared to \$0.8 million in the third quarter of 2011. The increase in interest expense of \$0.2 million resulted primarily from the increase in our outstanding borrowings primarily related to the financing of our new El Segundo headquarters office building, as well as an increase in sales tax audit assessment in the form of interest. There was an increase in our average effective borrowing rate, partially offset by a decrease in our average outstanding borrowings on our revolving loan.

*Income Tax Expense.* We recorded an income tax expense of \$1.2 million in the third quarter of 2012 compared to an income tax expense of \$1.3 million in the third quarter of 2011. Our effective tax rate for the quarters ended September 30, 2012 and 2011 was approximately 40% and 42%. The decrease in our effective tax rate in the quarter ended September 30, 2012 was primarily due to the recording of a foreign tax credit against federal tax liability.

### Nine Months Ended September 30, 2012 Compared to the Nine Months Ended September 30, 2011

*Net Sales.* The following table presents our net sales, by segment, for the periods presented (dollars in thousands):

	Nine Months Ended September 30,		Change	
	2012	2011	\$	%
MME	\$ 423,450	\$ 375,580	\$ 47,870	12.8%
SMB	351,793	389,848	(38,055)	(9.8)
Public Sector	130,857	132,544	(1,687)	(1.3)
MacMall/OnSale	163,456	168,787	(5,331)	(3.2)
Corporate & Other	(34)	(1,364)	1,330	NMF(1)
Consolidated net sales	<u>\$ 1,069,522</u>	<u>\$ 1,065,395</u>	<u>\$ 4,127</u>	(0.4)%

(1) Not meaningful.

Our consolidated net sales for the nine months ended September 30, 2012 were \$1,069.5 million, an increase of \$4.1 million from consolidated net sales of \$1,065.4 million in the nine months ended September 30, 2011.

Our MME segment net sales increased by \$47.9 million, or 13%, to \$423.5 million in the nine months ended September 30, 2012 from \$375.6 million in the nine months ended September 30, 2011. This increase was primarily due to an 11% increase in product revenues in the nine months ended September 30, 2012 compared to the same period in 2011 and a 19% increase in sales of services in the nine months ended September 30, 2012 compared to the same period in 2011. In the nine months ended September 30, 2012, sales of services as a percentage of net sales increased to 20% of net sales from 19% of net sales in the nine months ended September 30, 2011.

Our SMB segment net sales decreased by \$38.0 million, or 10%, to \$351.8 million in the nine months ended September 30, 2012 from \$389.8 million in the nine months ended September 30, 2011. This decrease was primarily due to a \$46.0 million decline in sales to promotional companies as a result of the program change discussed above, partially offset by an \$8.0 million increase in sales to customers outside that program.

Our Public Sector segment net sales decreased by \$1.6 million, or 1%, to \$130.9 million in the nine months ended September 30, 2012 compared to \$132.5 million in the nine months ended September 30, 2011. This decrease in Public Sector net sales was due to a decrease of \$9.8 million, or 14%, in our federal government business, which was partially offset by an increase of \$7.9 million, or 12%, in sales to SLED customers resulting primarily from increased account executive headcount focused on our SLED business.

Our MacMall/OnSale segment net sales decreased by \$5.3 million, or 3%, to \$163.5 million in the nine months ended September 30, 2012 compared to \$168.8 million in the nine months ended September 30, 2011. The decrease in MacMall/OnSale net sales was primarily due to a \$3.1 million decrease in MacMall net sales due to the vendor program change discussed above. Sales under this program in 2012 were approximately \$1.0 million, \$3.2 million and \$0.9 million in each of the first three quarters of 2012 and approximately \$5.5 million and \$2.7 million in each of the first two quarters of 2011. There were no sales under this program in the third and fourth quarters of 2011. In addition, the decrease in MacMall/OnSale net sales was affected by soft demand resulting from market anticipation of major product releases which did not occur until the fourth quarter of 2012, as compared to new product releases in the prior year which occurred in the third quarter of 2011.

*Gross Profit and Gross Profit Margin.* The following table presents our gross profit and gross profit margin, by segment, for the periods presented (dollars in thousands):

	Nine Months Ended September 30,					
	2012		2011		Change	
	Gross Profit	Gross Profit Margin	Gross Profit (Loss)	Gross Profit Margin	\$	Margin
MME	\$ 62,349	14.7%	\$ 59,114	15.7%	\$ 3,235	(1.0)%
SMB	49,952	14.2	50,236	12.9	(284)	1.3
Public Sector	12,799	9.8	12,360	9.3	439	0.5
MacMall/OnSale	18,450	11.3	18,700	11.1	(250)	0.2
Corporate & Other	120	NMF(1)	(354)	NMF(1)	474	NMF(1)
Consolidated gross profit and gross profit margin	<u>\$ 143,670</u>	13.4%	<u>\$ 140,056</u>	13.1%	<u>\$ 3,614</u>	0.3%

(1) Not meaningful

Consolidated gross profit for the nine months ended September 30, 2012 was \$143.7 million compared to \$140.1 million in the nine months ended September 30, 2011, an increase of \$3.6 million, or 3%. Consolidated gross profit margin for the nine months ended September 30, 2012 was 13.4% compared to 13.1% in the nine months ended September 30, 2011.

Gross profit for our MME segment increased by \$3.2 million, or 5%, to \$62.3 million in the nine months ended September 30, 2012 compared to \$59.1 million in the nine months ended September 30, 2011, and gross profit margin for the nine months ended September 30, 2012 was 14.7% compared to 15.7% in the nine months ended September 30, 2011. The increase in MME gross profit was primarily due to the increased MME net sales discussed above, partially offset by a decrease in product margins. The decrease in MME gross profit margin was primarily due to a 49 basis point decrease in vendor consideration as a percentage of net sales and a competitive pricing environment for product sales.

Gross profit for our SMB segment decreased by \$0.2 million, to \$50.0 million for the nine months ended September 30, 2012 compared to \$50.2 million in the nine months ended September 30, 2011 resulting primarily from decreased SMB net sales discussed above, but partially offset by an increase in gross profit for the core SMB business. SMB gross profit margin increased by 130 basis points to 14.2% in the nine months ended September 30, 2012 compared to 12.9% in the nine months ended September 30, 2011 primarily due to an increase in vendor consideration as a percentage of net sales as well as a decrease in sales to promotional companies at lower margins.

Gross profit for our Public Sector segment increased by \$0.4 million, or 4%, to \$12.8 million in the nine months ended September 30, 2012 compared to \$12.4 million in the nine months ended September 30, 2011. Public Sector gross profit margin increased by 50 basis points to 9.8% in the nine months ended September 30, 2012 compared to 9.3% in the nine months ended September 30, 2011. The increase in Public Sector gross profit and gross profit margin was primarily due to an increase in selling margin and an increase in vendor consideration.

Gross profit for our MacMall/OnSale segment decreased by \$0.2 million, or 1%, to \$18.5 million in the nine months ended September 30, 2012 compared to \$18.7 million in the nine months ended September 30, 2011. MacMall/OnSale gross profit margin increased by 20 basis points to 11.3% in the nine months ended September 30, 2012 compared to 11.1% in the nine months ended September 30, 2011. The decrease in our MacMall/OnSale gross profit was primarily due to the significant sales of HP Touchpads in the third quarter 2011, which resulted from an extraordinary market-wide price reduction of these tablets when HP announced its exit from the category.

*Operating Profit (Loss) and Operating Profit (Loss) Margin.* The following table presents our operating profit and operating profit margin, by segment, for the periods presented (dollars in thousands):

	Nine Months Ended September 30,							
	2012				2011			
	Operating Profit (Loss)	Operating Profit (Loss) Margin(1)	Operating Profit (Loss)	Operating Profit (Loss) Margin(1)	Change			
				\$	Margin			
MME	\$ 21,871	5.2%	\$ 20,209	5.4	\$ 1,662	(0.2)%		
SMB	28,002	8.0	27,606	7.1	396	0.9		
Public Sector	1,739	1.3	1,261	1.0	478	0.3		
MacMall/OnSale	1,838	1.1	999	0.6	839	0.5		
Corporate & Other	(45,903)	(4.3)(1)	(41,728)	(3.9)(1)	(4,175)	(0.4)(1)		
Consolidated operating profit and operating profit margin	\$ 7,547	0.7%	\$ 8,347	0.8%	\$ (800)	(0.1)%		

(1) Operating profit margin for Corporate & Other is computed based on consolidated net sales. Operating profit margin for each of the other segments is computed based on the respective segment's net sales.

Consolidated operating profit for the nine months ended September 30, 2012 was \$7.5 million compared to \$8.3 million in the nine months ended September 30, 2011, a decrease of \$0.8 million, or 10%. Consolidated operating profit margin for the nine months ended September 30, 2012 was 0.7% compared to 0.8% in the nine months ended September 30, 2011.

Our MME segment operating profit increased by \$1.7 million, or 8%, to \$21.9 million in the nine months ended September 30, 2012 compared to \$20.2 million in the nine months ended September 30, 2011. The increase was primarily due to the increase in MME gross profit discussed above, partially offset by a \$0.9 million increase in depreciation and amortization expenses primarily related to the acceleration of our SARCOM and NSPI trademark amortization in connection with our rebranding strategy, and a \$0.5 million increase in variable fulfillment costs. Operating profit for the nine months ended September 30, 2012 also included a net \$0.1 million benefit from a decrease in the estimated fair value of the contingent consideration liability related to our NSPI acquisition, compared to a \$0.8 million benefit recorded in the nine months ended September 30, 2011.

Our SMB segment operating profit increased by \$0.4 million, or 1%, to \$28.0 million in the nine months ended September 30, 2012 compared to \$27.6 million in the nine months ended September 30, 2011. This increase resulted primarily from a \$0.3 million decrease in bad debt expense, a \$0.3 million decrease in variable fulfillment costs and the decrease in SMB gross profit discussed above, partially offset by a \$0.4 million increase in personnel costs primarily due to increased variable compensation expenses related to higher selling margin for SMB's core business.

Our Public Sector segment operating profit increased by \$0.4 million, or 38%, to \$1.7 million in the nine months ended September 30, 2012 compared to \$1.3 million in the nine months ended September 30, 2011. The increase in Public Sector operating profit was primarily due to the increase in Public Sector gross profit discussed above.

MacMall/OnSale segment operating profit increased by \$0.8 million, or 84%, to \$1.8 million in the nine months ended September 30, 2012 compared to \$1.0 million in the nine months ended September 30, 2011. The increase in MacMall/OnSale operating profit was primarily due to a decrease in outside service costs of \$0.5 million, a decrease in legal costs of \$0.5 million and a decrease in credit card related costs of \$0.4 million, partially offset by the decrease in MacMall/OnSale gross profit discussed above.

Corporate & Other operating expenses increased by \$4.2 million, or 10%, to \$45.9 million in the nine months ended September 30, 2012 from \$41.7 million in the nine months ended September 30, 2011. The increase in the nine months ended September 30, 2012 was primarily related to a \$3.1 million increase in personnel costs primarily supporting continued investments in IT and professional and pre-sales support services and includes \$0.9 million of severance costs, a \$1.2 million increase in depreciation expense associated with the completed portions of our on-going systems upgrades, a \$0.4 million increase in outside service costs and a \$0.4 million increase in professional consulting fees, partially offset by a \$1.2 million decrease in litigation costs primarily related to defending in the prior year what we believe was a meritless lawsuit which was settled in January 2012 without liability to us.

*Net Interest Expense.* Total net interest expense for the nine months ended September 30, 2012 increased to \$2.8 million compared to \$2.4 million in the nine months ended September 30, 2011. The increase in interest expense of \$0.4 million resulted primarily from an increase in our average total outstanding borrowings, primarily related to the financing of our new El Segundo headquarters office building, partially offset by a decrease in our average effective borrowing rate.

