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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 **June 30, 2011**

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)

**2555 West 190th Street, Suite 201  
Torrance, CA 90504**

(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 August 10, 2011, the registrant had 12,410,903 shares of common stock outstanding.

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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)

	June 30, 2011	December 31 2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 6,017	\$ 10,711
Accounts receivable, net of allowances of \$1,827 and \$1,802	179,027	183,944
Inventories, net	59,240	63,583
Prepaid expenses and other current assets	12,284	10,022
Deferred income taxes	3,879	3,798
Total current assets	260,447	272,058
Property and equipment, net	35,409	21,851
Deferred income taxes	597	604
Goodwill	25,510	25,510
Intangible assets, net	11,749	11,749
Other assets	2,710	2,319
Total assets	<u>\$ 336,422</u>	<u>\$ 334,091</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 103,101	\$ 124,851
Accrued expenses and other current liabilities	30,581	31,279
Deferred revenue	18,807	12,206
Line of credit	56,416	50,301
Notes payable — current	999	783
Total current liabilities	209,904	219,420
Notes payable and other long-term liabilities	12,170	4,607
Deferred income taxes	3,315	2,771
Total liabilities	225,389	226,798
Commitments and contingencies (Note 10)		
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; 14,345,745 and 14,089,672 shares issued; and 12,404,573 and 12,148,500 shares outstanding, respectively	14	14
Additional paid-in capital	106,623	104,894
Treasury stock, at cost: 1,941,172 shares	(7,176)	(7,176)
Accumulated other comprehensive income	2,713	2,465
Retained earnings	8,859	7,096
Total stockholders' equity	111,033	107,293
Total liabilities and stockholders' equity	<u>\$ 336,422</u>	<u>\$ 334,091</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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net sales	\$ 361,910	\$ 316,983	\$ 697,848	\$ 606,837
Cost of goods sold	315,524	276,428	607,993	528,253
Gross profit	46,386	40,555	89,855	78,584
Selling, general and administrative expenses	43,805	37,708	85,359	74,961
Operating profit	2,581	2,847	4,496	3,623
Interest expense, net	835	507	1,558	989
Income before income taxes	1,746	2,340	2,938	2,634
Income tax expense	710	977	1,175	1,098
Net income	\$ 1,036	\$ 1,363	\$ 1,763	\$ 1,536
<b>Basic and Diluted Earnings Per Common Share</b>				
Basic	\$ 0.08	\$ 0.11	\$ 0.14	\$ 0.13
Diluted	0.08	0.11	0.14	0.12
Weighted average number of common shares outstanding:				
Basic	12,405	12,270	12,318	12,280
Diluted	12,750	12,565	12,679	12,596

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, 2010	12,149	\$ 14	\$ 104,894	\$ (7,176)	\$ 2,465	\$ 7,096	\$ 107,293
Stock option exercises, including related income tax benefit	256	—	667	—	—	—	667
Stock-based compensation expense	—	—	1,062	—	—	—	1,062
Subtotal	—	—	—	—	—	—	109,022
Net income	—	—	—	—	—	1,763	1,763
Translation adjustments	—	—	—	—	248	—	248
Comprehensive income	—	—	—	—	—	—	2,011
Balance at June 30, 2011	<u>12,405</u>	<u>\$ 14</u>	<u>\$ 106,623</u>	<u>\$ (7,176)</u>	<u>\$ 2,713</u>	<u>\$ 8,859</u>	<u>\$ 111,033</u>

See Notes to the Consolidated Financial Statements.

**PC MALL, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(unaudited, in thousands)

	Six Months Ended June 30,	
	2011	2010
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 1,763	\$ 1,536
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	4,619	3,731
Provision for deferred income taxes	620	421
Net tax benefit related to stock option exercises	2	43
Excess tax benefit related to stock option exercises	(660)	(16)
Non-cash stock-based compensation	1,062	1,167
Decrease in earnout liability	(800)	—
Gain on sale of fixed assets	(15)	(11)
Change in operating assets and liabilities:		
Accounts receivable	4,917	(7,579)
Inventories	5,327	15,677
Prepaid expenses and other current assets	(1,956)	(3,833)
Other assets	(100)	115
Accounts payable	(29,497)	(3,221)
Accrued expenses and other current liabilities	(532)	(2,997)
Deferred revenue	6,601	4,130
Total adjustments	(10,412)	7,627
Net cash (used in) provided by operating activities	(8,649)	9,163
<b>Cash Flows From Investing Activities</b>		
Purchase of El Segundo building	(9,565)	—
Purchases of property and equipment	(5,194)	(4,425)
Acquisition of NSPI	—	(8,788)
Acquisition of eCost	(2,284)	—
Proceeds from sale of fixed assets	23	—
Net cash used in investing activities	(17,020)	(13,213)
<b>Cash Flows From Financing Activities</b>		
Borrowing under note payable	7,198	—
Payments under notes payable	(368)	(550)
Net borrowings under line of credit	5,769	11,715
Change in book overdraft	7,660	(2,446)
Payments of obligations under capital lease	(526)	(313)
Proceeds from stock issued under stock option plans	665	58
Payment for deferred financing costs	(25)	—
Excess tax benefit related to stock option exercises	660	16
Common shares repurchased and held in treasury	—	(554)
Net cash provided by financing activities	21,033	7,926
Effect of foreign currency on cash flow	(58)	(103)
Net change in cash and cash equivalents	(4,694)	3,773
Cash and cash equivalents at beginning of the period	10,711	9,215
Cash and cash equivalents at end of the period	\$ 6,017	\$ 12,988
<b>Supplemental Cash Flow Information</b>		
Interest paid	\$ 1,346	\$ 908
Income taxes paid	2,648	386
<b>Supplemental Non-Cash Investing and Financing Activities</b>		
Purchase of infrastructure system	\$ 2,070	\$ —
Deferred financing costs	49	—
NSPI acquisition related:		
Fair value of assets, net of cash, acquired	\$ —	\$ 13,472
Net cash paid	—	(8,788)
Liabilities assumed	\$ —	\$ 4,684

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., founded in 1987, together with its wholly-owned subsidiaries (collectively referred to as “PC Mall,” “we” or “us”), is a value added direct marketer of technology products, services and solutions to businesses, government and educational institutions and individual consumers. We offer our products, services and solutions through dedicated account executives, field service teams, various direct marketing techniques and a limited number of retail stores. We also utilize distinctive full-color catalogs under the PC Mall, MacMall, PC Mall Gov, HealthDynamix and SARCOM brands and our websites pcmall.com, macmall.com, sarcom.com, pcmallgov.com, abreon.com, nspi.com, onsale.com, ecost.com, healthdynamix.com, pcmallsbn.com and other promotional materials.

PC Mall plays a valuable role in the IT supply chain. While we provide comprehensive solutions for our customers’ technology needs, our business model also provides significant leverage to technology manufacturers and service providers. Through us, technology manufacturers and service providers 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. 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. Additionally, while our experience and expertise in marketing and eCommerce allows us to efficiently reach and capture customers across these segments, our scale and centralized model allow us to efficiently deploy a one-to-many selling and delivery model.

Beginning in the first quarter of 2011, in response to what we believe to be a rapidly changing way in which consumers shop and go to market, we expanded our business to enter the market for local daily deals through social commerce. In connection with this expansion, in February 2011, we acquired certain assets eCost.com, a subsidiary of PFSweb, Inc., for \$2.3 million. During the second quarter of 2011, we also expanded our existing OnSale.com website, in beta, to include the offering of deals in three local markets, Los Angeles, Chicago and Seattle. In conjunction with these changes, beginning with the first quarter of 2011, our management changed the way we internally look at our business and realigned our reportable operating segments from four segments (previously SMB, MME, Public Sector and MacMall) to five segments that we now refer to as SMB, MME, Public Sector, MacMall and OnSale. As such, existing sales under the OnSale brand will no longer be reported under the MacMall segment, but rather they will be reported, together with sales under the eCost brand, as part of the OnSale segment. We expect that our MacMall segment will remain primarily focused on targeting small businesses, creative professionals and high-end consumers, predominantly in the Apple and related products market. We will continue to 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 and Other. All historical segment financial information provided herein has been revised to reflect these new reportable operating segments.

Our SMB segment consists of sales made primarily to small and medium sized businesses, utilizing an outbound phone based sales force and, where applicable, a field-based sales force. 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 under the SARCOM, NSPI and Abreon brands, utilizing a field relationship-based selling model, an outbound phone based sales force and a field service organization. The MME segment sells complex products, services and solutions, which we believe can be delivered best with a face-to-face selling model.

