

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

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

For the fiscal year ended December 31, 2010

**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**  
(IRS Employer  
Identification Number)

**2555 West 190th Street, Suite 201, Torrance, CA 90504**  
(Address of principal executive offices, including zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, \$0.001 par value per share	The NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act:

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

(Do not check if a smaller reporting company)

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

As of June 30, 2010, the aggregate market value of the Common Stock held by non-affiliates of the registrant was approximately \$40.4 million, based upon the closing sales price of the registrant's Common Stock on such date, as reported on the Nasdaq Global Market. Shares of Common Stock held by each executive officer, director and each person owning more than 10% of the outstanding Common Stock of the registrant have been excluded in that such persons may be deemed to be affiliates of the registrant. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 22, 2011, the registrant had 12,389,766 shares of common stock outstanding.

**Documents Incorporated By Reference Into Part III:**

Portions of the definitive Proxy Statement for the Registrant to be filed in connection with its 2011 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report.

**PC MALL, INC.**

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## PART I

### FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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 strategy, 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 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 under the heading “Risk Factors” in 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 any forward-looking statement or other information contained herein to reflect new information, events or circumstances after the date hereof.

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## ITEM 1. BUSINESS

### General

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 and SARCOM brands and our websites [pcmall.com](http://pcmall.com), [macmall.com](http://macmall.com), [sarcom.com](http://sarcom.com), [pcmallgov.com](http://pcmallgov.com), [abreon.com](http://abreon.com), [nspi.com](http://nspi.com), [onsale.com](http://onsale.com), [healthdynamix.com](http://healthdynamix.com), [pcmallshn.com](http://pcmallshn.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.

In September 2007, we completed the acquisition of Sarcom, Inc. (“SARCOM”), a provider of advanced technology solutions, for an initial total purchase price of approximately \$55.7 million, including transaction costs, comprised of approximately \$48.2 million in cash and approximately \$7.5 million in shares of our common stock. The purchase price was subsequently adjusted down by \$2.1 million as a result of a final net asset value adjustment entered into on November 6, 2007, under which the sellers tendered back to us approximately 122,478 shares of our common stock previously issued to them.

SARCOM, headquartered in Columbus, Ohio, has served the mid-market and enterprise market for over 20 years and currently specializes in providing enterprise hardware and software solutions, procurement solutions and a full range of professional and managed services. The acquisition included the Abreon Group (“Abreon”), a division of SARCOM. Abreon is a change management business focused on providing business reengineering, business consulting and training services to mid-market and enterprise clients. Our acquisition of SARCOM was motivated in part by our desire to enhance our capabilities as a value added direct marketer of advanced technology products, services and solutions, consistent with our commitment to drive growth in our business in part by expanding our share of our customers’ IT spending.

In December 2009, SARCOM acquired certain assets of Data Systems Worldwide, Inc. (“DSW”). DSW, a provider of converged Cisco solutions in the western United States, had approximately 20 employees as of December 15, 2009, the majority of which were service or sales personnel. Each of these employees became employees of SARCOM in connection with the acquisition. DSW’s practice areas include managed and professional services and Cisco intelligent networks, facilities, datacenters and security, with a focus on unified communications and connected real estate. During 2010, DSW was assimilated into SARCOM.

In June 2010, SARCOM 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 were billable IT resources. NSPI’s managed services include hosted and remote managed monitoring of data centers, networks and IT environments, software as a service (SaaS), infrastructure as a service (IaaS), and other project-based offerings.

Our four operating segments, SMB, MME, Public Sector and MacMall, are primarily aligned based upon their respective customer base. We include 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 operating segments in Corporate & Other. We allocate our resources to and evaluate the performance of our segments based on operating income. A description of each of our segments is provided below.

In the fourth quarter of 2009, we changed the name of our Consumer segment to MacMall. The MacMall segment includes sales made under our MacMall and Onsale brand names via telephone and the Internet to consumers, businesses and creative professionals. This was a name change only and does not affect the segment results reported in the current or prior periods.

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), which ended 2010 with over 40,000 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.