*Income Tax Expense.* We recorded an income tax expense of \$2.0 million in the nine months ended September 30, 2012 compared to an income tax expense of \$2.4 million in the nine months ended September 30, 2011. Our effective tax rate for each of the nine months ended September 30, 2012 and 2011 was approximately 41%.

## LIQUIDITY AND CAPITAL RESOURCES

*Working Capital.* Our primary capital need has historically been funding the working capital requirements created by our growth in sales and strategic acquisitions. We expect that our primary capital needs will continue to be the funding of our existing working capital requirements, capital expenditures for which we expect to include substantial investments in a new ERP system, eCommerce platform and an upgrade of our current IT infrastructure over the next several years, which are discussed below in "Other Planned Capital Projects," possible sales growth, possible acquisitions and new business ventures, including our announced rebranding strategy and possible repurchases of our common stock under a discretionary repurchase program, which is discussed below. Our primary sources of financing have historically come from borrowings from financial institutions, public and private issuances of our common stock and cash flows from operations. Our continuing efforts to drive revenue growth from commercial customers could result in an increase in our accounts receivable as these customers are generally provided longer payment terms than consumers. We historically have increased our inventory levels from time to time to take advantage of strategic manufacturer promotions. We believe that our current working capital, including our existing cash balance, together with our expected future cash flows from operations and available borrowing capacity under our line of credit, will be adequate to support our current operating plans for at least the next 12 months. However, the current uncertainty in the macroeconomic environment may limit our cash resources that could otherwise be available to fund future strategic opportunities, capital investments or growth beyond our current operating plans. We are also unable to quantify any synergies or expected costs related to our recently announced rebranding strategy.

There has been ongoing weakness and uncertainty in the global economic environment, coupled with disruptions in the capital and credit markets. While our revolving credit facility does not mature until March 2015, we believe continued problems in these areas could have a negative impact on our ability to obtain future financing if we need additional funds, such as for acquisitions or expansion, to fund a significant downturn in our sales or an increase in our operating expenses, or to take advantage of opportunities or favorable market conditions in the future. We may seek additional financing from public or private debt or equity issuances; however, there can be no assurance that such financing will be available at acceptable terms, if at all. Also, there can be no assurance that the cost or availability of future borrowings, if any, under our credit facility or in the debt markets will not be impacted by disruptions in the capital and credit markets.

We had cash and cash equivalents of \$6.5 million at September 30, 2012 and \$9.5 million at December 31, 2011. Our working capital was \$56.2 million as of September 30, 2012 and \$45.3 million as of December 31, 2011.

In October 2008, our Board of Directors approved a discretionary common stock repurchase program for up to \$10 million of our common stock in aggregate with all other repurchases made under any repurchase programs following the date of such Board of Directors' approval. This repurchase program effectively superseded an earlier repurchase program adopted in 1996. On September 13, 2012, our Board of Directors approved a \$10 million increase to our discretionary stock repurchase program originally adopted in October 2008. Since the inception of the program through September 30, 2012, we repurchased an aggregate total of 2,026,610 shares of our common stock for a total cost of \$9.1 million, of which 70,104 shares were repurchased for a cost of \$0.4 million during the quarter ended September 30, 2012. The repurchased shares are held as treasury stock. As a result of the \$10 million increase, as of September 30, 2012, we had \$10.9 million available in stock repurchases under the program, subject to any limitations that may apply from time to time under our credit facility agreement.

Under the approved stock repurchase program, the shares may be repurchased from time to time at prevailing market prices, through open market or unsolicited negotiated transactions, depending on market conditions. We expect that the repurchase of our common stock under the program will be financed with existing working capital and amounts available under our existing credit facility. No limit was placed on the duration of the repurchase program. There is no guarantee as to the exact number of shares that we will repurchase. Subject to applicable securities laws, repurchases may be made at such times and in such amounts as our management deems appropriate. The program can also be discontinued at any time management feels additional purchases are not warranted.

We maintain a Canadian call center serving the U.S. market, which has historically received the benefit of labor credits under a Canadian government program. In 2007, we received an eligibility certificate to participate in the Investment Quebec Refundable Tax Credit for Major Employment Generating Projects (GPCE). In addition to other eligibility requirements, we are required to maintain a minimum of 317 eligible employees employed by our subsidiary PC Mall Canada, Inc. in the province of Quebec at all times to remain eligible to apply annually for these labor credits. As a result of this new certification, we are eligible to make annual labor credit claims for eligible employees equal to 25% of eligible salaries, but not to exceed \$15,000 (Canadian) per eligible employee per year, beginning in fiscal year 2008 and continuing through fiscal year 2016. As of September 30, 2012, we had an aggregate accrued receivable of \$10.2 million related to the 2010 and 2011 calendar years and the first nine months of 2012. We expect to file our 2011 claim in 2012 and we expect to receive full payment under our remaining accrued labor credits receivable.

*Cash Flows from Operating Activities.* Net cash provided by operating activities in the nine months ended September 30, 2012 was \$34.6 million, primarily due to a \$13.9 million decrease in inventory reflecting our sell through of year-end inventory, a \$7.5 million increase in deferred revenues and a \$6.9 million decrease in accounts receivable, reflecting payments received related to certain large sales near the end of 2011. These items contributing to cash provided by operating activities were partially offset by a \$5.0 million decrease in accrued expenses and other current liabilities.

Net cash provided by operating activities in the nine months ended September 30, 2011 was \$0.5 million, primarily due to a \$5.5 million decrease in inventory and a \$5.4 million increase in deferred revenues, both due generally to normal seasonality between the fourth quarter and the periods thereafter. In addition, net cash provided by operating activities also included \$7.2 million of depreciation and amortization expenses and \$3.5 million of net income. These items contributing to net cash provided by operating activities were partially offset by a \$16.0 million decrease in accounts payable based upon timing of payments to certain vendors, a \$3.1 million increase in accounts receivable and a \$2.7 million increase in prepaid expenses and other current assets.

*Cash Flows from Investing Activities.* Net cash used in investing activities was \$6.8 million in the nine months ended September 30, 2012 compared to \$24.1 million in the nine months ended September 30, 2011. The \$6.8 million of net cash used in investing activities in the nine months ended September 30, 2012 was primarily due to capital expenditures relating to investments in our IT infrastructure and the creation of enhanced electronic tools for our account executives and sales support staff. Capital expenditures of \$12.3 million in the nine months ended September 30, 2011 were primarily related to investments in our IT infrastructure, improvements and equipment for our new headquarters office building in El Segundo and the creation of enhanced electronic tools for our account executives and sales support staff. In addition, net cash used in investing activities for the nine months ended September 30, 2011 included a \$9.6 million purchase of a new headquarters office building in El Segundo, California and a \$2.3 million acquisition of certain assets of eCost.

*Cash Flows from Financing Activities.* Net cash used in financing activities in the nine months ended September 30, 2012 was \$30.8 million compared to net cash provided by financing activities in the nine months ended September 30, 2011 of \$19.1 million. The \$30.8 million of net cash used in financing activities in the nine months ended September 30, 2012 was primarily related to \$31.0 million of net payments made on the outstanding balance of our line of credit and a \$4.4 million change in book overdraft, partially offset by \$4.4 million of proceeds resulting from capital leases entered into during the quarter but relating to assets acquired in prior periods. The \$19.1 million of net cash provided by financing activities in the nine months ended September 30, 2011 was primarily related to \$12.0 million of net borrowings on our line of credit, \$7.2 million of borrowings under a new note payable to finance a part of the purchase price of the building in El Segundo and a \$3.3 million change in book overdraft, partially offset by \$2.3 million of repurchases of our common stock under a repurchase program and a \$1.1 million payment of NSPI's earnout liability.

*Line of Credit and Note Payable.* We maintain an asset-based revolving credit facility of up to \$160 million from a lending unit of a large commercial bank. The credit facility provides for, among other things, (i) a credit limit of \$160 million, which may be increased in increments of \$5 million up to a total credit limit of \$180 million, provided that any increase of the total credit limit in excess of \$160 million is subject to, among other things, an acceptance and commitment by the lenders to such excess amount and a line increase fee not to exceed 0.65% of the increased amount; (ii) LIBOR interest rate options that we can enter into with no limit on the maximum outstanding principal balance which may be subject to a LIBOR interest rate option; and (iii) a maturity date of March 31, 2015. The credit facility, which functions as a working capital line of credit with a borrowing base of inventory and accounts receivable, including certain credit card receivables, also includes a monthly unused line fee of 0.25% per year on the amount, if any, by which the Maximum Credit, as defined in the agreement, then in effect, exceeds the average daily principal balance of the outstanding borrowings during the immediately preceding month. There can be no assurance that the lenders, if we elected to increase the credit limit, will commit to the remaining excess \$20 million of credit beyond the \$160 million in any future period. As a result, we may not be able to access the credit facility beyond its current limit of \$160 million.

The credit facility is collateralized by substantially all of our assets. In addition to the security interest required by the credit facility, certain of our vendors have security interests in some of our assets related to their products. The credit facility has as its single financial covenant a minimum fixed charge coverage ratio (FCCR) requirement in the event an FCCR triggering event has occurred. An FCCR triggering event is comprised of maintaining certain specified daily and average excess availability thresholds. In the event the FCCR covenant applies, the fixed charge coverage ratio is 1.0 to 1.0 for each twelve-month period. At September 30, 2012, we were in compliance with our financial covenant.

Loan availability under the line of credit fluctuates daily and is affected by many factors, including eligible assets on-hand, opportunistic purchases of inventory and availability and utilization of early-pay discounts. At September 30, 2012, we had \$60.8 million of net working capital advances outstanding under the line of credit. At September 30, 2012, the maximum credit line was \$160 million and we had \$65.7 million available to borrow for working capital advances under the line of credit.

In connection with and as part of the amended credit facility, we entered into an amended term note on December 14, 2010 with a principal balance of \$2.87 million, payable in equal monthly principal installments beginning on January 1, 2011, plus interest at the prime rate with a LIBOR option. The amended term note matures in December 2017 or in the event of a default, termination or non-renewal of our credit facility, is payable in its entirety upon demand by our lender. At September 30, 2012, we had \$2.15 million outstanding under the amended term note. The remaining balance of our term note matures as follows: \$102,500 in the remainder of 2012 and \$410,000 annually in each of the years 2013 through 2017.

At September 30, 2012, our effective weighted average annual interest rate on outstanding amounts under the credit facility and term note was 2.33%.

At September 30, 2012, \$43,000 relating to the financing of our purchase of Microsoft AX (Axapta), which is a part of our ERP upgrade, was included in our "Notes payable - current" on our Consolidated Balance Sheets.

In June 2011, we entered into a credit agreement to finance the acquisition and improvement of the real property we purchased in March 2011 in El Segundo, California. The credit agreement provides for a lending commitment for a loan up to \$10.9 million with a five year term and a 25 year straight-line principal repayment amortization period with a balloon payment at maturity. Interest is variable, indexed to Prime plus a spread of 0.375% or LIBOR plus a spread of 2.375% at our option, payable monthly. At September 30, 2012, we had \$9.8 million outstanding under this credit agreement. The loan is secured by the real property and contains financial covenants substantially similar to those of our existing asset-based credit facility.

The carrying amounts of our line of credit borrowings and notes payable approximate their fair value based upon the current rates offered to us for obligations of similar terms and remaining maturities.

#### **Other Planned Capital Projects**

We are currently upgrading many of our IT systems. We have purchased licenses for Microsoft Dynamics AX (Axapta) and other related tools, such as workflow software, web development tools and other related items, to upgrade our ERP and eCommerce systems. We initiated the implementation and upgrade of our eCommerce system in the second half of 2008 and have completed and launched a new generation of our public sites at macmall.com, onsale.com and pcmall.com. We are currently working on the implementation of the ERP modules and the upgrade of the ERP systems, including additional enhancements and features, and we expect to be completed with a substantial portion of the implementation of the ERP systems by the end of 2013. We believe the implementation and upgrade should help us to gain further efficiencies across our organization.