Our Public Sector segment consists of sales made primarily to federal, state, and local governments, as well as educational institutions, utilizing an outbound phone and field relationship-based selling model as well as contracts and bids business development teams.

Our MacMall segment includes sales made under our MacMall brand name via telephone and the Internet to consumers, businesses and creative professionals.

Our OnSale segment currently includes sales made under our OnSale and eCost brand names primarily to consumers and small businesses via the Internet. During the second quarter of 2011, OnSale launched its expanded platform in beta through its existing website at [www.OnSale.com](http://www.OnSale.com) to include the marketing of daily deals in local markets through social commerce.

## 2. Property and Equipment

On March 11, 2011, we completed the purchase of real property comprising approximately 184,000 square feet of land, which includes 82,000 square feet of office space located at 1940 East Mariposa Avenue, El Segundo, California, which will be our new corporate headquarters. Our plan is to move into this building from our current headquarters located in Torrance, California in early fall of 2011 before the expiration of the Torrance lease. 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. We expect to make certain improvements on the property for an expected cost of up to \$4.5 million. Depreciation on the building will begin when the improvements are completed and the building is placed into service, which is currently expected to be in the second half of 2011. 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 there was \$7.2 million outstanding at a June 30, 2011. See Note 5 below for more information.

## 3. Acquisition

### NSPI

In June 2010, Sarcom, Inc, our wholly-owned subsidiary, completed the acquisition of substantially all of the assets of Network Services Plus, Inc. (“NSPI”). NSPI, primarily a provider of hosted data center and managed IT services in the southeastern United States, had approximately 73 employees as of the closing date, 53 of whom are billable IT resources. The terms of the transaction included an initial purchase price of \$7.8 million, less a customary hold-back to settle possible indemnity claims. In addition, we extinguished substantially all of NSPI’s indebtedness that existed immediately prior to the closing date of our acquisition. We have recorded identifiable intangible assets of \$2.6 million related to customer relationships, \$0.5 million related to trademarks and \$0.3 million related to a non-compete agreement, with estimated useful lives of 10, 10 and 4 years, respectively. In addition, pursuant to the terms of the asset purchase agreement, NSPI’s shareholders can earn additional consideration based on the performance of the NSPI business over the next two years, up to a total of approximately \$5.2 million. In accordance with ASC 805, based on an initial valuation of the fair value of the contingent consideration, we recorded additional goodwill and a corresponding liability of \$3.2 million for future earnout payments. Such valuation was based upon management’s initial forecasts of expected profitability of NSPI during the earnout period. As of June 30, 2011, management updated its forecasts of expected profitability of NSPI during the earnout period, and lowered the future earnout liability to \$2.4 million, resulting in a \$0.8 million reduction of general and administrative expenses in our consolidated statement of operations during the three months ended June 30, 2011. These forecasts will be updated, if necessary, in future periods with adjustments reflected in our consolidated statement of operations.

## 4. Goodwill and Intangible Assets

### Goodwill

There was no change in goodwill during the six months ended June 30, 2011. Goodwill totaled \$25.5 million as of June 30, 2011 and December 31, 2010, 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 June 30, 2011			At December 31, 2010		
		Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Patent, trademarks & URLs	8	\$ 6,509 <sup>(1)</sup>	\$ 279	\$ 6,230	\$ 5,925 <sup>(1)</sup>	\$ 203	\$ 5,722
Customer relationships	6	10,600	5,544	5,056	10,100	4,672	5,428
Non-compete agreements	4	1,070	607	463	1,070	471	599
Total intangible assets		<u>\$ 18,179</u>	<u>\$ 6,430</u>	<u>\$ 11,749</u>	<u>\$ 17,095</u>	<u>\$ 5,346</u>	<u>\$ 11,749</u>

(1) Included in the total amount for “Patent, trademarks, & URLs” at June 30, 2011 and December 31, 2010 are \$5.2 million of trademarks with indefinite useful lives acquired in the SARCOM acquisition that are not amortized.



On February 18, 2011, we acquired certain intangible assets of eCost.com, a subsidiary of PFSweb, Inc., as well as approximately \$1 million of inventory and \$0.3 million of software, for \$2.3 million. Based on a preliminary analysis of the purchase price, as of June 30, 2011, the intangible assets, which are included in the table above under "Patent, trademarks & URLs" and "Customer relationships" were valued at \$1.0 million.

Amortization expense for intangible assets was approximately \$0.6 million and \$0.4 million for the three months ended June 30, 2011 and 2010, respectively and approximately \$1.1 million and \$0.8 million for the six months ended June 30, 2011 and 2010.

Estimated amortization expense for intangible assets in each of the next five years and thereafter is as follows: \$1.1 million in the remainder of 2011; \$2.0 million in 2012; \$1.0 million in 2013; \$0.6 million in 2014; \$0.5 million in 2015; and \$1.3 million thereafter.

## 5. Line of Credit and Notes Payable

We maintain an asset-based revolving credit facility, as amended from time to time and most recently amended as of December 14, 2010, 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 0.75 to 1.0 for periods ending on or prior to September 30, 2011, increasing to 1.0 to 1.0 for twelve-month periods ending on or after December 31, 2011. At June 30, 2011, we were in compliance with the 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 June 30, 2011, we had \$56.4 million of net working capital advances outstanding under the line of credit. At June 30, 2011, the maximum credit line was \$160 million and we had \$61.0 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 June 30, 2011, we had \$2.67 million outstanding under the amended term note. The remaining balance of our term note matures as follows: \$205,000 in the remainder of 2011 and \$410,000 annually in each of the years 2012 through 2017.

At June 30, 2011, our effective weighted average annual interest rate on outstanding amounts under the credit facility and term note was 2.44%.

At June 30, 2011, \$0.3 million and \$0.1 million relating to the financing of our purchase of Microsoft AX (Axapta), which is a part of our ERP upgrade, were included in our "Notes payable — current" and "Notes payable and other long-term liabilities," respectively, on our Consolidated Balance Sheets.

In June 2011, we entered into a credit agreement to finance the acquisition and improvement of 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. At June 30, 2011, we had \$7.2 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.

## 6. Income Taxes

### *Accounting for Uncertainty in Income Taxes*

ASC 740 clarifies the accounting for uncertainty in tax positions by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We had no unrecognized tax benefits and no accrued interest or penalties recognized as of the date of our adoption of ASC 740. During the three months ended June 30, 2011, there were no changes in our unrecognized tax benefits, and we had no accrued interest or penalties as of June 30, 2011.

We are subject to U.S. and foreign income tax examinations for years subsequent to 2005, and state income tax examinations for years following 2004. In addition, certain federal and state net operating loss carryforwards generated after 1998 and 1996, respectively, and used in a subsequent year, may still be adjusted by a taxing authority upon examination.

## 7. 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 521,000 and 1,027,000 for the three months ended June 30, 2011 and 2010, and approximately 521,000 and 1,031,000 for the six months ended June 30, 2011 and 2010 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 June 30, 2011:</b>			
Basic EPS			
Net income	\$ 1,036	12,405	\$ <u>0.08</u>
Effect of dilutive securities			
Dilutive effect of stock options	—	345	
Diluted EPS			
Adjusted net income	\$ <u>1,036</u>	<u>12,750</u>	\$ <u>0.08</u>
<b>Three Months Ended June 30, 2010:</b>			
Basic EPS			
Net income	\$ 1,363	12,270	\$ <u>0.11</u>
Effect of dilutive securities			
Dilutive effect of stock options	—	295	
Diluted EPS			
Adjusted net income	\$ <u>1,363</u>	<u>12,565</u>	\$ <u>0.11</u>
<b>Six Months Ended June 30, 2011:</b>			
Basic EPS			
Net income	\$ 1,763	12,318	\$ <u>0.14</u>
Effect of dilutive securities			
Dilutive effect of stock options	—	361	
Diluted EPS			
Adjusted net income	\$ <u>1,763</u>	<u>12,679</u>	\$ <u>0.14</u>
<b>Six Months Ended June 30, 2010:</b>			
Basic EPS			
Net income	\$ 1,536	12,280	\$ <u>0.13</u>
Effect of dilutive securities			
Dilutive effect of stock options	—	316	
Diluted EPS			
Adjusted net income	\$ <u>1,536</u>	<u>12,596</u>	\$ <u>0.12</u>