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

In conjunction with this transaction, beginning with the first quarter of 2011, our management will consider the OnSale and eCOST businesses together as a separate segment and will report their results accordingly, including revising all historical segment financial information reported therein. As such, existing sales under the OnSale brand will no longer be reported under the MacMall segment. We expect the MacMall segment to remain primarily focused on targeting small businesses, creative professionals and high-end consumers, predominantly in the Apple and related-products market.

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 December 31, 2010, we had an accrued receivable of \$6.8 million related to the 2009 and 2010 calendar years, and we expect to receive full payment under our remaining labor credit claims.

In October 2008, our Board of Directors approved a discretionary common stock repurchase program for up to \$10 million of our common stock in aggregate with all other repurchases made under any repurchase programs following the date of such Board of Directors' approval. This repurchase program effectively superseded an earlier repurchase program adopted in 1996. Under this new program, the shares may be repurchased from time to time at prevailing market prices, through open market or unsolicited negotiated transactions, depending on market conditions. We expect that the repurchase of our common stock under this new program will be financed with existing working capital and amounts available under our existing credit facility. No limit was placed on the duration of the repurchase program. There is no guarantee as to the exact number of shares that we will repurchase. Subject to applicable securities laws, repurchases may be made at such times and in such amounts as our management deems appropriate. The program can also be discontinued at any time management feels additional purchases are not warranted. During the year ended December 31, 2010, we repurchased a total of 200,084 shares of our common stock under this program for a total cost of \$0.9 million. From the inception of the program in October 2008 through December 31, 2010, we had repurchased an aggregate total of 1,524,494 shares of our common stock for a total cost of \$6.2 million. The repurchased shares are held as treasury stock.

## **Strategy**

Our strategy is to be a value added single source provider of information technology products, services and solutions for our customers. Historically, we implemented our strategy as a rapid response, high volume, cost-efficient direct marketer of multi-branded, competitively-priced information technology products and services, while providing a high level of support to our customers. More recently, as we have added more service capabilities to our offerings to customers, we have become more focused on the return on investment (ROI) that our customers can generate by partnering with us. We believe our model is a compelling combination of

technology hardware, services and solutions, highly efficient fulfillment engines and centralized back-office functions that enables us to provide significant value to our customers. The key elements of our strategy are discussed below.

#### *Expand Our Client Base and Further Penetrate Our Existing Client Base*

During 2010, as commercial, governmental and consumer IT spending started to recover from a broad economic downturn, we continued to invest in people, processes and systems that we feel will enable us to attract new clients and also gain share within our current client base and in incremental markets. For example:

- In late 2009, we launched the Small Business Network at [www.pcmallsbn.com](http://www.pcmallsbn.com), which is an innovative, social media platform designed to drive demand in businesses with fewer than 100 employees. This is the largest segment of businesses in the U.S. market, but has historically been difficult and expensive to reach. By utilizing viral marketing and social media, we believe that the Small Business Network gives us a unique platform to drive demand from these small businesses. In 2010, we grew the number of active members of the Small Business Network to over 40,000 small businesses. While revenues were modest through this site in 2010, our long-term goal is to create a compelling value for those businesses to shift their IT purchases to this network.
- We opened a new office in downtown Chicago in mid-2009. This office houses a new SMB call center, and we have added significant headcount to that location over the last several months. We believe that the excellent pool of qualified account executives available in the Chicago area has allowed us to assemble and maintain a strong local sales team to grow our business with SMB customers. Based on our plan, we grew the Chicago SMB location in 2010 to just under 90 outbound account executives and, consistent with our experience in our other outbound call centers, we expect that these account executives will become more productive over time.
- In 2010, we launched Health Dynamix, a vertically integrated team that, while based within our Public Sector segment, will support our SMB, MME and Public Sector segments, each of which serves customers within the healthcare market. The healthcare market is specialized and is changing rapidly and is also one of the fastest growing markets for IT products. In addition, in mid-2010, we partnered with HP and MedPlus (a subsidiary of Quest Diagnostics) in an effort to drive sales of Electronic Health Record (EHR) solutions. In support of this effort, we formed a dedicated team of 10 outbound account executives to market to private practitioners and launched a full color catalog, as well as a dedicated website at [www.healthdynamix.com](http://www.healthdynamix.com). We believe our investment in Health Dynamix will enable us to continue to grow in this important market.
- We saw a return to growth in 2010 for most of our service offerings, and believe that based upon our service capabilities we have a significant opportunity for growth in service sales with our commercial customers. In 2010, we launched an initiative focused on better leveraging our expanded portfolio of service offerings in an effort to enable further penetration of our commercial customer segments. This initiative is intended to bring elements of our different selling organizations, service organizations, and support organizations together to leverage our strengths in services. We also added executive leadership to our service team with the hiring of a new president for our PC Mall Services subsidiary in November of 2010. In addition, we have added marketing resources dedicated to the marketing and merchandising of our service portfolio. We expect that this initiative and our other ongoing efforts will help us to continue to grow our services business.
- With the large opportunity in the consumer market space in the United States, in late 2010 we expanded the reach of our consumer brands, Onsale and MacMall, by establishing their presence on leading consumer marketplace web sites. We believe that the addition of these marketplace sites to our consumer portfolio will provide access to incremental customers and sales in the consumer space, and positions us for long term growth in that segment.