While it is difficult to estimate costs based on the complexity of the systems design, customization and implementation, based on our estimates, which are subject to change, we currently expect to incur a cost of approximately \$16 million for the major phases of these IT system upgrades. To date, we have incurred approximately \$13.3 million of such costs. In addition to the above expenditures, we expect on an ongoing basis to make periodic upgrades to our IT systems.

#### **Inflation**

Inflation has not had a material impact on our operating results; however, there can be no assurance that inflation will not have a material impact on our business in the future.

#### **Dividend Policy**

We have never paid cash dividends on our capital stock and our credit facility prohibits us from paying any cash dividends on our capital stock. Therefore, we do not currently anticipate paying dividends; we intend to retain any earnings to finance the growth and development of our business.

#### **Off-Balance Sheet Arrangements**

Our off-balance sheet arrangements are fully described in our Annual Report on Form 10-K for the year ended December 31, 2011. As of September 30, 2012, there has been no material change in any off-balance sheet arrangements since December 31, 2011.

#### **Contingencies**

For a discussion of contingencies, see Part I, Item 1, Note 12 of the Notes to the Consolidated Financial Statements of this report, which is incorporated herein by reference.

#### **FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such statements include statements regarding our expectations, hopes or intentions regarding the future, including but not limited to, statements regarding our strategies, competition, markets, vendors, expenses, new services and technologies, growth prospects, financing, revenue, margins, operations, litigation and compliance with applicable laws. In particular, the following types of statements are forward-looking:

- our use of management information systems and their need for future support or upgrade;
- our expectations regarding the timing and costs of our ongoing or planned IT upgrades;
- our ability to execute and benefit from our business strategies; including but not limited to, business strategies related to and strategic investments in our IT systems, our reorganization strategy, our brand strategy and pending initiatives to unify our commercial brands, our efforts to expand our sales of value-added services and solutions offerings, and real estate acquisitions and dispositions;
- our cost reduction strategies and plans, including timing, expected cost savings, the uses of those savings, the timing and amount of payments, the impact on our business, and the amounts of future charges to complete our such plans;
- our expectations regarding key executives and management and our ability to retain such individuals;
- our competitive advantages and growth opportunities;
- our ability to increase profitability and revenues;
- our expectations to continue our efforts to increase the productivity of our sales force and reduce costs;
- our ability to generate vendor supported marketing;
- our acquisition strategy and the impact of any past or future acquisitions;
- the impact of acquisitions on our financial condition, liquidity and our future cash flows and earnings;
- our expectation regarding general economic uncertainties and the related potential negative impact on our profit and profit margins, as well as our financial condition, liquidity and future cash flows;
- our expectations regarding our future capital needs and the availability of working capital, liquidity, cash flows from operations and borrowings under our credit facility and other long-term debt;
- the expected results or profitability of any of our individual business units in future periods;
- the impact on accounts receivable from our efforts to focus on sales in our MME, SMB, and Public Sector segments;

- our ability to penetrate the public sector market;
- our beliefs relating to the benefits to be received from our Philippines office and Canadian call center, including tax credits and reduction in labor costs over time;
- our belief regarding our exposure to currency exchange and interest rate risks;
- our ability to attract new customers and stimulate additional purchases from existing customers, including our expectations regarding future advertising levels and the effect on consumer sales;
- our ability to leverage our market position and purchasing power and offer a wide selection of products at competitive prices;
- our expectations regarding the ability of our marketing programs or campaigns to stimulate additional purchases or to maximize product sales;
- our belief that the use of extranets has the potential to yield additional sales opportunities and the ability to reach new customer bases;
- our ability to limit risk related to price reductions;
- our belief regarding the effect of seasonal trends and general economic conditions on our business and results of operations across all of our segments;
- our expectations regarding competition and the industry trend toward consolidation;
- our expectations regarding the payment of dividends and our intention to retain any earnings to finance the growth and development of our business;
- our compliance with laws and regulations;
- our beliefs regarding the applicability of tax statutes, regulations and governmental tax regulatory positions;
- our expectations regarding the impact of accounting pronouncements;
- our belief regarding financing of repurchases of our common stock;
- our belief that backlog is not useful for predicting our future sales;
- our belief that our existing distribution facilities are adequate for our current and foreseeable future needs; and
- the likelihood that new laws and regulations will be adopted with respect to the Internet, privacy and data security that may impose additional restrictions or burdens on our business.

Forward-looking statements involve certain risks and uncertainties, and actual results may differ materially from those discussed in any such statement. Factors that could cause actual results to differ materially from such forward-looking statements include the risks described in greater detail under the heading "Risk Factors" in Part II, Item 1A of this report. All forward-looking statements in this document are made as of the date hereof, based on information available to us as of the date hereof, and, except as otherwise required by law, we assume no obligation to update or revise any forward-looking statement or other information contained herein to reflect new information, events or circumstances after the date hereof.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our financial instruments include cash and cash equivalents and long-term debt. At September 30, 2012, the carrying values of our financial instruments approximated their fair values based on current market prices and rates.

We have not entered into derivative financial instruments as of September 30, 2012. However, from time-to-time, we contemplate and may enter into derivative financial instruments related to interest rate, foreign currency, and other market risks.

#### *Interest Rate Risk*

We have exposure to the risks of fluctuating interest rates on our line of credit and note payable. The variable interest rates on our line of credit and note payable are tied to the prime rate or the LIBOR, at our discretion. At September 30, 2012, we had \$60.8 million outstanding under our line of credit and \$12.0 million outstanding under our notes payable. As of September 30, 2012, the hypothetical impact of a one percentage point increase in interest rate related to the outstanding borrowings under our line of credit and note payable would be to increase our annual interest expense by approximately \$0.7 million.

#### *Foreign Currency Exchange Risk*

We have operation centers in Canada and the Philippines that provide back-office administrative support and customer service support. In each of these countries, transactions are primarily conducted in the respective local currencies. In addition, our two foreign subsidiaries that operate the operation centers have intercompany accounts with our U.S. subsidiaries that eliminate upon consolidation. However, transactions resulting in such accounts expose us to foreign currency rate fluctuations.

We record gains and losses resulting from exchange rate fluctuations on our short-term intercompany accounts in “Selling, general and administrative expenses” in our Consolidated Statements of Operations and translation gains and losses resulting from exchange rate fluctuations on local currency based assets and liabilities in “Accumulated other comprehensive income (loss),” a separate component of stockholders’ equity on our Consolidated Balance Sheets. As such, we have foreign currency translation exposure for changes in exchange rates for these currencies. As of September 30, 2012, we did not have material foreign currency or overall currency exposure. Significant changes in exchange rates between foreign currencies in which we transact business and the U.S. dollar may adversely affect our Consolidated Statements of Operations and our Consolidated Balance Sheets.

#### **ITEM 4. CONTROLS AND PROCEDURES**

##### **Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2012.

##### **Changes in Internal Control Over Financial Reporting**

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the third quarter of 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### **PART II - OTHER INFORMATION**

#### **ITEM 1. LEGAL PROCEEDINGS**

We are not currently a party to any material legal proceedings, other than ordinary routine litigation incidental to the business. From time to time, we receive claims of and become subject to consumer protection, employment, intellectual property and other litigation related to the conduct of our business. Any such litigation could be costly and time consuming and could divert our management and key personnel from our business operations. In connection with any such litigation, we may be subject to significant damages or equitable remedies relating to the operation of our business. Any such litigation may materially harm our business, results of operations and financial condition.

#### **ITEM 1A. RISK FACTORS**

*This report and other documents we file with the Securities and Exchange Commission contain forward looking statements that are based on current expectations, estimates, forecasts and projections about us, our future performance, our business, our beliefs and our management’s assumptions. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict. You should carefully consider the risks and uncertainties facing our business which are set forth below. The risks described below are not the only ones facing us. Our business is also subject to risks that affect many other companies, such as employment relations, general economic conditions, geopolitical events and international operations. Further, additional risks not currently known to us or that we currently believe are immaterial also may impair our business, operations, liquidity and stock price materially and adversely.*

**Our success is in part dependent on the accuracy and proper utilization of our management information systems.**

We have committed significant resources to the development of sophisticated computer systems that are used to manage our business. Our computer systems support phone and web-based sales, marketing, purchasing, accounting, customer service, warehousing and distribution, and facilitate the preparation of daily operating control reports which are designed to provide concise and timely information regarding key aspects of our business. The systems allow us 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 systems, we have systems of networked personal computers across all of our U.S. and foreign locations. We also use our management information systems to manage our inventory. We believe that in order to remain competitive, we will need to upgrade our management information systems on a regular basis, which could require significant capital expenditures.

We are currently upgrading many of our IT systems. We have purchased licenses for Microsoft Dynamics AX (Axapta) and other related tools, such as workflow software, web development tools and other related items, to upgrade our ERP and eCommerce systems. We initiated the implementation and upgrade of our eCommerce system in the second half of 2008 and have completed and launched a new generation of our public sites at macmall.com, onsale.com, ecost.com and pcmall.com. We are currently working on the implementation of the ERP modules and the upgrade of the ERP systems, including additional enhancements and features, and we expect to be completed with a substantial portion of the implementation of the ERP systems by the end of 2013.

Our success is dependent on the accuracy and proper utilization of our management information systems and our telephone system. In addition to the costs associated with system upgrades, the transition to and implementation of new or upgraded systems can result in system delays or failures. We currently operate one of our management information systems using an HP3000 Enterprise System, which was supported by HP until December 2010. We have had a contract for the last three years with a third party service provider, who specializes in maintenance and support of both hardware and operating system, to provide us adequate support until the completion of the upgrade of our management information system, which is expected to be completed by the end of 2013.

In addition to the specifically discussed IT and phone system upgrades discussed above, we also regularly upgrade our systems in an effort to better meet the information requirements of our users, and believe that to remain competitive, it will be necessary for us to upgrade our management information systems on a regular basis in the future. The implementation of any upgrades is complex, in part, because of the wide range of processes and the multiple systems that may need to be integrated across our business.

In connection with any system upgrades, we generally create a project plan to provide a reasonable allocation of resources to the project; however, execution of any such plan, or a divergence from it, may result in cost overruns, project delays or business interruptions. Furthermore, any divergence from any such project plan could affect the timing or the extent of benefits we may expect to achieve from the system or any process efficiencies. Any such project delays, business interruptions or loss of expected benefits could have a material adverse effect on our business, financial condition or results of operations.

Any disruptions, delays or deficiencies in the design, operation or implementation of our IT systems, or in the performance of our systems, particularly any disruptions, delays or deficiencies that impact our operations, could adversely affect our ability to effectively run and manage our business, including our ability to receive, process, ship and bill for orders in a timely manner or our ability to properly manage our inventory or accurately present our inventory availability or pricing. We do not currently have a redundant or back-up telephone system, nor do we have complete redundancy for our management information systems. Any interruption, corruption, deficiency or delay in our management information systems, including those caused by natural disasters, could have a material adverse effect on our business, financial condition or results of operations.

**Changes and uncertainties in the economic climate could negatively affect the rate of information technology spending by our customers, which would likely have an impact on our business.**

An important element of our business strategy is to increasingly focus on SMB, MME and Public Sector sales. As a result of the ongoing economic uncertainties, the direction and relative strength of the U.S. economy remains a considerable risk to our business, operating results and financial condition. This economic uncertainty could also increase the risk of uncollectible accounts receivable from our customers. During the recent economic downturns in the U.S. and elsewhere, SMB, MME and Public Sector entities generally reduced, often substantially, their rate of information technology spending. Additionally, these recent weak economic conditions and consumer confidence resulted in a decline in consumer spending on technology and related consumer goods. Future changes and uncertainties in the economic climate in the U.S. and elsewhere could have a similar negative impact on the rate of information technology spending of our current and potential customers, which would likely have a negative impact on our business, operating results and financial condition, and could significantly hinder our growth and prevent us from achieving our financial performance goals.