## 8. Comprehensive Income

Our total comprehensive income was as follows for the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income	\$ 1,036	\$ 1,363	\$ 1,763	\$ 1,536
Other comprehensive income (loss):				
Foreign currency translation adjustments	56	(292)	248	(103)
Total comprehensive income	\$ 1,092	\$ 1,071	\$ 2,011	\$ 1,433

## 9. Segment Information

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

	SMB	MME	Public Sector	MacMall	OnSale	Corporate & Other	Consolidated
<b>Three Months Ended June 30, 2011</b>							
Net sales	\$ 131,270	\$ 128,624	\$ 41,404	\$ 50,829	\$ 10,242	\$ (459)	\$ 361,910
Gross profit	16,837	19,859	3,356	5,328	978	28	46,386
Depreciation and amortization expense(1)	1	888	44	120	111	1,290	2,454
Operating profit (loss)	9,005	7,697	(344)	1,407	(1,640)	(13,544)	2,581
<b>Three Months Ended June 30, 2010</b>							
Net sales	\$ 107,709	\$ 125,482	\$ 41,109	\$ 41,988	\$ 710	\$ (15)	\$ 316,983
Gross profit	14,678	18,639	2,586	4,681	39	(68)	40,555
Depreciation and amortization expense(1)	4	679	55	109	—	1,055	1,902
Operating profit (loss)	7,648	6,015	(821)	1,317	(43)	(11,269)	2,847
<b>Six Months Ended June 30, 2011</b>							
Net sales	\$ 270,008	\$ 239,133	\$ 73,081	\$ 97,459	\$ 18,887	\$ (720)	\$ 697,848
Gross profit	33,755	37,845	6,553	10,221	1,897	(416)	89,855
Depreciation and amortization expense(1)	4	1,763	96	243	112	2,401	4,619
Operating profit (loss)	18,189	12,856	(303)	2,697	(2,152)	(26,791)	4,496
<b>Six Months Ended June 30, 2010</b>							
Net sales	\$ 215,703	\$ 221,973	\$ 85,124	\$ 81,560	\$ 2,472	\$ 5	\$ 606,837
Gross profit	28,075	35,120	6,215	9,044	137	(7)	78,584
Depreciation and amortization expense(1)	8	1,332	107	197	—	2,087	3,731
Operating profit (loss)	14,032	10,629	(443)	1,949	(121)	(22,423)	3,623

(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 and Other.

As of June 30, 2011 and December 31, 2010, we had total consolidated assets of \$336.4 million and \$334.1 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.

## 10. Commitments and Contingencies

Total rent expense under our operating leases, net of sublease income, was \$1.6 million and \$1.7 million in each of the three month periods ended June 30, 2011 and June 30, 2010 and \$3.3 million and \$3.4 million for the six months ended June 30, 2011 and 2010. 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 legal proceedings with loss contingencies, which are expected to be material. 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 result in a material amount of legal or related expenses and be 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 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., founded in 1987, together with its wholly-owned subsidiaries (collectively referred to as "PC Mall," "we" or "us"), is a value added direct marketer of technology products, services and solutions to businesses, government and educational institutions and individual consumers. We offer our products, services and solutions through dedicated account executives, field service teams, various direct marketing techniques and a limited number of retail stores. We also utilize distinctive full-color catalogs under the PC Mall, MacMall, PC Mall Gov, HealthDynamix and SARCOM brands and our websites [pccmall.com](http://pccmall.com), [macmall.com](http://macmall.com), [sarcom.com](http://sarcom.com), [pccmallgov.com](http://pccmallgov.com), [abreon.com](http://abreon.com), [nspi.com](http://nspi.com), [onsale.com](http://onsale.com), [ecost.com](http://ecost.com), [healthdynamix.com](http://healthdynamix.com), [pccmallsb.com](http://pccmallsb.com) and other promotional materials.

PC Mall plays a valuable role in the IT supply chain. While we provide comprehensive solutions for our customers' technology needs, our business model also provides significant leverage to technology manufacturers and service providers. Through us, technology manufacturers and service providers 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. 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. Additionally, while our experience and expertise in marketing and eCommerce allows us to efficiently reach and capture customers across these segments, our scale and centralized model allow us to efficiently deploy a one-to-many selling and delivery model.

Beginning in the first quarter of 2011, in response to what we believe to be a rapidly changing way in which consumers shop and go to market, we expanded our business to enter the market for local daily deals through social commerce. In connection with this expansion, in February 2011, we acquired certain assets eCost.com, a subsidiary of PFSweb, Inc., for \$2.3 million. During the second quarter of 2011, we also expanded our existing OnSale.com website, in beta, to include the offering of deals in three local markets, Los Angeles, Chicago and Seattle. In conjunction with these changes, beginning with the first quarter of 2011, our management changed the way we internally look at our business and realigned our reportable operating segments from four segments (previously SMB, MME, Public Sector and MacMall) to five segments that we now refer to as SMB, MME, Public Sector, MacMall and OnSale. As such, existing sales under the OnSale brand will no longer be reported under the MacMall segment, but rather they will be reported, together with sales under the eCost brand, as part of the OnSale segment. We expect that our MacMall segment will remain primarily focused on targeting small businesses, creative professionals and high-end consumers, predominantly in the Apple and related products market. We will continue to 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 and Other. All historical segment financial information provided herein has been revised to reflect these new reportable operating segments. See below for more information on our acquisition of eCost.com under "Strategic Developments — eCost.com Acquisition."

Our SMB segment consists of sales made primarily to small and medium sized businesses, utilizing an outbound phone based sales force and, where applicable, a field-based sales force. In addition, the SMB segment markets to small businesses through its Small Business Network utilizing its own social network site at [www.pccmallsb.com](http://www.pccmallsb.com), which ended the second quarter at June 30, 2011 with over 61,000 active users, who are primarily small businesses and IT executives.

Our MME segment consists of sales made primarily to mid-market and enterprise-sized businesses under the SARCOM, NSPI and Abreon brands, utilizing a field relationship-based selling model, an outbound phone based sales force and a field service organization. The MME segment sells complex products, services and solutions, which we believe can be delivered best with a face-to-face selling model.

Our Public Sector segment consists of sales made primarily to federal, state, and local governments, as well as educational institutions, utilizing an outbound phone and field relationship-based selling model as well as contracts and bids business development teams.

Our MacMall segment includes sales made under our MacMall brand name via telephone and the Internet to consumers, businesses and creative professionals.

Our OnSale segment currently includes sales made under our OnSale and eCost brand names primarily to consumers and small businesses via the Internet. During the second quarter of 2011, OnSale launched its expanded platform in beta through its existing website at [www.OnSale.com](http://www.OnSale.com) to include the marketing of daily deals in local markets through social commerce.

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, Cisco, IBM, Ingram Micro, Lenovo, Microsoft, Sony, Sun Microsystems and Tech Data. Products manufactured by Apple represented approximately 21% and 16% of our net sales in the three months ended June 30, 2011 and 2010, and 22% and 16% of our net sales in the six months ended June 30, 2011 and 2010. Products manufactured by HP represented 22% and 25% of our net sales in the three months ended June 30, 2011 and 2010, and 21% and 22% of our net sales in the six months ended June 30, 2011 and 2010.

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

### *eCost Acquisition*

On February 18, 2011, we acquired certain intangible assets of eCost.com, a subsidiary of PFSweb, Inc., as well as approximately \$1 million of inventory, 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 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 by distributing all of our remaining ownership interest in eCost to our stockholders. In February 2006, eCost was acquired by PFSweb in a stock for stock merger.

### *OnSale*

Beginning in the first quarter of 2011, we expanded our business into the rapidly expanding market for daily deals by local merchants in local markets, leveraging the principles of social commerce and what we believe are our unique competitive advantages in that marketplace. In connection with this expansion, in February 2011, we acquired certain assets eCost.com as indicated above. During the second quarter of 2011, OnSale also launched its expanded daily deal platform in beta through its existing website at [www.OnSale.com](http://www.OnSale.com).