Our account executives are trained in relationship building, account management and offering high levels of service through a high touch model. Account executives in our SMB, MME and Public Sector segments handle a variety of customer needs, including ongoing customer service, technology assessment and support requirements, operations and procurement processes and other value-added services. We continue to place significant emphasis on increasing the productivity and tenure of our existing sales force through enhanced training and tools, as well as by optimizing our technical pre-sales resources and other support functions. Through these investments we intend to better equip our sales executives to evaluate, understand and ultimately deliver solutions that address their customers' IT needs.

### *Focus on the Growth of Our Value Added Services and Product Offerings*

While historically our growth has been driven by growth in hardware and software sales, we also believe that consolidation in our marketplace has created a unique opportunity for companies like us to leverage our scale by offering value-added services and solutions to earn a greater share of our clients' IT expenditures. We work with our customers to identify areas where they can gain efficiencies by outsourcing some of their IT functions to us. Our services are available to our commercial and public sector customers and span the entire IT life cycle. These services include:

- Assessment & Planning Services
- Data Center Hosting Services
- Microsoft Hosting Services
- Remote Systems Monitoring & Management
- IMAC & Deployment Services
- End-User Desktop Services
- Managed Print Services
- Recycling & Disposal Services
- Change Management Consulting Services

With the June 2010 acquisition of NSPI, we further enhanced our services portfolio with hosted data center and managed IT service capabilities. NSPI services are now offered nationwide through over 30 branch locations.

With over 700 certified engineers, technicians and project managers, combined with a national network of third party service providers, we can provide pre-sales assessments and post-sales services efficiently to our customers in the SMB, mid-market/enterprise and public sector markets. We believe that by effectively providing outsourced IT solutions to our customers we will be better able to anticipate their needs and capture a larger share of their IT expenditures.

We continue to focus on sales of solutions including data centers, cloud computing, unified communications, virtualization, secure mobility, borderless networks, enterprise servers, storage and security, software licensing and procurement needs. We believe these represent high growth opportunities in the SMB, mid-market, enterprise and public sector markets. We are authorized to sell Apple, Cisco, HP, IBM, Lenovo, Microsoft, Symantec and other name brand enterprise solutions. We are also authorized to sell annuity based licenses from leading publishers such as Adobe, IBM, Microsoft, Symantec and VMware to our SMB, MME and Public Sector customers. We have continued to invest in pre-sales assets including pre-sales technical representatives, technical content and training that assist our account executives in our SMB, MME and Public Sector segments to identify and close opportunities for products, services and solutions.

### *Further Strengthen Our Partnerships With Key OEMs and Publishers*

We believe it is important to maintain relationships with key OEMs and publishers such as Apple, Cisco, HP, Lenovo and Microsoft, and other key partners on a company-wide basis. We believe our relationships with key partners give us increased visibility and legitimacy in the minds of our customers. Our direct relationships with key sales and marketing personnel from selected partners provide us key insights related to new and existing products, product roadmaps and industry dynamics.