**Our earnings and growth rate could be adversely affected by negative changes in economic or geopolitical conditions.**

We are subject to risks arising from adverse changes in domestic and global economic conditions and unstable geopolitical conditions. If economic growth in the United States and other countries' economies slows or declines, consumer and business spending rates could be significantly reduced. This could result in reductions in sales of our products, longer sales and payment cycles, slower adoption of new technologies and increased price competition, any of which could materially and adversely affect our business, results of operations and financial condition. Weak general economic conditions or uncertainties in geopolitical conditions, such as those currently occurring for example in the Middle East, could adversely impact our revenue, expenses and growth rate. In addition, our revenue, gross margins and earnings could deteriorate in the future as a result of unfavorable economic or geopolitical conditions.

**Our revenue is dependent on sales of products from a small number of key manufacturers, and a decline in sales of products from these manufacturers could materially harm our business.**

Our revenue is dependent on sales of products from a small number of key manufacturers and software publishers, including Apple, Cisco, HP, IBM, Lenovo, Microsoft and Dell. For example, products manufactured by Apple accounted for approximately 17% and 16% of our net sales in the three months ended September 30, 2012 and 2011. Products manufactured by HP represented 19% and 22% of our net sales in the three months ended September 30, 2012 and 2011. A decline in sales of any of our key manufacturers' products, whether due to decreases in supply of or demand for their products, termination of any of our agreements with them, or otherwise, could have a material adverse impact on our sales and operating results.

**Certain of our vendors provide us with incentives and other assistance that reduce our operating costs, and any decline in these incentives and other assistance could materially harm our operating results.**

Certain of our vendors, including Adobe, Apple, Cisco, Dell, HP, IBM, Ingram Micro, Lenovo, Microsoft and Tech Data, provide us with trade credit or substantial incentives in the form of discounts, credits and cooperative advertising and certain licenses to use their technology in the operation of our business at no or significantly reduced cost. We have agreements with many of our vendors under which they provide us, or they have otherwise consistently provided us, with market development funds to finance portions of our catalog publication and distribution costs based upon the amount of coverage we give to their respective products in our catalogs or other advertising mediums. Any termination or interruption of our relationships with one or more of these vendors, particularly Apple or HP, or modification of the terms or discontinuance of our agreements and market development fund programs and arrangements with these vendors, could adversely affect our operating income and cash flow. For example, the amount of vendor consideration we receive from a particular vendor may be impacted by a number of events outside of our control, including acquisitions, management changes or economic pressures affecting such vendor, any of which could materially affect the amount of vendor consideration we receive from such vendor.

**We do not have long-term supply agreements or guaranteed price or delivery arrangements with our vendors.**

In most cases we have no guaranteed price or delivery arrangements with our vendors. As a result, we have experienced and may in the future experience inventory shortages on certain products. Furthermore, our industry occasionally experiences significant product supply shortages and customer order backlogs due to the inability of certain manufacturers to supply certain products as needed. We cannot assure you that suppliers will maintain an adequate supply of products to fulfill our orders on a timely basis, or at all, or that we will be able to obtain particular products on favorable terms or at all. Additionally, we cannot assure you that product lines currently offered by suppliers will continue to be available to us. A decline in the supply or continued availability of the products of our vendors, or a significant increase in the price of those products, could reduce our sales and negatively affect our operating results.

**Substantially all of our agreements with vendors are terminable within 30 days.**

Substantially all of our agreements with vendors are terminable upon 30 days' notice or less. For example, while we are an authorized dealer for the full retail line of HP and Apple products, HP and Apple can terminate our dealer agreements upon 30 days' notice. Vendors that currently sell their products through us could decide to sell, or increase their sales of, their products directly or through other resellers or channels. Any termination, interruption or adverse modification of our relationship with a key vendor or a significant number of other vendors would likely adversely affect our operating income, cash flow and future prospects.

**Our success is dependent in part upon the ability of our vendors to develop and market products that meet changes in marketplace demand, as well as our ability to sell popular products from new vendors.**

The products we sell are generally subject to rapid technological change and related changes in marketplace demand. Our success is dependent in part upon the ability of our vendors to develop and market products that meet these changes in marketplace demand. Our success is also dependent on our ability to develop relationships with and sell products from new vendors that address these changes in marketplace demand. To the extent products that address changes in marketplace demand are not available to us, or are not available to us in sufficient quantities or on acceptable terms, we could encounter increased price and other competition, which would likely adversely affect our business, financial condition and results of operations.

**We may not be able to maintain existing or build new vendor relationships, which may affect our ability to offer a broad selection of products at competitive prices and negatively impact our results of operations.**

We purchase products for resale both directly from manufacturers and indirectly through distributors and other sources, all of whom we consider our vendors. We also maintain certain qualifications and preferred provider status with several of our vendors, which provides us with preferred pricing, vendor training and support, preferred access to products, and other significant benefits. While these vendor relationships are an important element of our business, we do not have long-term agreements with any of these vendors. Any agreements with vendors governing our purchase of products are generally terminable by either party upon 30 days' notice or less. In general, we agree to offer products through our catalogs and on our websites and the vendors agree to provide us with information about their products and honor our customer service policies. If we do not maintain our existing relationships or build new relationships with vendors on acceptable terms, including favorable product pricing and vendor consideration, we may not be able to offer a broad selection of products or continue to offer products at competitive prices. In addition, some vendors may decide not to offer particular products for sale on the Internet, and others may avoid offering their new products to retailers offering a mix of close-out and refurbished products in addition to new products. From time to time, vendors may be acquired by other companies, terminate our right to sell some or all of their products, modify or terminate our preferred provider or qualification status, change the applicable terms and conditions of sale or reduce or discontinue the incentives or vendor consideration that they offer us. Any such termination or the implementation of such changes, or our failure to build new vendor relationships, could have a negative impact on our operating results. Additionally, some products are subject to manufacturer or distributor allocation, which limits the number of units of those products that are available to us and may adversely affect our operating results.

**Narrow gross margins magnify the impact of variations in operating costs and of adverse or unforeseen events on operating results.**

We are subject to intense price competition with respect to the products, services and solutions we sell. As a result, our gross margins have historically been narrow, and we expect them to continue to be narrow. During the recent economic downturn, we experienced increasing price competition, which had a negative impact on our gross margins. Narrow gross margins magnify the impact of variations in operating costs and of adverse or unforeseen events on operating results. Future increases in costs such as the cost of merchandise, wage levels, shipping rates, freight costs and fuel costs may negatively impact our margins and profitability. We are not always able to raise the sales price to offset cost increases. If we are unable to maintain our gross margins in the future, it could have a material adverse effect on our business, financial condition or results of operations. In addition, because price is an important competitive factor in our industry, we cannot assure you that we will not be subject to increased price competition in the future. If we become subject to increased price competition in the future, we cannot assure you that we will not lose market share, that we will not be forced to reduce our prices and further reduce our gross margins, or that we will be able to compete effectively.

**We experience variability in our net sales and net income on a quarterly basis as a result of many factors.**

We experience variability in our net sales and net income on a quarterly basis as a result of many factors. These factors include:

- the general economic environment and competitive conditions, such as pricing;
- the timing of procurement cycles by our business, government and educational institution customers;
- seasonality in consumer spending;
- variability in vendor programs;
- the introduction of new products, services or solutions by us or our competitors;
- changes in prices from our suppliers;

- promotions;
- the loss or consolidation of significant suppliers or customers;
- our ability to control costs;
- the timing of our capital expenditures;
- the condition of our industry in general;
- seasonal shifts in demand for products, services or solutions we offer;
- consumer acceptance of new purchasing models such as our daily deals offerings and the use of social commerce to drive sales;
- industry announcements and market acceptance of new offerings or upgrades;
- deferral of customer orders in anticipation of new offerings;
- product or solution enhancements or operating system changes;
- the relative mix of products, services and solutions sold during the period;
- any inability on our part to obtain adequate quantities of products, services or solutions;
- delays in the release by suppliers of new products or solutions and inventory adjustments;
- our expenditures on new business ventures and acquisitions;
- performance of acquired businesses;
- adverse weather conditions that affect supply or customer response;
- distribution or shipping to our customers; and
- geopolitical events.

Our planned operating expenditures each quarter are based on sales forecasts for the quarter. If our sales do not meet expectations in any given quarter, our operating results for the quarter may be materially adversely affected. Our narrow gross margins may magnify the impact of these factors on our operating results. We believe that period-to-period comparisons of our operating results are not necessarily a good indication of our future performance. In addition, our results in any quarterly period are not necessarily indicative of results to be expected for a full fiscal year. In future quarters, our operating results may be below the expectations of public market analysts or investors and as a result the market price of our common stock could be materially adversely affected.

**Our focus on SMB, MME and Public Sector sales presents numerous risks and challenges, and may not improve our profitability or result in expanded market share.**

An important element of our business strategy is to focus on SMB, MME and Public Sector sales and related market share growth. In competing in these markets, we face numerous risks and challenges, including competition from a wider range of sources and the need to continually develop and enhance strategic relationships. We cannot assure you that our focus on SMB, MME and Public Sector sales will result in expanded market share or increased profitability. Furthermore, revenue from our public sector business is derived from sales to federal, state and local governmental departments and agencies, as well as to educational institutions, through various contracts and open market sales. Government contracting is a highly regulated area, and noncompliance with government procurement regulations or contract provisions could result in civil, criminal, and administrative liability, including substantial monetary fines or damages, termination of government contracts, and suspension, debarment or ineligibility from doing business with the government. The effect of any of these possible actions by any governmental department or agency with which we contract could adversely affect our business or results of operations. Moreover, contracting with governmental departments and agencies involves additional risks, such as longer payment terms, limited recourse against the government agency in the event of a business dispute, requirements that we provide representations, warranties and indemnities related to the products, services and solutions we sell, the potential lack of a limitation of our liability for damages from our product sales or our provision of services to the department or agency, and the potential for changes in statutory or regulatory provisions that negatively affect the profitability of such contracts. Similarly, our MME, and to some extent, our SMB businesses also require us to regularly enter into complex contractual relationships involving various risks and uncertainties such as requirements that we provide representations, warranties and indemnities to our customers and potential lack of limitation of our liability for damages under some of such contracts.

**Our investments in our outbound phone-based sales force model may not improve our profitability or result in expanded market share.**

We have made and are currently making efforts to increase our market share by investing in training and retention of our outbound phone-based sales force. We have also incurred, and expect to continue to incur, significant expenses resulting from infrastructure investments related to our outbound phone-based sales force. We cannot assure you that any of our investments in our outbound phone-based sales force will result in expanded market share or increased profitability in the near or long term.

**Our financial performance could be adversely affected if we are not able to retain and increase the experience of our sales force or if we are not able to maintain or increase their productivity.**

Our sales and operating results may be adversely affected if we are unable to increase the average tenure of our account executives or if the sales volumes and profitability achieved by our account executives do not increase with their increased experience.