### *New Corporate Headquarters*

On March 11, 2011, we completed the purchase of real property comprising approximately 184,000 square feet of land, which includes 82,000 square feet of office space located at 1940 East Mariposa Avenue, El Segundo, California, which will be our new corporate headquarters. Our plan is to move into this building from our current headquarters located in Torrance, California in early fall of 2011 before the expiration of the Torrance lease. 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. We expect to make certain improvements on the property for an expected cost of up to \$4.5 million. Depreciation on the building will begin when the improvements are completed and the building is placed into service, which is currently expected to be in the second half of 2011. In June 2011, we entered into a credit agreement to finance the purchase and improvement of this real property. This credit agreement provides for a lending commitment for a loan up to \$10.9 million. For more information, see below under “Liquidity and Capital Resources—Line of Credit and Note Payable.”

### *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](http://macmall.com), [onsale.com](http://onsale.com) and [pcmall.com](http://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 complete with all phases of the implementation of the ERP systems by 2013. We believe the implementation and upgrade should help us to gain further efficiencies across our organization. Based on our estimates, which are subject to change, we currently expect to incur a total cost of up to \$14 million for all these IT system upgrades. To date, we have incurred approximately \$8.8 million of such costs. In addition to the above expenditures, we expect on an ongoing basis to make periodic upgrades to our IT systems.

In addition to the upgrades to our IT systems, in July 2008, we entered into an agreement with Cisco Systems for the purchase and implementation of various solutions to upgrade our current infrastructure for a total cost of approximately \$4.6 million. The purchase is financed through a capital lease over a five year term. We believe these upgrades have provided us with a unified platform for our entire company and a robust and efficient contact center. We completed the implementation of the Cisco solution across all of our locations in the second quarter of 2011.

## 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, 2010.

*Revenue Recognition.* We adhere to the revised guidelines and principles of sales recognition described in ASC 605 (formerly Staff Accounting Bulletin No. 104, "Revenue Recognition," issued by the staff of the SEC as a revision to Staff Accounting Bulletin No. 101, "Revenue Recognition"). 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 605-45 (formerly Emerging Issues Task Force ("EITF") Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent"). 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 items 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 605-25, *Revenue Recognition, Multiple-Element Arrangement*. ASC 605-25 states that delivered items should be considered separate units of accounting if delivered items have value to the customer on a standalone basis, there is objective and reliable evidence of the fair value of undelivered items, and if delivery of undelivered items is probable and substantially in our control. Generally, we are able to establish fair value for all elements of the arrangement and revenue is recognized on each element separately.

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.

*Mail-In Rebate Redemption Rate Estimates.* We accrue monthly expense related to promotional mail-in rebates based upon the quantity of eligible orders transacted during the period and the estimated redemption rate. The estimated expense is accrued and presented as a reduction of net sales. The estimated redemption rates used to calculate the accrued mail-in rebate expense and related mail-in rebate liability are based upon historical redemption experience rates for similar products or mail-in rebate amounts. Estimated redemption rates and the related mail-in rebate expense and liability are regularly adjusted as actual mail-in rebate redemptions for the program are processed. If actual redemption rates are greater than anticipated, additional expense may be incurred.

*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 (formerly EITF 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor") since such funds are not a reimbursement of specific, incremental, identifiable costs incurred by us in selling the vendors' products. As we circulate catalogs throughout the year, we also receive market development funds and other vendor consideration from vendors included in each catalog. These funds may be deferred, when warranted, and recognized based on sales generated over the life of the catalog. Deferred vendor consideration is included in "Accrued expenses and other current liabilities" in our Consolidated Balance Sheets. 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 (formerly financial Accounting Standards Board Statement No. 123 (revised 2004), "Share-Based Payment"), 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 grant, we compute 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 accounting guidance, 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 review 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. 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, 2010 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, 2011 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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net sales	\$ 361,910	\$ 316,983	\$ 697,848	\$ 606,837
Cost of goods sold	315,524	276,428	607,993	528,253
Gross profit	46,386	40,555	89,855	78,584
Selling, general and administrative expenses	43,805	37,708	85,359	74,961
Operating profit	2,581	2,847	4,496	3,623
Interest expense, net	835	507	1,558	989
Income before income taxes	1,746	2,340	2,938	2,634
Income tax expense	710	977	1,175	1,098
Net income	\$ 1,036	\$ 1,363	\$ 1,763	\$ 1,536
<b>Basic and Diluted Earnings Per Common Share</b>				
Basic	\$ 0.08	\$ 0.11	\$ 0.14	\$ 0.13
Diluted	0.08	0.11	0.14	0.12
Weighted average number of common shares outstanding:				
Basic	12,405	12,270	12,318	12,280
Diluted	12,750	12,565	12,679	12,596

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	87.2	87.2	87.1	87.1
Gross profit	12.8	12.8	12.9	12.9
Selling, general and administrative expenses	12.1	11.9	12.2	12.3
Operating profit	0.7	0.9	0.7	0.6
Interest expense, net	0.2	0.2	0.2	0.2
Income before income taxes	0.5	0.7	0.5	0.4
Income tax expense	0.2	0.3	0.2	0.2
Net income	0.3%	0.4%	0.3%	0.2%

### Three Months Ended June 30, 2011 Compared to the Three Months Ended June 30, 2010

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

	Three Months Ended June 30,		Change	
	2011	2010	\$	%
SMB	\$ 131,270	\$ 107,709	\$ 23,561	21.9%
MME	128,624	125,482	3,142	2.5
Public Sector	41,404	41,109	295	0.7
MacMall	50,829	41,988	8,841	21.1
OnSale	10,242	710	9,532	NMF(1)
Corporate and Other	(459)	(15)	(444)	NMF(1)
Consolidated net sales	\$ 361,910	\$ 316,983	\$ 44,927	14.2%

(1) Not meaningful.

Our consolidated net sales for the second quarter of 2011 were \$361.9 million, a \$44.9 million or 14% increase from consolidated net sales of \$317.0 million in the second quarter of 2010.

Our SMB segment net sales increased by \$23.6 million, or 22%, in the second quarter of 2011 to \$131.3 million from \$107.7 million in the second quarter of 2010. The increase in SMB segment net sales was primarily due to an increase in sales to promotional companies, increased productivity of our account executives and continuing growth in our new Chicago office.

Our MME segment net sales increased by \$3.1 million, or 3%, in the second quarter of 2011 to \$128.6 million from \$125.5 million in the second quarter of 2010. This increase was primarily due to a 13% increase in services revenues in the second quarter of 2011 compared to the second quarter of 2010. Service revenues represented 18% of MME net sales in the second quarter of 2011 compared to 17% of sales in the second quarter of 2010. The service revenue increase was primarily due to the inclusion of service revenues of NSPI, which we acquired in June 2010, as well as a 7% increase in service sales performed under our Abreon brand, which is primarily focused on change management and eLearning consulting. These increases in service revenues were partially offset by a 1% decrease in MME's Sarcom branded lifecycle services in the second quarter of 2011 compared to the second quarter of 2010.

Our Public Sector segment net sales increased by \$0.3 million, or 1%, in the second quarter of 2011 to \$41.4 million compared to \$41.1 million in the second quarter of 2010. This increase in Public Sector net sales was due to a 28% increase in our state and local government and educational institution sales driven by stronger demand, partially offset by a 23% decrease in our federal government business resulting primarily from a weak demand environment in the federal government sector.

As indicated previously, our MacMall segment no longer includes the OnSale business, and all historical numbers have been adjusted accordingly. Our MacMall segment net sales increased by \$8.8 million, or 21%, in the second quarter of 2011 to \$50.8 million compared to \$42.0 million in the second quarter of 2010. This increase was primarily due to significant sales of iPads during the second quarter of 2011, and also reflects our ongoing efforts to focus on higher profit customer segments such as small businesses, creative professionals and high-end consumers.

Our OnSale segment currently includes sales made under our OnSale and eCost brand names primarily to consumers and small businesses via the Internet. During the second quarter of 2011, as discussed above, OnSale launched its expanded platform in beta through its existing website at www.OnSale.com to include the marketing of daily deals in local markets through social commerce. Our OnSale segment net sales increased by \$9.5 million in the second quarter of 2011 to \$10.2 million compared to \$0.7 million in the second quarter of 2010. This increase was primarily due to a \$5.2 million increase in sales through our traditional OnSale business and \$4.3 million of net sales resulting from our acquisition of eCost in February 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						Change	
	June 30,							
	2011		2010					
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	\$	Margin		
SMB	\$ 16,837	12.8%	\$ 14,678	13.6%	\$ 2,159		(0.8)%	
MME	19,859	15.4	18,639	14.9	1,220		0.5	
Public Sector	3,356	8.1	2,586	6.3	770		1.8	
MacMall	5,328	10.5	4,681	11.1	647		(0.6)	
OnSale	978	9.5	39	5.5	939		4.0	
Corporate and Other	28	NMF(1)	(68)	NMF(1)	96		NMF(1)	
Consolidated gross profit and gross profit margin	\$ 46,386	12.8%	\$ 40,555	12.8%	\$ 5,831		0.0%	

(1) Not meaningful

Consolidated gross profit for the second quarter of 2011 was \$46.4 million compared to \$40.6 million in the second quarter of 2010, a \$5.8 million or 14% increase. Consolidated gross profit margin remained at 12.8% in the second quarter of 2011 and in the second quarter of 2010.