In 2010, we believe we maintained or increased our position with each of our key vendor partners. We continued to invest in sales and technical competencies to drive solutions-centric sales to commercial customers. We added a number of specializations with certain of our top partners such as Cisco, HP and Microsoft to align us with their strategic growth focus. We continued to enhance our training programs, our compensation plans and our marketing activities to support our growth plans with these key partners.

In 2010, we combined our traditional pre-sales engineering team with a number of billable engineering personnel in an effort to provide end-to-end solutions engineering support across our commercial segments, and we hired a new leader for this combined team in November 2010. This combination is intended to better identify, scope, close and deliver solutions to our commercial customers. This team is responsible for acquiring and maintaining our technical certifications with our most strategic partners allowing us to sell these solutions and benefit from related vendor consideration.

### *Leverage Our Shared Services Capabilities*

We utilize a centralized infrastructure for our back-office capabilities. While we strive to free our sales and marketing organizations to focus on their customers and on their growth, we maintain centralized IT, finance, human resources, and other functions. Some of these functions are located in the Philippines, which provides us a cost advantage. We believe that by leveraging a

centralized model to perform back-office functions we may achieve a more efficient overall cost structure and ability to introduce new tools to our sales organizations.

We are an early adopter of eCommerce technology and have acquired significant expertise in the development and marketing through this channel. We utilize our public websites to provide our customers with easy and convenient shopping, ordering and tracking tools. Our extranet sites (CAP and Ops Track), which are customized extranets for commercial and public sector customers, provide these same capabilities along with custom catalogs, pricing, security, asset management and workflow configurable to the customers' needs. We believe having sophisticated eCommerce capabilities facilitates customer acquisition and retention, and we leverage our shared services model to attempt to replicate best practices among our sales organizations.

We are currently upgrading many of our IT systems. We have purchased licenses for workflow software, web development tools and Microsoft Dynamics AX (Axapta) to upgrade our ERP 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. We completed the initial phase of the implementation in January 2010, 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.

### *Selectively Pursue Strategic Acquisitions*

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. Our market, broadly defined as the technology reseller channel, has undergone significant consolidation over the past 15-20 years. 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 trends may make acquisitions more competitive.

We continually evaluate and explore strategic opportunities as they arise, including business combination transactions, strategic partnerships and the purchase or sale of assets. We may choose to pursue acquisitions for several reasons. For instance, we may pursue acquisitions that will broaden our capabilities in IT services. We may also choose to pursue acquisitions that will enable us to further penetrate or enter geographies we deem attractive. 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 implementation of 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. 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.

### **Sales and Marketing**

**Sales Activities.** We believe that much of our success has come from the quality and training of our account executives. Account executives handle a variety of customer needs, including ongoing customer service, technology assessment and support requirements, operations and procurement processes and other value-added services in our SMB, MME and Public Sector segments. Account executives are responsible for assisting customers in purchasing decisions, answering product pricing and availability questions and processing product orders. Account executives have the authority to vary prices within specified parameters in order to be competitive. In addition, account executives undergo an initial sales training program focusing on use of our systems, product offerings and networking solutions, sales techniques, phone etiquette and customer service. Account executives also attend regular training sessions to stay up-to-date on new products. In addition, we utilize our low cost model in the Philippines (OSRP) to significantly augment the amount of customer service and support personnel available to our commercial sales teams. Customer service and technical support personnel assist outbound account executives, handling administrative tasks, so that account executives can focus on selling. Our phone and computer systems are used for order entry, customer tracking and inventory management. We use a proprietary customer relationship management system for our outbound account executives to assist them with prospecting and account management functions. We also use a customer acquisition, retention and development program to support the ability of our outbound account executives to sell across more product categories.