**Existing or future government and tax laws and regulations and related risks could expose us to liabilities or costly changes in our business operations, and could reduce demand for our products and services.**

Based upon current interpretations of existing law, certain of our subsidiaries currently collect and remit sales or use tax only on sales of products or services to residents of the states in which the respective subsidiaries have a physical presence or have voluntarily registered for sales tax collection. The U.S. Supreme Court has ruled that states, absent Congressional legislation, may not impose tax collection obligations on an out-of-state direct marketer 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. However, we cannot predict the level of contact with any state which would give rise to future or past tax collection obligations. Additionally, it is possible that federal legislation could be enacted that would permit states to impose sales or use tax collection obligations on out-of-state direct marketers. Furthermore, court cases have upheld tax collection obligations on companies, including mail order companies, whose contacts with the taxing state were quite limited (e.g., visiting the state several times a year to aid customers or to inspect stores stocking their goods or to provide training or other support to customers in the state). States have also successfully imposed sales and use tax collection responsibility upon in-state manufacturers that agree to act as a drop shipper for the out-of-state marketer, giving rise to the risk that such taxes may be imposed indirectly on the out-of-state seller. We believe our operations in states in which we have no physical presence are different from the operations of the companies in those cases and are thus not subject to the tax collection obligations imposed by those decisions. Various state laws, regulations and taxing authorities have sought to impose on direct marketers with no physical presence in the taxing state the burden of collecting or reporting information related to state sales and use taxes on the sale of products shipped or services sold to those states' residents, and it is possible that such a requirement could be imposed in the future. For example, New York recently adopted an affiliate marketing statute and related regulations that impose sales and use tax collection obligations on out-of-state sellers that use certain web-based affiliate marketing relationships with web-based affiliates deemed to be located in New York. Other states have proposed similar legislation. There can be no assurance that existing or future laws that impose taxes or other regulations on direct marketing or Internet commerce would not substantially impair our growth or otherwise have a material adverse effect on our business, results or operations and financial condition.

In addition, we and our subsidiaries may be subject to state or local taxes on income or (in states such as Kentucky, Michigan, Ohio, Texas or Washington) on gross receipts or a similar measure earned in a state even though we and our subsidiaries may have no physical presence in the state. State and local governments may seek to impose such taxes in cases where they believe the taxpayer may have a significant economic presence by reason of significant sales to customers located in the states. The responsibility to pay income and gross receipts taxes has also been the subject of court actions and various legislative efforts. There can be no assurance that these taxes will not be imposed upon us and our subsidiaries.

We also are subject to general business laws and regulations, as well as laws and regulations specifically governing companies that do business over the Internet. These laws and regulations may cover taxation of eCommerce, user privacy, marketing and promotional practices (including electronic communications with our customers and potential customers), database protection, pricing, content, copyrights, distribution, electronic contracts and other communications, consumer protection, product safety, the provision of online payment services, copyrights, patents and other intellectual property rights, data security, unauthorized access (including the Computer Fraud and Abuse Act), and the characteristics and quality of products and services. Additionally, some of our subsidiaries which are government contractors or subcontractors are subject to laws and regulations of the federal government related to companies that sell to the federal government, including but not limited to regulations of the Department of Labor and laws and regulations related to our procurement of products and services and our sales to the government.

While we have sought to implement processes, programs and systems in an effort to achieve compliance with existing laws and regulations applicable to our business, many of these laws and regulations are unclear and have yet to be interpreted by courts, or may be subject to conflicting interpretations by courts. Further, no assurances can be given that new laws or regulations will not be enacted or adopted, or that our processes, programs and systems will be sufficient to comply with present or future laws or regulations, which might adversely affect our business, financial condition or results of operations.

Such existing and future laws and regulations may also impede our business. Additionally, it is not always clear how existing laws and regulations governing issues such as property ownership, sales and other taxes, libel, trespass, data mining and collection, data security and personal privacy, among other laws, apply to our businesses. Unfavorable resolution of these issues may expose us to liability and costly changes in our business operations, and could reduce customer demand for our products, services and solutions.

The growth and demand for online commerce has and may continue to result in more stringent consumer protection laws that impose additional compliance burdens on online companies. These consumer protection laws could result in substantial compliance costs and could decrease our profitability. Further, additional regulation of the Internet may lead to a decrease in Internet usage, which could adversely affect our business. Growing public concern about privacy and the collection, distribution and use of information about individuals may subject us to increased regulatory scrutiny or litigation. In the past, the FTC has investigated companies that have used personally identifiable information without permission or in violation of a stated privacy policy. If we are accused of violating the stated terms of our privacy policy or of data breach violations, we may face a loss of customers or damage to our reputation and may be forced to expend significant amounts of financial and managerial resources to defend against these accusations, face potential liability and be subject to extended regulatory oversight in the form of a long-term consent order.

Data security laws are also becoming more widespread and burdensome in the United States, and increasingly require notification of affected individuals and, in some instances, regulators. Moreover, third parties are engaging in increased cyber-attacks and other data theft efforts, and individuals are increasingly subjected to theft of identity, medical or credit card or other financial account information. In addition to risks we face from cyber attacks or data theft efforts directly targeted at our systems, we offer our products, services and solutions to companies, such as healthcare or financial institutions, under contracts which may expose us to significant liabilities for data breaches or losses which could arise out of or result from products, services or solutions we may sell to these institutions. There is a risk that we may fail to prevent such data theft or data breaches and that our customers or others may assert claims against us as a result. In addition, the FTC and state consumer protection authorities have brought a number of enforcement actions against U.S. companies for alleged deficiencies in those companies' data security practices, and they may continue to bring such actions. Enforcement actions, which may or may not be based upon actual cyber attacks or other breaches in data security, present an ongoing risk to us, could result in a loss of customers, damage to our reputation and monetary damages.

Additionally, although historically only a small percentage of our total sales in any given quarter or year are made to customers outside of the continental United States, there is a possibility that a foreign jurisdiction may take the position that our business is subject to its laws and regulations, which could impose restrictions or burdens on us and expose us to tax and other potential liabilities and could also require costly changes to our business operations with respect to those jurisdictions. In some cases, our sales related to foreign jurisdictions could also be subject to export control laws and foreign corrupt practice laws and there is a risk that we could face allegations from U.S. or foreign governmental authorities alleging our failure to comply with the requirements of such laws subjecting us to costly litigation and potential significant governmental penalties or fines.

**Part of our business strategy includes the acquisition of other companies, and we may have difficulties integrating acquired companies into our operations in a cost-effective manner, if at all.**

One element of our business strategy involves expansion through the acquisition of businesses, assets, personnel or technologies that allow us to complement our existing operations, expand our market coverage, or add new business capabilities. We continually evaluate and explore strategic opportunities as they arise, including business combination transactions, strategic partnerships, and the purchase or sale of assets. Our acquisition strategy depends on the availability of suitable acquisition candidates at reasonable prices and our ability to resolve challenges associated with integrating acquired businesses into our existing business. No assurance can be given that the benefits or synergies we may expect from the acquisition of companies or businesses will be realized to the extent or in the time frame we anticipate. We may lose key employees, customers, distributors, vendors and other business partners of the companies we acquire following and continuing after announcement of acquisition plans. In addition, acquisitions may involve a number of risks and difficulties, including expansion into new geographic markets and business areas, the diversion of management's attention to the operations and personnel of the acquired company, the integration of the acquired company's personnel, operations and management information (ERP) systems, changing relationships with customers, suppliers and strategic partners, and potential short-term adverse effects on our operating results. These challenges can be magnified as the size of the acquisition increases. Any delays or unexpected costs incurred in connection with the integration of acquired companies or otherwise related to the acquisitions could have a material adverse effect on our business, financial condition and results of operations.

Acquisitions may require large one-time charges and can result in increased debt or other contingent liabilities, adverse tax consequences, deferred compensation charges, the recording and later amortization of amounts related to deferred compensation and certain purchased intangible assets, and the refinement or revision of fair value acquisition estimates following the completion of acquisitions, any of which items could negatively impact our business, financial condition and results of operations. In addition, we may record goodwill in connection with an acquisition and incur goodwill impairment charges in the future. Any of these charges could cause the price of our common stock to decline.

An acquisition could absorb substantial cash resources, require us to incur or assume debt obligations, or involve our issuance of additional equity securities. If we issue equity securities in connection with an acquisition, we may dilute our common stock with securities that have an equal or a senior interest in our company. If we incur additional debt to pay for an acquisition, it may significantly reduce amounts that would otherwise be available under our credit facility, increase our interest expense, leverage and debt service requirements and could negatively impact our ability to comply with applicable financial covenants in our credit facility or limit our ability to obtain credit from our vendors. Acquired entities also may be highly leveraged or dilutive to our earnings per share, or may have unknown liabilities. In addition, the combined entity may have lower revenues or higher expenses and therefore may not achieve the anticipated results. Any of these factors relating to acquisitions could have a material adverse impact on our business, financial condition and results of operations.

We cannot assure you that we will be able to consummate any pending or future acquisitions or that we will realize any anticipated benefits from these acquisitions. We may not be able to find suitable acquisition opportunities that are available at attractive valuations, if at all. Even if we do find suitable acquisition opportunities, we may not be able to consummate the acquisitions on commercially acceptable terms, and any decline in the price of our common stock may make it significantly more difficult and expensive to initiate or consummate additional acquisitions. We cannot assure you that we will be able to implement or sustain our acquisition strategy or that our strategy will ultimately prove profitable.

**If goodwill or intangible assets become impaired, we may be required to record a significant charge to earnings.**

The purchase price allocation for our historical acquisitions resulted in a material amount allocated to goodwill and intangible assets. In accordance with GAAP, we review our intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. We review the fair values of our goodwill and intangible assets with indefinite useful lives and test them for impairment annually or whenever events or changes in circumstances indicate an impairment may have occurred. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill or intangible assets may not be recoverable include a decline in stock price and market capitalization, reduced future cash flow estimates, and slower growth rates in our industry. We may be required to record a significant non-cash charge to earnings in our consolidated financial statements during the period in which any impairment of our goodwill or intangible assets is determined, which could have a material adverse effect on our results of operations.

Significant negative industry or economic trends, including decreases in our market capitalization, slower growth rates or lack of growth in our business, resulted in write-downs and impairment charges in fiscal 2008 and 2011. While no such write-downs or charges occurred in fiscal 2009 or fiscal 2010, if such occur in the future it may indicate that additional impairment charges are required. If we are required to record additional impairment charges, this could have a material adverse effect on our consolidated financial statements. In addition, the testing of goodwill for impairment requires us to make significant estimates about the future performance and cash flows of our company, as well as other assumptions. These estimates can be affected by numerous factors, including changes in economic, industry or market conditions, changes in underlying business operations, future reporting unit operating performance, existing or new product market acceptance, changes in competition, or changes in technologies. Any changes in key assumptions, or actual performance compared with those assumptions, about our business and future prospects or other assumptions could affect the fair value of one or more reporting units, resulting in an impairment charge.

**We may not be able to maintain profitability on a quarterly or annual basis.**

Our ability to maintain profitability on a quarterly or annual basis given our planned business strategy depends upon a number of factors, including but not limited to our ability to achieve and maintain vendor relationships, procure merchandise and fulfill orders in an efficient manner, leverage our fixed cost structure, maintain adequate levels of vendor consideration and price protection, maintain a well-balanced product and customer mix, maintain customer acquisition costs and shipping costs at acceptable levels, and our ability to effectively compete in the marketplace with our competitors. Our ability to maintain profitability on a quarterly or annual basis will also depend on our ability to manage and control operating expenses and to generate and sustain adequate levels of revenue. Many of our expenses are fixed in the short term, and we may not be able to quickly reduce spending if our revenue is lower than what we project. In addition, we may find that our business plan costs more

to execute than what we currently anticipate. We recently commenced initiatives aimed at reducing our overhead expenses in connection with our efforts to streamline and unify our brand strategy. No assurance can be given that the cost savings expected from these initiatives will have a lasting effect or will in fact result in the level of savings we anticipate. Some of the factors that affect our ability to maintain profitability on a quarterly or annual basis are beyond our control, including general economic trends and uncertainties.

**The effect of accounting rules for stock-based compensation may materially adversely affect our consolidated operating results, our stock price and our ability to hire, retain and motivate employees.**

We use employee stock options and other stock-based compensation to hire, retain and motivate certain of our employees. Current accounting rules require us to measure compensation costs for all stock-based compensation (including stock options) at fair value as of the date of grant and to recognize these costs as expenses in our consolidated statements of operations. The recognition of non-cash stock-based compensation expenses in our consolidated statements of operations has had and will likely continue to have a negative effect on our consolidated operating results, including our net income and earnings per share, which could negatively impact our stock price. Additionally, if we reduce or alter our use of stock-based compensation to reduce these expenses and their impact, our ability to hire, motivate and retain certain employees could be adversely affected and we may need to increase the cash compensation we pay to these employees.