Gross profit for our SMB segment increased by \$2.1 million, or 15%, to \$16.8 million in the second quarter of 2011 compared to \$14.7 million in the second quarter of 2010 resulting primarily from the increased SMB net sales discussed above and a \$0.7 million increase in vendor consideration. SMB gross profit margin decreased to 12.8% in the second quarter of 2011 compared to 13.6% in the second quarter of 2010 primarily due to an increase in lower margin premium business sales as a percentage of the overall mix.

Gross profit for our MME segment increased by \$1.3 million, or 7%, to \$19.9 million in the second quarter of 2011 compared to \$18.6 million in the second quarter of 2010, and MME gross profit margin increased to 15.4% in the second quarter of 2011 compared to 14.9% in the second quarter of 2010. The increase in MME gross profit and gross profit margin was primarily due to the increased MME net sales discussed above, which include a higher mix of service sales, as well as a \$0.3 million, or a 14 basis point, increase in vendor consideration.

Gross profit for our Public Sector segment increased by \$0.8 million, or 30%, to \$3.4 million in the second quarter of 2011 compared to \$2.6 million in the second quarter of 2010. Public Sector gross profit margin increased to 8.1% in the second quarter of 2011 compared to 6.3% in the second quarter of 2010. The increase in Public Sector gross profit was due to the increased Public Sector net sales discussed above and a \$0.3 million increase in vendor consideration. The increase in Public Sector gross profit margin was primarily due to an increase in solution sales, which are made at higher margins.

Gross profit for our MacMall segment increased by \$0.6 million, or 14%, to \$5.3 million in the second quarter of 2011 compared to \$4.7 million in the second quarter of 2010. MacMall gross profit margin decreased to 10.5% in the second quarter of 2011 compared to 11.1% in the second quarter of 2010. The increase in MacMall gross profit was primarily due to the increased MacMall net sales discussed above and an increase in vendor consideration. The decrease in gross profit margin was primarily due to an increase in sales of iPads which is a lower margin product category and also contributed to a 14 basis point decrease in vendor consideration as a percentage of net sales.

Gross profit for our OnSale segment increased to \$1.0 million in the second quarter of 2011 compared to \$39,000 in the second quarter of 2010. OnSale gross profit margin increased to 9.5% in the second quarter of 2011 compared to 5.5% in the second quarter of 2010. The increase in OnSale gross profit and gross profit margin was primarily due to the increased OnSale net sales discussed above and an improved product mix.

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

	Three Months Ended June 30,				Change	
	2011		2010		\$	Margin
	Operating Profit	Operating Profit Margin(1)	Operating Profit	Operating Profit Margin(1)		
SMB	\$ 9,005	6.9%	\$ 7,648	7.1%	\$ 1,357	(0.2)%
MME	7,697	6.0	6,015	4.8	1,682	1.2
Public Sector	(344)	(0.8)	(821)	(2.0)	477	1.2
MacMall	1,407	2.8	1,317	3.1	90	(0.3)
OnSale	(1,640)	(16.0)	(43)	(6.1)	(1,597)	(9.9)
Corporate and Other	(13,544)	(3.7)(1)	(11,269)	(3.6)(1)	(2,275)	(0.1)(1)
Consolidated operating profit and operating profit margin	<u>\$ 2,581</u>	0.7%	<u>\$ 2,847</u>	0.9%	<u>\$ (266)</u>	(0.2)%

(1) Operating profit margin for Corporate and 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 second quarter of 2011 was \$2.6 million compared to \$2.8 million in the second quarter of 2010, a \$0.2 million, or 9%, decrease. Consolidated operating profit margin for the second quarter of 2011 was 0.7% compared to 0.9% in the second quarter of 2010.

Our SMB segment operating profit increased by \$1.4 million, or 18%, to \$9.0 million in the second quarter of 2011 compared to \$7.6 million in the second quarter of 2010. The increase in SMB operating profit in the second quarter of 2011 was primarily due to the increase in SMB gross profit discussed above, partially offset by a \$0.4 million increase in SMB personnel costs, which was primarily due to an increase in variable compensation expenses related to the increased SMB gross profit, and a \$0.2 million increase in credit card processing costs.

Our MME segment operating profit increased by \$1.7 million, or 28%, to \$7.7 million in the second quarter of 2011 compared to \$6.0 million in the second quarter of 2010. The increase was primarily due to the increase in MME gross profit discussed above and \$0.8 million of other income relating to a decrease in the estimated fair value of the contingent consideration liability related to the NSPI acquisition, partially offset by a \$0.3 million increase in MME general and administrative costs primarily relating to the acquisition of NSPI.

Our Public Sector segment operating loss decreased by \$0.5 million, or 58%, to \$0.3 million in second quarter of 2011 compared to a loss of \$0.8 million in second quarter of 2010. The decrease in Public Sector operating loss was primarily due to the increase in Public Sector gross profit discussed above, partially offset by a \$0.2 million increase in bad debt expense primarily related to an external fraudulent transaction.

Our MacMall segment operating profit increased by \$0.1 million to \$1.4 million in the second quarter of 2011 compared to \$1.3 million in the second quarter of 2010. This increase in MacMall operating profit was primarily due to the increase in MacMall gross profit discussed above, partially offset by a \$0.2 million increase in advertising expenditures and a \$0.3 million increase in variable costs.

Our OnSale segment operating loss increased to \$1.6 million in the second quarter of 2011 compared to \$43,000 in the second quarter of 2010. This increase in OnSale operating loss was primarily due to significant investments related to the expansion of our OnSale business model discussed above. In addition, advertising expenditures supporting our traditional OnSale business increased by \$0.5 million. Our OnSale results include those from both OnSale and eCost, the assets of which we acquired in February of 2011. In the second quarter of 2011, we paid \$0.3 million to the seller of eCost's assets pursuant to a transition services agreement. We migrated eCost.com to our own systems in the latter part of second quarter of 2011, and as a result we do not believe the majority of those costs will recur in the third quarter or beyond. Further, OnSale's results include approximately \$0.3 million of start-up legal fees associated with its expanded business model, much of which we do not expect to recur going forward. However, we expect to continue to have an elevated level of expenditures for the foreseeable future related to the investments in the expansion of our OnSale business, which may result in continued operating losses for this segment.

Corporate & Other operating expenses includes corporate related expenses such as legal, accounting, information technology, product management and certain pre-sales, value-added support services and other administrative costs that are not otherwise included in our reportable operating segments. The second quarter 2011 Corporate & Other operating expenses increased by \$2.2 million, or 20%, to \$13.5 million from \$11.3 million in the second quarter of 2010. The increase in the second quarter of 2011 was primarily related to an increase in personnel costs of \$2.0 million resulting primarily from additions of technical resources, as well as IT and distribution personnel, a \$0.5 million increase in litigation costs defending what we believe is a meritless lawsuit, a \$0.2 million increase in telecommunications costs and a \$0.2 million increase in depreciation, partially offset by a \$0.7 million decrease in variable fulfillment costs.

*Net Interest Expense.* Total net interest expense for the second quarter of 2011 increased to \$0.8 million compared with \$0.5 million in the second quarter of 2010. The increase in interest expense of \$0.3 million resulted primarily from an increase in our average effective borrowing rate, an increase in our average total outstanding borrowings in second quarter of 2011 compared to the second quarter of 2010 and an increase in amortization expense related to deferred financing costs.

*Income Tax Expense.* We recorded an income tax expense of \$0.7 million in the second quarter of 2011 compared to an income tax expense of \$1.0 million in the second quarter of 2010. Our effective tax rates for the quarters ended June 30, 2011 and 2010 were approximately 41% and 42%.