We believe a key to supporting the successful acquisition and growth of customers in the SMB, mid-market, enterprise and public sector markets is the use of a relationship-based selling model. Our account executives in our segments serving these markets are trained in relationship building, account management and offering high levels of service through a high touch model. Additionally, account executives bring product expertise to bear from within our company, leveraging technical specialists who support our leading OEMs and publishers including Adobe, APC, Apple, Cisco, HP, IBM, Lenovo, Microsoft, Sun Microsystems and Symantec.

We frequently enhance our tools to support our sales activities. Our efforts in this regard have included adding more sophistication to our CRM tools by models we have built to enable our account executives and sales managers to utilize a number of metrics and analytics to derive numerical scores from which incremental opportunities can be identified within specific customer accounts or an account executive's entire book of business. This capability provides a solid foundation from which our account executives can expand their customer account penetration and drive incremental revenue and profitability.

We address the needs of our MacMall customers through inbound account executives, who are trained to support the product needs and the order management requirements of the customer. The account executives are managed to efficiently handle inquiries, while managing their ability to process orders rapidly and address customer service issues. The inbound sales force has access to phone-based technical and customer service resources to ensure a 24/7 ability to handle customer needs.

We fulfill the specific needs of our SMB, MME and Public Sector customers through an outbound phone based sales force and, where applicable, a field based sales force. The sales force is trained in our systems, processes and products and is then provided leads of existing and prospective corporate or public sector customers in the United States. Account executives prospect aggressively into their lead pools to enhance relationships with existing customers, re-establish relationships with inactive customers and build relationships with new customers. Our sales staff strives to build long-term relationships with commercial customers through regular phone contact and personalized service. Commercial customers may choose from several purchase or third-party lease options for financing product purchases and we extend credit to certain commercial customers based upon an evaluation of the customer's financial condition and credit history.

**Marketing Activities.** We design our marketing programs to attract new customers and to stimulate additional purchases by existing customers. Our marketing programs are tailored for MacMall, SMB, MME and public sector customers. We utilize sophisticated analytic tools designed to manage marketing campaigns using different media channels and to optimize campaigns through advanced data mining techniques. The analytic tools combine optimization techniques with multiple models to more effectively match offers to individuals and businesses in an effort to provide the most profitable results.

*Vendor Supported Marketing.* We provide vendor supported outbound phone campaigns and develop custom marketing campaigns for vendor partners that may include seminars for end users, promotional offers, sell advertising space in our catalogs and on our websites and offer trade-in and trade-up programs. We also work collaboratively with our vendor partners and use vendor funding to help offset portions of the costs of marketing promotions, direct mail offers, customer trainings and events and e-marketing or sales incentives which are each based on market opportunity and the vendors' needs. We also develop marketing campaigns designed to maximize product sales and we receive funds from our vendors in the form of volume incentive rebates and other programs.

*Proprietary Websites.* We operate several websites, including psmall.com, macmall.com, psmallgov.com, sarcom.com, abreon.com, nspi.com, onsale.com, healthdynamix.com, and psmallsb.com. Our websites offer features such as on-line ordering, access to inventory availability and a large product selection with detailed product information. We also maintain and operate commercial, customized extranets to provide custom catalogs and online purchasing channels for commercial and public sector customers and their employees. These extranet sites are designed to enhance sales productivity by allowing customers to perform routine tasks online, freeing the associated account executive's time for other tasks.

*Direct Marketing.* We selectively mail catalogs to existing and prospective customers, advertise on the Internet and, to a limited extent, advertise in certain major computer magazines. We obtain the names of prospective customers through selected mailing lists acquired from various sources, including manufacturers, suppliers and computer magazine publishers. We also send direct marketing mailers to selected target audiences to drive sales to new and existing customers.

We create our marketing materials in-house with our own design team and production artists. We believe the in-house preparation of catalogs, advertisements, and promotional materials streamlines the production process, provides greater flexibility and creativity in catalog production and results in significant cost savings over outside production.