**Our operating results are difficult to predict and may adversely affect our stock price.**

Our operating results have fluctuated in the past and are likely to vary significantly in the future based upon a number of factors, many of which we cannot control. We operate in a highly dynamic industry and future results could be subject to significant fluctuations. These fluctuations could cause us to fail to meet or exceed financial expectations of investors or analysts, which could cause our stock price to decline rapidly and significantly. Revenue and expenses in future periods may be greater or less than revenue and expenses in the immediately preceding period or in the comparable period of the prior year. Therefore, period-to-period comparisons of our operating results are not necessarily a good indication of our future performance. Some of the factors that could cause our operating results to fluctuate include:

- the amount and timing of operating costs and capital expenditures relating to any expansion of our business operations and infrastructure;
- price competition that results in lower sales volumes, lower profit margins, or net losses;
- the availability of vendor programs, authorizations or certifications;
- our ability to attract and retain key personnel and the related costs;
- the amount and timing of advertising and marketing costs;
- our ability to successfully integrate operations and technologies from any past or future acquisitions or other business combinations;
- revisions or refinements of fair value estimates relating to acquisitions or other business combinations;
- changes in the number of visitors to our websites or our inability to convert those visitors into customers;
- technical difficulties, including system or Internet failures;
- fluctuations in the demand for our products, services or solutions or overstocking or under-stocking of our products;
- introduction of new or enhanced products, services or solutions by us or our competitors;
- fluctuations in shipping costs, particularly during the holiday season;
- changes in the amounts of information technology spending by our customers;
- economic conditions;
- foreign currency exchange rates;
- changes in the mix of products, services or solutions that we sell;
- fluctuations in levels of inventory theft, damage or obsolescence that we incur; and
- fluctuations in mail-in rebate redemption rates.

**If we fail to accurately predict our inventory risk, our gross margins may decline as a result of required inventory write downs due to lower prices obtained from older or obsolete products.**

We derive a significant amount of our gross sales from products sold out of inventory at our distribution facilities. We assume the inventory damage, theft and obsolescence risks, as well as price erosion risks for products that are sold out of inventory stocked at our distribution facilities. These risks are especially significant because many of the products we sell are characterized by rapid technological change, obsolescence and price erosion (e.g., computer hardware, software and consumer electronics), and because our distribution facilities sometimes stock large quantities of particular types of inventory. There can be no assurance that we will be able to identify and offer products necessary to remain competitive, maintain our gross margins, or avoid or minimize losses related to excess and obsolete inventory. We currently have limited return rights with respect to products we purchase from Apple, HP and certain other vendors, but these rights vary by product line, are subject to specified conditions and limitations, and can be terminated or changed at any time.

**We may need additional financing and may not be able to raise additional financing on favorable terms or at all, which could increase our costs, limit our ability to grow and dilute the ownership interests of existing stockholders.**

We require substantial working capital to fund our business. We believe that our current working capital, including our existing cash balance, together with our expected future cash flows from operations and available borrowing capacity under our existing credit facility, which functions as a working capital line of credit, will be adequate to support our current operating plans for at least the next twelve months. However, if we need additional financing, such as for acquisitions or expansion of our business or the businesses of our subsidiaries or to finance our operations during a significant downturn in sales or an increase in operating expenses, there are no assurances that adequate financing will be available on acceptable terms, if at all. We may in the future seek additional financing from public or private debt or equity financings to fund additional expansion, or take advantage of strategic opportunities or favorable market conditions. There can be no assurance such financings will be available on terms favorable to us or at all. To the extent any such financings involve the issuance of equity securities, existing stockholders could suffer dilution. If we raise additional financing through the issuance of equity, equity-related or debt securities, those securities may have rights, preferences or privileges senior to those of the rights of our common stock and our stockholders will experience dilution of their ownership interests. If additional financing is required but not available, we would have to implement further measures to conserve cash and reduce costs. However, there is no assurance that such measures would be successful. Our failure to raise required additional financing could adversely affect our ability to maintain, develop or enhance our product offerings, take advantage of future strategic opportunities, respond to competitive pressures or continue operations.

Recently, there were substantial disruptions in the capital and credit markets related to the global economic environment. While we were recently able to renew our credit facility on terms acceptable to us, economic volatility and geopolitical uncertainty could result in further disruptions of the capital and credit markets. Problems in these areas could have a negative impact on our ability to obtain future financing if we need additional funds, such as for acquisitions or expansion, to fund changes in our sales or an increase in our operating expenses, or to take advantage of strategic opportunities or favorable market conditions. We may seek additional financing from public or private debt or equity issuances; however, there can be no assurance that such financing will be available at acceptable terms, if at all. Also, there can be no assurance that the cost or availability of future borrowings, if any, under our credit facility or in the debt markets will not be impacted by disruptions in the capital and credit markets.

**Rising interest rates could negatively impact our results of operations and financial condition.**

A significant portion of our working capital requirements has historically been funded through borrowings under our credit facility, which functions as a working capital line of credit and bears interest at variable rates, tied to the LIBOR or prime rate. In connection with and as part of the line of credit, we also entered into a term note, bearing interest at the same rate as our credit facility. We have also entered into financing arrangements with variable interest rates in connection with our acquisition of real property. If the variable interest rates on our borrowings increase, we could incur greater interest expense than we have in the past. Rising interest rates, and our increased interest expense that would result from them, could negatively impact our results of operations and financial condition.

**We may be subject to claims regarding our intellectual property, including our business processes, or the products, services or solutions we sell, any of which could result in expensive litigation, distract our management or force us to enter into costly royalty or licensing agreements.**

Third parties have asserted, and may in the future assert, that our business or the technologies we use or sell infringe on their intellectual property rights. As a result, we may be subject to intellectual property legal proceedings and claims in the ordinary course of our business. We cannot predict whether third parties will assert additional claims of infringement against us in the future or whether any future claims will prevent us from offering popular products or operating our business as planned. If we are forced to defend against any third-party infringement claims, whether they are with or without merit or are determined in our favor, we could face expensive and time-consuming litigation, which could result in the imposition of a preliminary injunction preventing us from continuing to operate our business as currently conducted throughout the duration of the litigation or distract our technical and management personnel. If we are found to infringe, we may be required to pay monetary damages, which could include treble damages and attorneys' fees for any infringement that is found to be willful, and either be enjoined or required to pay ongoing royalties with respect to any technologies found to infringe. Further, as a result of infringement claims either against us or against those who license technology to us, we may be required, or deem it advisable, to develop non-infringing technology, which could be costly and time consuming, or enter into costly royalty or licensing agreements. Such royalty or licensing agreements, if required, may be unavailable on terms that are acceptable to us, or at all. If a third party

successfully asserts an infringement claim against us and we are enjoined or required to pay monetary damages or royalties or we are unable to develop suitable non-infringing alternatives or license the infringed or similar technology on reasonable terms on a timely basis, our business, results of operations and financial condition could be materially harmed. Similarly, we may be required incur substantial monetary and diverted resource costs in order to protect our intellectual property rights against infringement by others.

Furthermore, we sell products and solutions manufactured and distributed by third parties, some of which may be defective. If any product or solution that we sell were to cause physical injury or damage to property, the injured party or parties could bring claims against us as the retailer of the product or solution. Our insurance coverage may not be adequate to cover every claim that could be asserted. If a successful claim were brought against us in excess of our insurance coverage, it could expose us to significant liability. Even unsuccessful claims could result in the expenditure of funds and management time and could decrease our profitability.

**Costs and other factors associated with pending or future litigation could materially harm our business, results of operations and financial condition.**

From time to time we receive claims and become subject to litigation, including consumer protection, employment, intellectual property and other litigation related to the conduct of our business. Additionally, we may from time to time institute legal proceedings against third parties to protect our interests. Any litigation that we become a party to could be costly and time consuming and could divert our management and key personnel from our business operations. In connection with any such litigation, we may be subject to significant damages or equitable remedies relating to the operation of our business and could incur significant costs in asserting, defending, or settling any such litigation. We cannot determine with any certainty the costs or outcome of pending or future litigation. Any such litigation may materially harm our business, results of operations or financial condition.

**We may fail to expand our product, services and solutions categories and offerings or our websites or our processing systems in a cost-effective and timely manner as may be required to efficiently operate our business.**

We may be required to expand or change our product, services and solutions categories or offerings, our websites or our processing systems in order to compete in our highly competitive and rapidly changing industry or to efficiently operate our business. Any failure on our part to expand or change the way we do business in a cost-effective and timely manner in response to any such requirements would likely adversely affect our operating results, financial condition or future prospects. Additionally, we cannot assure you that we will be successful in implementing any such changes when and if they are required.

We have generated substantial portions of our revenue in the past from the sale of computer hardware, software and accessories and consumer electronics products. Expansion into new product, service and solutions categories, including for example our efforts to grow our value-added services and solutions, may require us to incur significant marketing expenses, develop relationships with new vendors and comply with new regulations. We may lack the necessary expertise in a new category to realize the expected benefits of that new category. These requirements could strain our managerial, financial and operational resources. Additional challenges that may affect our ability to expand into new product, service or solutions categories include our ability to:

- establish or increase awareness of our new brands and product, service and solutions categories;
- acquire, attract and retain customers at a reasonable cost;
- achieve and maintain a critical mass of customers and orders across all of our product categories;
- attract a sufficient number of new customers to whom any new categories and offerings are targeted;
- successfully market our new categories or offerings to existing customers;
- maintain or improve our gross margins and fulfillment costs;
- attract and retain vendors to provide expanded lines of products, services or solutions to our customers on terms that are acceptable to us; and
- manage our inventory in new product categories.

We cannot be certain that we will be able to successfully address any or all of these challenges in a manner that will enable us to expand our business into new categories in a cost-effective or timely manner. If our new categories are not received favorably, or if our suppliers fail to meet our customers' expectations, our results of operations would suffer and our reputation and the value of the applicable new brand and our other brands could be damaged. The lack of market acceptance of our new categories or our inability to generate satisfactory revenue from any such expanded offerings to offset their cost could harm our business, financial condition or results of operations.

**We may not be able to attract and retain key personnel such as senior management, sales, services and solutions personnel or information technology specialists.**

Our future performance will depend to a significant extent upon the efforts and abilities of certain key management and other personnel, including Frank F. Khulusi, our Chairman of the Board and Chief Executive Officer, as well as other executive officers and senior management. The loss of service of one or more of our key management members could have a material adverse effect on our business. Our success and plans for future growth will also depend in part on our management's continuing ability to hire, train and retain skilled personnel in all areas of our business such as sales, service and solutions personnel and IT personnel. For example, our management information systems and processes require the services of employees with extensive knowledge of these systems and processes and the business environment in which we operate, and in order to successfully implement and operate our systems and processes we must be able to attract and retain a significant number of information technology specialists. We may not be able to attract, train and retain the skilled personnel required to, among other things, implement, maintain, and operate our information systems and processes, and any failure to do so would likely have a material adverse effect on our operations.

**If we fail to achieve and maintain adequate internal controls, we may not be able to produce reliable financial reports in a timely manner or prevent financial fraud.**

We monitor and periodically test our internal control procedures. We may from time to time identify deficiencies which we may not be able to remediate in a timely or cost-effective manner. In addition, if we fail to achieve and maintain the adequacy of our internal controls, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting. Effective internal controls, particularly those related to revenue recognition, are necessary for us to produce reliable financial reports and are important in helping prevent financial fraud. If we cannot provide reliable financial reports on a timely basis or prevent financial fraud, our business and operating results could be harmed, investors could lose confidence in our reported financial information, and the trading price of our stock could drop significantly.