#### Six Months Ended June 30, 2011 Compared to the Six Months Ended June 30, 2010

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

	Six Months Ended June 30,		Change	
	2011	2010	\$	%
SMB	\$ 270,008	\$ 215,703	\$ 54,305	25.2%
MME	239,133	221,973	17,160	7.7
Public Sector	73,081	85,124	(12,043)	(14.1)
MacMall	97,459	81,560	15,899	19.5
OnSale	18,887	2,472	16,415	664.0
Corporate and Other	(720)	5	(725)	NMF(1)
Consolidated net sales	<u>\$ 697,848</u>	<u>\$ 606,837</u>	<u>\$ 91,011</u>	<u>15.0%</u>

(1) Not meaningful.

Our consolidated net sales for the six months ended June 30, 2011 were \$697.8 million, a \$91.0 million, or 15%, increase from consolidated net sales of \$606.8 million in the six months ended June 30, 2010.

Our SMB segment net sales increased by \$54.3 million, or 25%, to \$270.0 million in the six months ended June 30, 2011 from \$215.7 million in the six months ended June 30, 2010. The increase in SMB segment net sales was primarily due to an increase in sales to promotional companies, increased productivity of our account executives, continuing growth in our new Chicago office and continuing economic recovery by small and medium sized businesses.

Our MME segment net sales increased by \$17.2 million, or 8%, to \$239.1 million in the six months ended June 30, 2011 from \$222.0 million in the six months ended June 30, 2010. This increase was primarily due to increased account executive productivity and increased IT spending by customers in the mid-market and enterprise sector in the six months ended June 30, 2011. Service revenues increased by 15% in the six months ended June 30, 2011 compared to the same period in 2010 while product revenues increased by 6% in the six months ended June 30, 2011 compared to the same period in 2010. Service revenues represented 19% of MME net sales in the six months ended June 30, 2011 compared to 18% of net sales in the six months ended June 30, 2010. The service revenue increase was primarily due to the inclusion of service revenues of NSPI, which we acquired in June 2010, as well as an 11% increase in service sales performed under our Abreon brand, which is primarily focused on change management and eLearning consulting. These increases in service revenues were partially offset by a 4% decrease in MME's Sarcom branded lifecycle services in the six months ended June 30, 2011 compared to the six months ended June 30, 2010.

Our Public Sector segment net sales decreased by \$12.0 million, or 14%, to \$73.1 million in the six months ended June 30, 2011 compared to \$85.1 million in the six months ended June 30, 2010. This increase in Public Sector net sales was due to a 19% increase in our state and local government and educational institution sales driven by stronger demand, partially offset by a 34% decrease in our federal government business resulting primarily from a weak demand environment in the federal government business.

Our MacMall segment net sales increased by \$15.9 million, or 19%, to \$97.5 million in the six months ended June 30, 2011 compared to \$81.6 million in the six months ended June 30, 2010. This increase was primarily due to significant sales of iPads during the six months ended June 30, 2011, and also reflects our ongoing efforts to focus on higher profit customer segments such as small businesses, creative professionals and high-end consumers.

Our OnSale segment net sales increased by \$16.4 million in the six months ended June 30, 2011 to \$18.9 million compared to \$2.5 million in the six months ended of June 30, 2010. This increase was primarily due to a \$10.4 million increase in sales through our traditional OnSale business and \$6.0 million of net sales resulting from our acquisition of eCost in February 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):

	Six Months Ended June 30,					
	2011		2010		Change	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	\$	Margin
SMB	\$ 33,755	12.5%	\$ 28,075	13.0%	\$ 5,680	(0.5)%
MME	37,845	15.8	35,120	15.8	2,725	0.0
Public Sector	6,553	9.0	6,215	7.3	338	1.7
MacMall	10,221	10.5	9,044	11.1	1,177	(0.6)
OnSale	1,897	10.0	137	5.5	1,760	4.5
Corporate and Other	(416)	NMF(1)	(7)	NMF(1)	(409)	NMF(1)
Consolidated gross profit and gross profit margin	\$ 89,855	12.9%	\$ 78,584	12.9%	\$ 11,271	0.0%

(1) Not meaningful

Consolidated gross profit for the six months ended June 30, 2011 was \$89.9 million compared to \$78.6 million in the six months ended June 30, 2010, an \$11.3 million or 14% increase. Consolidated gross profit margin remained at 12.9% in the six months ended June 30, 2011 and in the six months ended June 30, 2010.

Gross profit for our SMB segment increased by \$5.7 million, or 20%, to \$33.8 million for the six months ended June 30, 2011 compared to \$28.1 million in the six months ended June 30, 2010 resulting primarily from increased SMB net sales discussed above. SMB gross profit margin decreased by 50 basis points to 12.5% in the six months ended June 30, 2011 compared to 13.0% in the six months ended June 30, 2010 primarily due to a 27 basis point decrease in vendor consideration as a percentage of sales and growth in lower margin premium business as a percentage of total sales.

Gross profit for our MME segment increased by \$2.7 million, or 8%, to \$37.8 million in the six months ended June 30, 2011 compared to \$35.1 million in the six months ended June 30, 2010, and gross profit margin remained flat at 15.8% in the six months ended June 30, 2011 and in the six months ended June 30, 2010. The increase in MME gross profit was primarily due to the increased MME net sales discussed above.

Gross profit for our Public Sector segment increased by \$0.4 million, or 5%, to \$6.6 million in the six months ended June 30, 2011 compared to \$6.2 million in the six months ended June 30, 2010. Public Sector gross profit margin increased by 170 basis points to 9.0% in the six months ended June 30, 2011 compared to 7.3% in the six months ended June 30, 2010. The increase in our Public Sector gross profit was primarily due to a \$0.6 million increase in vendor consideration, partially offset by the decrease in Public Sector net sales discussed above. The increase in Public Sector gross profit margin was primarily due to a 108 basis point increase in vendor consideration as a percentage of sales as well as an increase in solution sales, which are made at higher margins.

Gross profit for our MacMall segment increased by \$1.2 million, or 13%, to \$10.2 million in the six months ended June 30, 2011 compared to \$9.0 million in the six months ended June 30, 2010. MacMall gross profit margin decreased by 60 basis points to 10.5% in the six months ended June 30, 2011 compared to 11.1% in the six months ended June 30, 2010. The increase in our MacMall gross profit was primarily due to the increase in MacMall net sales discussed above and a \$0.6 million increase in vendor consideration. The decrease in our MacMall gross profit margin was primarily due to increased sales of iPads, which is a lower margin product category.

Gross profit for our OnSale segment increased by \$1.8 million to \$1.9 million in the six months ended June 30, 2011 compared to \$0.1 million in the six months ended June 30, 2010. OnSale gross profit margin increased by 450 basis points to 10.0% in the six months ended June 30, 2011 compared to 5.5% in the six months ended June 30, 2010. The increase in OnSale gross profit and gross profit margin was primarily due to the increased OnSale net sales discussed above and an improved product mix.

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

	Six Months Ended June 30,					
	2011		2010		Change	
	Operating Profit	Operating Profit Margin(1)	Operating Profit	Operating Profit Margin(1)	\$	Margin
SMB	\$ 18,189	6.7%	\$ 14,032	6.5%	\$ 4,157	0.2%
MME	12,856	5.4	10,629	4.8	2,227	0.6
Public Sector	(303)	(0.4)	(443)	(0.5)	140	0.1
MacMall	2,697	2.8	1,949	2.4	748	0.4
OnSale	(2,152)	(11.4)	(121)	(4.9)	(2,031)	(6.5)
Corporate and Other	(26,791)	(3.8)(1)	(22,423)	(3.7)(1)	(4,368)	(0.1)(1)
Consolidated operating profit and operating profit margin	\$ 4,496	0.6%	\$ 3,623	0.6%	\$ 873	0.0%

(1) Operating profit margin for Corporate and 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 six months ended June 30, 2011 was \$4.5 million compared to \$3.6 million in the six months ended June 30, 2010, a \$0.9 million, or 24%, increase. Consolidated operating profit margin for the six months ended June 30, 2011 and 2010 was 0.6%.

Our SMB segment operating profit increased by \$4.2 million, or 30%, to \$18.2 million in the six months ended June 30, 2011 compared to \$14.0 million in the six months ended June 30, 2010. The increase was primarily due to the increase in SMB gross profit discussed above, partially offset by a \$1.1 million increase in SMB personnel costs, a \$0.2 million increase in credit card processing costs and a \$0.2 million increase in bad debt expense. The increase in personnel costs in the six months ended June 30, 2011 was primarily due to an increase in variable commission and bonus expenses due to the increased SMB gross profit and continued investment in our Chicago office and our addition of account executives in that facility.