**Any inability to effectively manage our growth may prevent us from successfully expanding our business.**

The growth of our business has required us to make significant additions in personnel and has significantly increased our working capital requirements. Although we have experienced significant sales growth in the past, such growth should not be considered indicative of future sales growth. Such growth has resulted in new and increased responsibilities for our management personnel and has placed and continues to place significant strain upon our management, operating and financial systems, and other resources. Any future growth, whether organic or through acquisition, may result in increased strain. There can be no assurance that current or future strain will not have a material adverse effect on our business, financial condition, and results of operations, nor can there be any assurance that we will be able to attract or retain sufficient personnel to continue the expansion of our operations. Also crucial to our success in managing our growth will be our ability to achieve additional economies of scale. We cannot assure you that we will be able to achieve such economies of scale, and the failure to do so could have a material adverse effect upon our business, financial condition or results of operations.

**Our advertising and marketing efforts may be costly and may not achieve desired results.**

We incur substantial expense in connection with our advertising and marketing efforts. Although we target our advertising and marketing efforts on current and potential customers who we believe are likely to be in the market for the products we sell, we cannot assure you that our advertising and marketing efforts will achieve our desired results. In 2012, we expect to begin the process of unifying our commercial brands. While we believe this unification will lead to an improved customer experience, operational synergies and benefits to all of our stakeholders, we are unable to quantify any synergies or expected costs related to our rebranding strategy. In addition, we periodically adjust our advertising expenditures in an effort to optimize the return on such expenditures. Any decrease in the level of our advertising expenditures which may be made to optimize such return could adversely affect our sales.

**We are exposed to the credit risk of some of our customers and to credit exposures in weakened markets, which could negatively impact our business, operating results and financial condition.**

Business customers who qualify are provided credit terms and while we monitor individual customer payment capability and maintain reserves we believe are adequate to cover exposure for doubtful accounts, we have exposure to credit risk in the event that customers fail to meet their payment obligations. Additionally, to the degree that the ongoing tightness in the credit markets makes it more difficult for some customers to obtain financing, those customers' ability to meet their payment obligations to us could be adversely impacted, which in turn could have a material adverse impact on our business, operating results, and financial condition.

**Increased product returns or a failure to accurately predict product returns could decrease our revenue and impact profitability.**

We make allowances for product returns in our consolidated financial statements based on historical return rates. We are responsible for returns of certain products ordered through our catalogs and websites from our distribution center, as well as products that are shipped to our customers directly from our vendors. If our actual product returns significantly exceed our allowances for returns, our revenue and profitability could decrease. In addition, because our allowances are based on historical return rates, the introduction of new merchandise categories, new products, changes in our product mix, or other factors may cause actual returns to exceed return allowances, perhaps significantly. In addition, any policies that we adopt that are intended to reduce the number of product returns may result in customer dissatisfaction and fewer repeat customers.

**Our business may be harmed by fraudulent activities on our websites, including fraudulent credit card transactions.**

We have received in the past, and anticipate that we will receive in the future, communications from customers due to purported fraudulent activities on our websites, including fraudulent credit card transactions. Negative publicity generated as a result of fraudulent conduct by third parties could damage our reputation and diminish the value of our brand name. Fraudulent activities on our websites could also subject us to losses and could lead to scrutiny from lawmakers and regulators regarding the operation of our websites. We expect to continue to receive requests from customers for reimbursement due to purportedly fraudulent activities or threats of legal action against us if no reimbursement is made.

**We may be liable for misappropriation of our customers' personal information.**

If third parties or our employees are able to penetrate our network security or otherwise misappropriate our customers' personal information or credit card information, or such information for which our customers may be responsible and for which we agree to be responsible in connection with service contracts we may enter, or if we give third parties or our employees improper access to any such personal information or credit card information, we could be subject to liability. This liability could include claims for unauthorized purchases with credit card information, identity theft or other similar fraud-related claims. This liability could also include claims for other misuses of personal information, including for unauthorized marketing purposes. Other liability could include claims alleging misrepresentation or our privacy and data security practices. Any such liability for misappropriation of this information could decrease our profitability. In addition, the Federal Trade Commission and state agencies have been investigating various Internet companies regarding whether they misused or inadequately secured personal information regarding consumers. We could incur additional expenses if new laws or regulations regarding the use of personal information are introduced or if government agencies investigate our privacy practices.

We seek to rely on encryption and authentication technology licensed from third parties to provide the security and authentication necessary to effect secure online transmission of confidential information such as customer credit card numbers. Advances in computer capabilities, new discoveries in the field of cryptography or other events or developments may result in a compromise or breach of the algorithms that we use to protect sensitive customer transaction data. A party who is able to circumvent our security measures could misappropriate proprietary information or cause interruptions in our operations. We may be required to expend significant capital and other resources to protect against such security breaches or to alleviate problems caused by such breaches. Our security measures are designed to protect against security breaches, but our failure to prevent such security breaches could cause us to incur significant expense to investigate and respond to a security breach and correct any problems caused by any breach, subject us to liability, damage our reputation and diminish the value of our brand-name.

**Laws or regulations relating to privacy and data protection may adversely affect the growth of our Internet business or our marketing efforts.**

We mail catalogs and send electronic messages to names in our proprietary customer database and to potential customers whose names we obtain from rented or exchanged mailing lists. Worldwide public concern regarding personal privacy has subjected the rental and use of customer mailing lists and other customer information to increased scrutiny and regulation. As a result, we are subject to increasing regulation relating to privacy and the use of personal information. For example, we are subject to various telemarketing and anti-spam laws that regulate the manner in which we may solicit future suppliers and customers. Such regulations, along with increased governmental or private enforcement, may increase the cost of operating and growing our business. In addition, several states have proposed legislation that would limit the uses of personal information

gathered online or require online services to establish privacy policies. The Federal Trade Commission has adopted regulations regarding the collection and use of personal identifying information obtained from children under 13 years of age. Bills proposed in Congress would expand online privacy protections already provided to adults. Moreover, both in the United States and elsewhere, laws and regulations are becoming increasingly protective of consumer privacy, with a trend toward requiring companies to establish procedures to notify users of privacy and security policies, to obtain consent from users for collection and use of personal information, and to provide users with the ability to access, correct and delete personal information stored by companies. Such privacy and data protection laws and regulations, and efforts to enforce such laws and regulations, may restrict our ability to collect, use or transfer demographic and personal information from users, which could be costly or harm our marketing efforts. Further, any violation of domestic or foreign privacy or data protection laws and regulations, including the national do-not-call list, may subject us to fines, penalties and damages, which could decrease our revenue and profitability.

**The security risks of eCommerce may discourage customers from purchasing products, services or solutions from us.**

In order for the eCommerce market to be successful, we and other market participants must be able to transmit confidential information securely over public networks. Third parties may have the technology or know-how to breach the security of customer transaction data. Any breach could cause customers to lose confidence in the security of our websites and choose not to purchase from our websites. If someone is able to circumvent our security measures, he or she could destroy or steal valuable information or disrupt our operations. Concerns about the security and privacy of transactions over the Internet could inhibit the growth of Internet usage and eCommerce. Our security measures may not effectively prohibit others from obtaining improper access to our information. Any security breach could expose us to risks of loss, litigation and liability and could seriously damage our reputation, disrupt our operations and require the devotion of significant management, financial and other resources to remedy the breach and comply with applicable notice and other legal requirements in connection therewith.

**Credit card fraud could decrease our revenue and profitability.**

We do not carry insurance against the risk of credit card fraud, so the failure to adequately control fraudulent credit card transactions could reduce our revenues or increase our operating costs. We may in the future suffer losses as a result of orders placed with fraudulent credit card data even though the associated financial institution approved payment of the orders. Under current credit card practices, we may be liable for fraudulent credit card transactions. If we are unable to detect or control credit card fraud, or if credit card companies require more burdensome terms or refuse to accept credit card charges from us, our revenue and profitability could decrease.

**Our facilities and systems are vulnerable to natural disasters or other catastrophic events.**

Our headquarters, customer service center and a part of our infrastructure, including computer servers, are located near Los Angeles, California and in other areas that are susceptible to earthquakes, floods, severe weather and other natural disasters. Our distribution facilities, which are located in Memphis, Tennessee, Irvine, California and Lewis Center, Ohio, house the product inventory from which a substantial majority of our orders are shipped, and are also in areas that are susceptible to natural disasters and extreme weather conditions such as earthquakes, fire, floods and major storms. Our operations in the Philippines are also in an area that is periodically subject to extreme weather. A natural disaster or other catastrophic event, such as an earthquake, fire, flood, severe storm, break-in, terrorist attack or other comparable events in the areas in which we operate could cause interruptions or delays in our business and loss of data or render us unable to accept and fulfill customer orders in a timely manner, or at all. Our systems, including our management information systems, websites and telephone system, are not fully redundant, and we do not have redundant geographic locations or earthquake insurance. Further, California periodically experiences power outages as a result of insufficient electricity supplies. These outages may recur in the future and could disrupt our operations. We currently are in process of developing a formal disaster recovery plan and certain of our subsidiaries have geographical redundancies for web and critical information systems. Our business interruption insurance may not adequately compensate us for losses that may occur.

**We rely on independent shipping companies to deliver the products we sell.**

We rely upon third party carriers, especially FedEx and UPS, for timely delivery of our product shipments. As a result, we are subject to carrier disruptions and increased costs due to factors that are beyond our control, including employee strikes, inclement weather and increased fuel costs. Any failure to deliver products to our customers in a timely and accurate manner may damage our reputation and brand and could cause us to lose customers. We do not have a written long-term agreement with any of these third party carriers, and we cannot be sure that these relationships will continue on terms favorable to us, if at all. If our relationship with any of these third party carriers is terminated or impaired, or if any of these third parties are unable to deliver products for us, we would be required to use alternative carriers for the shipment of products to our customers. We may be unable to engage alternative carriers on a timely basis or on terms favorable to us, if at all. Potential adverse consequences include:

- reduced visibility of order status and package tracking;
- delays in order processing and product delivery;
- increased cost of delivery, resulting in reduced margins; and
- reduced shipment quality, which may result in damaged products and customer dissatisfaction.

Furthermore, shipping costs represent a significant operational expense for us. Any future increases in shipping rates could have a material adverse effect on our business, financial condition and results of operations.

**We may not be able to compete successfully against existing or future competitors, which include some of our largest vendors.**

The business of direct marketing of the products, services and solutions we sell is highly competitive and driven in large part by price, product, service and solutions availability, speed and accuracy of delivery and performance, effectiveness of sales and marketing programs, credit availability, ability to tailor specific solutions to customer needs, quality and breadth of product lines and services, availability of talented sales and service personnel and the availability of technical information. We compete with other direct marketers, including CDW, Insight Enterprises and PC Connection. In addition, we compete with large value added resellers such as CompuCom Systems and World Wide Technology, and computer retail stores and resellers, including superstores such as Best Buy and Staples, certain hardware and software vendors such as Apple and Dell Computer that sell or are increasing sales directly to end users, online resellers such as Amazon.com, Newegg.com and TigerDirect.com, government resellers such as GTSI, CDWG and GovConnection, software focused resellers such as Soft Choice and Software House International and other direct marketers and value added resellers of hardware, software and computer-related and electronic products. Our daily deals offerings compete with larger market participants such as Groupon and LivingSocial. In the direct marketing, daily deal and Internet retail industries, barriers to entry are relatively low and the risk of new competitors entering the market is high. Certain of our existing competitors have substantially greater financial resources than we have. There can be no assurance that we will be able to continue to compete effectively against existing competitors, consolidations of competitors or new competitors that may enter the market.

Furthermore, the manner in which our products, services and solutions are distributed and sold is changing, and new methods of sale and distribution have emerged and serve an increasingly large portion of the market. Computer hardware and software OEM vendors have sold, and may intensify their efforts to sell, their products directly to end users. From time to time, certain OEM vendors, including Apple and HP, have instituted programs for the direct sale of large quantities of hardware and software to certain large business accounts. These types of programs may continue to be developed and used by various OEM vendors. Software publishers also may attempt to increase the volume of software products distributed electronically directly to end users' personal computers. Any of these competitive programs, if successful, could have a material adverse effect on our business, financial condition or results of operations.

**Our success is tied to the continued use of the Internet and the adequacy of the Internet infrastructure.**

The level of sales generated from our websites, both in absolute terms and as a percentage of our net sales, continues to be material to our operating results. Our Internet sales are dependent upon customers continuing to use the Internet in addition to traditional means of commerce to purchase products and services. Widespread use of the Internet could decline as a result of disruptions, computer viruses, data security threats, privacy issues or other damage to Internet servers or users' computers. If consumer use of the Internet to purchase products, services or solutions declines in any significant way, our business, financial condition and results of operations could be adversely affected.

**The success of our Canadian call center is dependent, in part, on our receipt of government labor credits.**

We maintain a Canadian call center serving the U.S. market, which has historically received the benefit of labor credits under a Canadian government program. In 2007, we received an eligibility certificate to participate in the Investment Quebec Refundable Tax Credit for Major Employment Generating Projects (GPCE), replacing the prior government subsidy program which ended at the end of 2007. In addition to other eligibility requirements under the replacement program, which extends through fiscal year 2016, we will be required to maintain a minimum of 317 eligible employees employed by our subsidiary PC Mall Canada, Inc. in the province of Quebec at all times to remain eligible to apply annually for these labor credits. The success of our Canadian call center is dependent, in part, on our receipt of the government labor credits we expect to receive. If we do not receive these expected labor credits, or a sufficient portion of them, the costs of operating our Canadian call center may exceed the benefits it provides us and our operating results would likely suffer.

**We are exposed to the risks of business and other conditions in the Asia Pacific region.**

All or portions of certain of the products we sell are produced, or have major components produced, in the Asia Pacific region. We engage in U.S. dollar denominated transactions with U.S. divisions and subsidiaries of companies located in that region as well. As a result, we may be indirectly affected by risks associated with international events, including economic and labor conditions, political instability, tariffs and taxes, availability of products, natural disasters and currency fluctuations in the U.S. dollar versus the regional currencies. In the past, countries in the Asia Pacific region have experienced volatility in their currency, banking and equity markets. Future volatility could adversely affect the supply and price of the products we sell and their components and ultimately, our results of operations.

We maintain an office in the Philippines and we may increase these and other offshore operations in the future. Establishing offshore operations may entail considerable expense before we realize cost savings, if any, from these initiatives. Our limited operating history in the Philippines, as well as the risks associated with doing business overseas and international events, could prevent us from realizing the expected benefits from our Philippines operations or any other offshore operations that we establish.

**The increasing significance of our foreign operations exposes us to risks that are beyond our control and could affect our ability to operate successfully.**

In order to enhance the cost-effectiveness of our operations, we have increasingly sought to shift portions of our operations to jurisdictions with lower cost structures than that available in the United States. The transition of even a portion of our business operations to new facilities in a foreign country involves a number of logistical and technical challenges that could result in operational interruptions, which could reduce our revenues and adversely affect our business. We may encounter complications associated with the set-up, migration and operation of business systems and equipment in a new facility. This could result in disruptions that could damage our reputation and otherwise adversely affect our business and results of operations.

To the extent that we shift any operations or labor offshore to jurisdictions with lower cost structures, we may experience challenges in effectively managing those operations as a result of several factors, including time zone differences and regulatory, legal, cultural and logistical issues. Additionally, the relocation of labor resources may have a negative impact on our existing employees, which could negatively impact our operations. If we are unable to effectively manage our offshore personnel and any other offshore operations, our business and results of operations could be adversely affected.

We cannot be certain that any shifts in our operations to offshore jurisdictions will ultimately produce the expected cost savings. We cannot predict the extent of government support, availability of qualified workers, future labor rates, or monetary and economic conditions in any offshore locations where we may operate. Although some of these factors may influence our decision to establish or increase our offshore operations, there are inherent risks beyond our control, including:

- political unrest or uncertainties;
- wage inflation;
- exposure to foreign currency fluctuations;
- tariffs and other trade barriers; and
- foreign regulatory restrictions and unexpected changes in regulatory environments.

We will likely be faced with competition in these offshore markets for qualified personnel, and we expect this competition to increase as other companies expand their operations offshore. If the supply of such qualified personnel becomes limited due to increased competition or otherwise, it could increase our costs and employee turnover rates. One or more of these factors or other factors relating to foreign operations could result in increased operating expenses and make it more difficult for us to manage our costs and operations, which could cause our operating results to decline and result in reduced revenues.

**International operations expose us to currency exchange risk and we cannot predict the effect of future exchange rate fluctuations on our business and operating results.**

We have operation centers in Canada and the Philippines that provide back-office administrative support and customer service support. Our international operations are sensitive to currency exchange risks. We have currency exposure arising from both sales and purchases denominated in foreign currencies, as well as intercompany transactions. Significant changes in exchange rates between foreign currencies in which we transact business and the U.S. dollar may adversely affect our results of operations and financial condition. Historically, we have not entered into any hedging activities, and, to the extent that we continue not to do so in the future, we may be vulnerable to the effects of currency exchange-rate fluctuations.

In addition, our international operations also expose us to currency fluctuations as we translate the financial statements of our foreign operations to the U.S. dollar. Although the effect of currency fluctuations on our financial statements has not generally been material in the past, there can be no guarantee that the effect of currency fluctuations will not be material in the future.

**We are subject to risks associated with consolidation within our industry.**

Many technology resellers are consolidating operations and acquiring or merging with other resellers, direct marketers and providers of information technology solutions to achieve economies of scale, expanded product and service offerings, 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 us to maintain our 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 us to sell a greater number of products, services or solutions to achieve the same level of net sales and gross profit. Such a trend could make it more difficult for us to continue to increase our net sales and earnings growth. In addition, growth in the information technology market has slowed. If the growth rate of the information technology market were to further decrease, our business, financial condition and operating results could be materially adversely affected.

**If we are unable to provide satisfactory customer service, we could lose customers or fail to attract new customers.**

Our ability to provide satisfactory levels of customer service depends, to a large degree, on the efficient and uninterrupted operation of our customer service operations. Any material disruption or slowdown in our order processing systems resulting from labor disputes, telephone or Internet failures, upgrading our management information systems, power or service outages, natural disasters or other events could make it difficult or impossible to provide adequate customer service and support. Furthermore, we may be unable to attract and retain adequate numbers of competent customer service representatives and relationship managers for our business customers, each of which is essential in creating a favorable interactive customer experience. If we are unable to continually provide adequate staffing and training for our customer service operations, our reputation could be seriously harmed and we could lose customers or fail to attract new customers. In addition, if our e-mail and telephone call volumes exceed our present system capacities, we could experience delays in placing orders, responding to customer inquiries and addressing customer concerns. Because our success depends largely on keeping our customers satisfied, any failure to provide high levels of customer service would likely impair our reputation and decrease our revenues.

**Our stock price may be volatile.**

We believe that certain factors, such as sales of our common stock into the market by existing stockholders, fluctuations in our quarterly operating results, changes in market conditions affecting stocks of computer hardware and software manufacturers and resellers generally and companies in the Internet and eCommerce industries in particular, could cause the market price of our common stock to fluctuate substantially. Other factors that could affect our stock price include, but are not limited to, the following:

- failure to meet investors' expectations regarding our operating performance;
- changes in securities analysts' recommendations or estimates of our financial performance;
- publication of research reports by analysts;
- changes in market valuations of similar companies;
- announcements by us or our competitors of significant contracts, acquisitions, commercial relationships, joint ventures or capital commitments;
- actual or anticipated fluctuations in our operating results;
- litigation developments; and
- general economic and market conditions or other economic factors unrelated to our performance, including disruptions in the capital and credit markets.

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 our common stock. In the past, following periods of volatility in the market price of a public company's securities, securities class action litigation has often been instituted against that company. Such litigation, if asserted against us, could result in substantial costs to us and cause a likely diversion of our management's attention from the operations of our company.

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## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

### Issuer Purchases of Equity Securities

On September 13, 2012, our Board of Directors approved a \$10 million increase to our discretionary stock repurchase program. Our stock repurchase program was originally adopted in October 2008 with an authorized maximum of \$10 million. Since the inception of the program through September 30, 2012, we repurchased an aggregate total of 2,026,610 shares of our common stock for a total cost of \$9.1 million, of which 70,104 shares were repurchased for a cost of \$0.4 million during the quarter ended September 30, 2012. The repurchased shares are held as treasury stock. As a result of the \$10 million increase, as of September 30, 2012, we had \$10.9 million available in stock repurchases under the program, subject to any limitations that may apply from time to time under our credit facility agreement dated December 14, 2010, as amended.

Under the approved stock repurchase program, the shares may be repurchased from time to time at prevailing market prices, through open market or unsolicited negotiated transactions, depending on market conditions. We expect that the repurchase of our common stock under the program will be financed with existing working capital and amounts available under our existing credit facility. No limit was placed on the duration of the repurchase program. There is no guarantee as to the exact number of shares that we will repurchase. Subject to applicable securities laws, repurchases may be made at such times and in such amounts as our management deems appropriate. The program can also be discontinued at any time management feels additional purchases are not warranted.

A summary of the repurchase activity for the three months ended September 30, 2012 is as follows (dollars in thousands, except share and per share amounts):

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value that May Yet Be Purchased Under the Plans or Programs
July 1, 2012 to July 31, 2012	—	—	—	\$ 1,282
August 1, 2012 to August 30, 2012	42,919	\$ 5.93	42,919	1,026
September 1, 2012 to September 30, 2012	27,185	6.01	27,185	10,862
Total	<u>70,104</u>	5.96	<u>70,104</u>	

## ITEM 6. EXHIBITS

Exhibit Number	Description
10.1*	Retirement, Severance and Release Agreement and a related Forbearance Agreement by and between PC Mall, Inc. and Kristin Rogers, dated September 11, 2012 (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K of PC Mall, Inc. (File No. 0-25790) filed with the Commission on September 12, 2012)
31.1	Certification of the Chief Executive Officer of the Registrant pursuant to Exchange Act Rule 13a-14(a)
31.2	Certification of the Chief Financial Officer of the Registrant pursuant to Exchange Act Rule 13a-14(a)
32.1	Certification of the Chief Executive Officer of Registrant furnished pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer of Registrant furnished pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002

101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

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\* Management contract, or compensatory plan or arrangement.

\*\* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under those sections.

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**PC MALL, INC.**

**SIGNATURE**

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.

PC MALL, INC.  
(Registrant)

Date: November 9, 2012

By: /s/ Brandon H. LaVerne  
Brandon H. LaVerne  
Chief Financial Officer

PC MALL, INC.

EXHIBIT LIST

<b>Exhibit Number</b>	<b>Description</b>
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\*\*Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under those sections.

## PC MALL, INC.

## CERTIFICATION

I, Frank F. Khulusi, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PC Mall, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2012

/s/ Frank F. Khulusi  
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Frank F. Khulusi  
Chief Executive Officer

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## PC MALL, INC.

## CERTIFICATION

I, Brandon H. LaVerne, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PC Mall, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2012

/s/ Brandon H. LaVerne

Brandon H. LaVerne  
Chief Financial Officer

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PC MALL, INC.

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350  
(AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)**

In connection with the Quarterly Report of PC Mall, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended September 30, 2012 as filed with the Securities and Exchange Commission (the "Report"), I, Frank F. Khulusi, Chief Executive Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

November 9, 2012

/s/ Frank F. Khulusi  
Frank F. Khulusi  
Chief Executive Officer

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PC MALL, INC.

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350  
(AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)**

In connection with the Quarterly Report of PC Mall, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended September 30, 2012 as filed with the Securities and Exchange Commission (the "Report"), I, Brandon H. LaVerne, Chief Financial Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

November 9, 2012

/s/ Brandon H. LaVerne

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Brandon H. LaVerne  
Chief Financial Officer

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