Our MME segment operating profit increased by \$2.3 million, or 21%, to \$12.9 million in the six months ended June 30, 2011 compared to \$10.6 million in the six months ended June 30, 2010. The increase was primarily due to the increase in MME gross profit discussed above and \$0.8 million of other income relating to a decrease in the estimated fair value of the contingent consideration liability related to the NSPI acquisition, partially offset by a \$0.8 million increase in variable fulfillment costs and a \$0.4 million increase in depreciation and amortization expenses primarily relating to the acquisition of NSPI.

Public Sector segment reported an operating loss of \$0.3 million in the six months ended June 30, 2011 compared to an operating loss of \$0.4 million in the six months ended June 30, 2010. The decrease in Public Sector operating loss was primarily due to the increase in Public Sector gross profit discussed above and a \$0.2 million decrease in advertising expenditures, partially offset by a \$0.2 million increase in bad debt expense primarily related to an external fraudulent transaction and a \$0.1 million increase in variable fulfillment costs.

MacMall segment operating profit increased by \$0.8 million, or 38%, to \$2.7 million in the six months ended June 30, 2011 compared to \$1.9 million in the six months ended June 30, 2010. The increase in MacMall segment operating profit was primarily due to the increase in MacMall segment gross profit discussed above, partially offset by a \$0.2 million increase in personnel costs and a \$0.3 million increase in credit card related costs.

Our OnSale segment reported an operating loss of \$2.2 million in the six months ended June 30, 2011 compared to an operating loss of \$0.1 million in the six months ended June 30, 2010. This increase in OnSale operating loss was primarily due to significant start-up and advertising costs for the expansion of our OnSale business model discussed above.

Corporate and Other SG&A expenses increased by \$4.4 million, or 19%, to \$26.8 million in the six months ended June 30, 2011 from \$22.4 million in the six months ended June 30, 2010. This increase was primarily due to a \$3.4 million increase in personnel costs resulting primarily from additions of technical resources, as well as IT and distribution personnel, a \$0.4 million increase in litigation costs primarily due to defending what we believe is a meritless lawsuit and a \$0.3 million increase in depreciation expense primarily related to the completed portions of our ERP and infrastructure upgrades.

*Net Interest Expense.* Total net interest expense for the six months ended June 30, 2011 increased to \$1.6 million compared with \$1.0 million in the six months ended June 30, 2010. The increase in interest expense of \$0.6 million resulted primarily from an increase in our average effective borrowing rate as well as an increase in amortization expense related to deferred financing costs.

*Income Tax Expense.* We recorded an income tax expense of \$1.2 million in the six months ended June 30, 2011 compared to an income tax expense of \$1.1 million in the six months ended June 30, 2010. Our effective tax rates for the six months ended June 30, 2011 and 2010 were approximately 40% and 42%.

## **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 the expansion of our OnSale business, and possible repurchases of our common stock under a discretionary repurchase program, which we previously announced. 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 efforts to focus on SMB, MME and Public Sector sales could result in an increase in our accounts receivable as these customers are generally provided longer payment terms than consumers. We also expect that we will incur elevated levels of cash expenditures as we continue to invest in the expansion of our OnSale business. 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.

There has been substantial ongoing weakness in the global economic environment, coupled with disruptions in the capital and credit markets. While we recently entered into an amendment to our revolving credit facility as discussed in more detail below, 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 \$6.0 million at June 30, 2011 and \$10.7 million at December 31, 2010. Our working capital was \$50.5 million as of June 30, 2011 and \$52.6 million as of December 31, 2010.

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 new program, 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. Under the prior program through the end of 2007, we claimed annual labor credits of up to 35% of eligible compensation paid to our qualifying employees. As of June 30, 2011, we had an accrued receivable of \$8.9 million related to the 2009 and 2010 calendar years and the first half of 2011, and we expect to receive full payment under our labor credit claims.

*Cash Flows from Operating Activities.* Net cash used in operating activities was \$8.6 million in the six months ended June 30, 2011 compared to net cash provided by operating activities of \$9.2 million in the six months ended June 30, 2010. The \$17.8 million increase in net cash used in operating activities in the six months ended June 30, 2011 compared to the six months ended June 30, 2010 was primarily due to an \$17.5 million decrease in our working capital, which was primarily related to a \$26.3 million increase in our accounts payable, a \$10.4 million decrease in inventory, partially offset by a \$12.5 million increase in accounts receivable. This \$26.3 million increase in accounts payable is primarily due to the mix and timing of trade payables, including our utilization of early pay discounts. The \$10.4 million decrease in inventory was primarily related to a sell through in the six months ended June 30, 2010 of a large amount of seasonal inventory purchased in late 2009 as well as sell through of our Public Sector segment backlog in the six months ended June 30, 2010 partially offset by an increase in tablet inventory in the first half of 2011. The \$12.5 million increase in accounts receivable was primarily related to an improvement in DSO in 2011 compared to 2010, partially due to the slowdown in Federal government spending.

*Cash Flows from Investing Activities.* Net cash used in investing activities was \$17.0 million in the six months ended June 30, 2011 compared to \$13.2 million in the six months ended June 30, 2010, related to capital expenditures in each period. Capital expenditures of \$17.0 million in the six months ended June 30, 2011 were primarily related to investments in our IT infrastructure and the creation of enhanced electronic tools for our account executives and sales support staff, the \$9.6 million purchase of a new headquarters office building in El Segundo, California, as discussed above, and the \$2.3 million acquisition of certain assets of eCost. Capital expenditures in the six months ended June 30, 2010 were primarily related to the \$8.8 million, net of cash acquired, used for the acquisition of certain assets of NSPI in June 2010 and \$4.4 million of capital expenditures, which were primarily related to investments in our IT infrastructure, leasehold improvements relating to our relocated retail store in Torrance, California and the creation of enhanced electronic tools for our account executives and sales support staff.

*Cash Flows from Financing Activities.* Net cash provided by financing activities for the six months ended June 30, 2011 was \$21.0 million compared to \$7.9 million in the six months ended June 30, 2010. The \$21.0 million of net cash provided by financing activities in the six months ended June 30, 2011 was primarily related to \$7.2 million of borrowings under a new note payable to finance a part of the purchase price of the building in El Segundo, a \$7.7 million change in book overdraft and a \$5.8 million of net borrowings on our line of credit. The \$7.9 million of net cash provided by financing activities in the six months ended June 30, 2010 was primarily due to the \$11.7 million of net borrowings on our line of credit, of which \$9.8 million was related to our acquisition of certain assets of NSPI, partially offset by a \$2.4 million change in book overdraft.

*Line of Credit and Note Payable.* We maintain an asset-based revolving credit facility, as amended from time to time and most recently amended as of December 14, 2010, 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 0.75 to 1.0 for periods ending on or prior to September 30, 2011, increasing to 1.0 to 1.0 for twelve-month periods ending on or after December 31, 2011. At June 30, 2011, we were in compliance with the 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 June 30, 2011, we had \$56.4 million of net working capital advances outstanding under the line of credit. At June 30, 2011, the maximum credit line was \$160 million and we had \$61.0 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 June 30, 2011, we had \$2.67 million outstanding under the amended term note. The remaining balance of our term note matures as follows: \$205,000 in the remainder of 2011 and \$410,000 annually in each of the years 2012 through 2017.

At June 30, 2011, our effective weighted average annual interest rate on outstanding amounts under the credit facility and term note was 2.44%.

At June 30, 2011, \$0.3 million and \$0.1 million relating to the financing of our purchase of Microsoft AX (Axapta), which is a part of our ERP upgrade, were included in our "Notes payable — current" and "Notes payable and other long-term liabilities," respectively, on our Consolidated Balance Sheets.

In June 2011, we entered into a credit agreement to finance the acquisition and improvement of real property we purchased in March 2011 in El Segundo, California. The credit agreement provides 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. At June 30, 2011, we had \$7.2 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.

As part of our growth strategy, we may, in the future, make acquisitions in the same or complementary lines of business, and pursue other business ventures. Any launch of a new business venture or any acquisition and the ensuing integration of the acquired operations would place additional demands on our management, and our operating and financial resources.

#### **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 complete with all phases of the implementation of the ERP systems by 2013. We believe the implementation and upgrade should help us to gain further efficiencies across our organization. Based on our estimates, which are subject to change, we currently expect to incur a total cost of up to \$14 million for all these IT system upgrades. To date, we have incurred approximately \$8.8 million of such costs. In addition to the above expenditures, we expect on an ongoing basis to make periodic upgrades to our IT systems.

In addition to the upgrades to our IT systems, in July 2008, we entered into an agreement with Cisco Systems for the purchase and implementation of various solutions to upgrade our current infrastructure for a total cost of approximately \$4.6 million. The purchase is financed through a capital lease over a five year term. We believe these upgrades have provided us with a unified platform for our entire company and a robust and efficient contact center. We completed the implementation of the Cisco solution across all of our locations in the second quarter of 2011.

#### **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

As of June 30, 2011, we did not have any off-balance sheet arrangements.

## Contingencies

For a discussion of contingencies, see Part I, Item 1, Note 10 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 Chicago office, HealthDynamix, our Small Business Network and our acquisition of assets of eCost.com and related strategies for our expected future OnSale segment;
- 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 expectations regarding the expansion of our OnSale business into the market for daily deals;
- 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;
- 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 and the impact of changes to our public sector business related to key changes to a primary vendor's programs;
- 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 regulations;
- 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 June 30, 2011, 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 June 30, 2011. 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 notes payable. The variable interest rates on our line of credit and notes payable are tied to the prime rate or the LIBOR, at our discretion. At June 30, 2011, we had \$56.4 million outstanding under our line of credit and \$9.9 million outstanding under our notes payable. As of June 30, 2011, the hypothetical impact of a one percentage point increase in interest rate related to the outstanding borrowings under our line of credit and notes 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 June 30, 2011, 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 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 June 30, 2011.

## 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 second quarter of 2011 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 legal proceedings with loss contingencies, which are expected to be material. 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 result in a material amount of legal or related expenses and be 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 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 complete with all phases of the implementation of the ERP systems by 2013.

In addition to the upgrades to our IT systems, in July 2008, we entered into an agreement with Cisco Systems for the purchase and implementation of various solutions to upgrade our current infrastructure for a total cost of approximately \$4.6 million. The purchase is financed through a capital lease over a five year term. We believe these upgrades have provided us with a unified platform for our entire company and a robust and efficient contact center. We completed the implementation of the Cisco solution across all of our locations in the second quarter of 2011.

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 2012.

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 such 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 disruptions, delays or deficiencies in the design or implementation of our IT systems, or in the performance of our legacy 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. 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 and 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.

**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, HP, IBM, Lenovo, Microsoft and Sony. For example, products manufactured by Apple represented approximately 21% and 16% of our net sales in the three months ended June 30, 2011 and 2010, and 22% and 16% of our net sales in the six months ended June 30, 2011 and 2010. Products manufactured by HP represented 22% and 25% of our net sales in the three months ended June 30, 2011 and 2010, and 21% and 22% of our net sales in the six months ended June 30, 2011 and 2010. 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, HP, IBM, Ingram Micro, Lenovo, Microsoft, Sony, Sun Microsystems and Tech Data, provide us with trade credit or substantial incentives in the form of discounts, credits and cooperative advertising. 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.

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

We are subject to intense price competition with respect to the products we sell. As a result, our gross margins have historically been narrow, and we expect them to continue to be narrow. As a result of the recent economic downturn, we have experienced increasing price competition, which has had a negative impact on our gross margins. Our narrow gross margins magnify the impact of variations in our operating costs and of adverse or unforeseen events on our 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 of our merchandise 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 and 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;
- the frequency of our catalog mailings, introduction or discontinuation of new catalogs;
- variability in vendor programs;
- the introduction of new products or services by us and 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 computer and electronics products;
- consumer acceptance of new purchasing models such as our OnSale daily deals offering and the use of social commerce to drive sales;
- industry announcements and market acceptance of new products or upgrades;
- deferral of customer orders in anticipation of new product applications;
- product enhancements or operating systems;
- the relative mix of products sold during the period;
- any inability on our part to obtain adequate quantities of products carried in our catalogs;
- delays in the release by suppliers of new products and inventory adjustments;
- our expenditures on new business ventures and acquisitions;
- performance of acquired businesses;
- adverse weather conditions that affect 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.

**The transition of our business strategy to increasingly 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 increasingly focus on SMB, MME and Public Sector sales. In shifting our focus, we face numerous risks and challenges, including competition from a wider range of sources and an increased need to develop strategic relationships. We cannot assure you that our increased 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 and 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, the potential lack of a limitation of our liability for damages from 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.

**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 regulations 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 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 the Internet and eCommerce. 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.

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. For example, data security laws are 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 against companies doing business on the Internet, and individuals are increasingly subjected to identity and credit card theft on the Internet. There is a risk that we may fail to prevent such activities and that our customers or others may assert claims against us. 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 such companies' data security, present an ongoing risk to us, could result in a loss of users and could damage our reputation. 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 users and damage to our reputation and be forced to expend significant amounts of financial and managerial resources to defend against these accusations and we may face potential liability as well as extended regulatory oversight in the form of a long-term consent order.

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.

**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. 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. 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;
- fluctuations in mail-in rebate redemption rates;
- 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 or overstocking or under-stocking of our products;
- introduction of new or enhanced services or products by us or our competitors;
- fluctuations in shipping costs, particularly during the holiday season;
- changes in the amounts of information technology spending by SMB, MME, Public Sector and MacMall segment customers;
- economic conditions;
- foreign currency exchange rates;
- changes in the mix of products that we sell; and
- fluctuations in levels of inventory theft, damage or obsolescence that we incur.

**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, Lenovo, 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. Additionally, in connection with our potential acquisition of real property we expect that we may enter into further financing arrangements which could bear variable interest rates. 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 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 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 manufactured and distributed by third parties, some of which may be defective. If any product 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. 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 and financial condition.

**We may fail to expand our product, services and solutions categories and offerings, 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 and 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 the expansion of our OnSale business into the market for daily deals, 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 product categories in a cost-effective or timely manner. If our new categories of products or services 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 product categories, services or solutions, or our inability to generate satisfactory revenue from any such expanded offerings to offset their cost could harm our business.

**We may not be able to attract and retain key personnel such as senior management and 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, President 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. 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 and 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. Postage represents a significant expense for us because we generally mail our catalogs to current and potential customers through the U.S. Postal Service. Any future increases in postal rates will increase our mailing expenses and could have a material adverse effect on our business, financial condition and results of operations. We also incur significant expenses related to purchasing the paper we use in printing our catalogs. The cost of paper has fluctuated over the last several years, and may increase in the future. We believe that we may be able to recoup a portion of any increased postage and paper costs through increases in vendor advertising rates, but no assurance can be given that any efforts we may undertake to offset all or a portion of future increases in postage, paper and other advertising and marketing costs through increases in vendor advertising rates will be successful or sustained, or that they will offset all of the increased costs. Furthermore, 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 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 goods 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 the majority of our infrastructure, including computer servers, are located near Los Angeles, California in an area that is 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 have no formal disaster recovery plan and 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 computer hardware, software, peripherals and electronics is highly competitive, based primarily on price, product availability, speed and accuracy of delivery, effectiveness of sales and marketing programs, credit



availability, ability to tailor specific solutions to customer needs, quality and breadth of product lines and services, and availability of technical or product information. 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 expanding OnSale business competes 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 and services 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 vendors have sold, and may intensify their efforts to sell, their products directly to end users. From time to time, certain 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 vendors. Vendors also may attempt to increase the volume of software products distributed electronically to end users' personal computers. Any of these competitive programs, if successful, could have a material adverse effect on our business, financial condition and 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 or services 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.

In 2005, we opened 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 computer 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 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

None.

## ITEM 6. EXHIBITS

<u>Exhibit Number</u>	<u>Description</u>
10.1	First Amendment to Second Amended and Restated Loan and Security Agreement and Consent, dated as of June 28, 2011, by and among PC Mall, Inc. and all of its domestic subsidiaries, certain lenders and Well Fargo Capital Finance, LLC (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 July 1, 2011)
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

\* 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.

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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: August 15, 2011

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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## 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: August 15, 2011

/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: August 15, 2011

/s/ Brandon H. LaVerne

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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 June 30, 2011 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.

August 15, 2011

/s/ Frank F. Khulusi

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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 June 30, 2011 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.

August 15, 2011

/s/ Brandon H. LaVerne

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Brandon H. LaVerne  
Chief Financial Officer

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