*Online Marketing.* eCommerce marketing programs and capabilities, such as affiliate marketing, search engine optimization, email and search engine marketing, are essential components of our customer acquisition and retention strategy. In 2010, we continued to invest in web merchandising resources and skills and enhanced our eCommerce technology to increase the efficiency of these online marketing vehicles and to fine tune the use of these vehicles based on projected profitability. A significant investment in mid-2010 was the launch of the eCommerce capability for the MacMall and OnSale brands to participate in leading online consumer marketplace sites. These marketplace sites provide an opportunity for our brands to gain broader access to a larger number of potential consumer customers, and in the fourth quarter of 2010, we saw the results in incremental revenue.

## Products and Merchandising

We offer information technology products, services and solutions, as well as consumer electronics equipment and other consumer products. We screen and select new products and manufacturers based on the market opportunity and technology adoption trends within our targeted customer markets. We also consider product attributes like features, quality, sales trends, price, margins, market development funds and warranties. We offer our customers other value-added services, such as custom configured systems, software licensing asset management, image management, product asset tagging and asset disposal services.

Through frequent mailings of our catalogs and e-mails to our customers, we believe we are able to quickly introduce new products and replace slower selling products with new products. We also use various marketing materials, web training and local events to educate our customers on solutions and more complex technologies and to provide other content to describe technology applications and how they will benefit the customer. Through these materials and activities, we showcase the full breadth of the products and solutions we sell in an effort to provide our customers with a single source for all their technology needs.

The following table sets forth our net sales by major categories as a percentage of total net sales for the periods presented, determined based upon our internal product code classifications.

	Years Ended December 31,		
	2010	2009	2008
Notebooks .....	19.6%	15.8%	16.2%
Software .....	16.6	16.9	15.9
Desktop .....	10.0	9.4	9.6
Networking .....	7.6	7.7	7.3
Professional services .....	6.0	6.8	5.9
Storage .....	5.8	8.0	6.9
Displays .....	4.4	4.0	4.8
iPods/MP3.....	3.9	4.1	5.1
Manufacturer service and warranty.....	3.7	4.2	3.7
Servers .....	3.6	3.3	3.8
Printers .....	2.7	3.2	3.9
Accessories .....	2.6	2.7	2.5
Supplies.....	2.4	3.2	3.0
Power .....	2.2	2.1	2.0
Input devices .....	1.9	2.2	1.7
Memory.....	1.8	1.6	1.9
Consumer electronics.....	1.2	1.5	1.5
Other (1).....	4.0	3.3	4.3
Total.....	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

(1) Other consists primarily of other electronic products, income from miscellaneous items, and other consumer products.

## Service Offerings for Commercial and Public Sector Markets

We provide sophisticated information technology assessment, planning and implementation services on a national basis to small and medium sized businesses, mid-market and enterprise customers, government and educational institutions, healthcare professionals, and individual consumers. Our services span the entire information technology lifecycle and include:

- Assessment & Planning Services
- Data Center Hosting Services
- Microsoft Hosting Services
- Remote Systems Monitoring & Management
- IMAC & Deployment Services
- End-User Desktop Services
- Managed Print Services
- Recycling & Disposal Services
- Change Management Consulting Services

With our acquisition of NSPI in June 2010, we further enhanced our services portfolio with hosted data center and managed IT service capabilities. NSPI services are now offered nationwide through over 30 branch locations.

Our launch of the HealthDynamix brand into the healthcare market in June 2010 broadened our services portfolio to include support of electronic health record (EHR) adoption, assisting physicians in achieving meaningful utilization as defined by the US government. Participating physicians are now able to take advantage of EHR funds allocated by the American Recovery and Reinvestment Act.

To better support our customers and as a reflection of our focus on customer satisfaction, we have grown to over 700 certified engineers, technicians and project managers providing on-site support to our clients. They support a wide variety of technology solutions such as data centers, cloud computing, unified communications, virtualization, secure mobility, borderless networks, enterprise servers, storage and security, software licensing, and procurement needs.

Our engineers are experts in their field who collectively hold over 4,400 certifications. With regular training to maintain and expand these certifications and authorizations, we continue to serve our most forward-thinking clients, helping them optimize their IT environments and meeting their service and support requirements.

Along with our strong industry relationships with Apple, Cisco, HP, Microsoft, Sun Microsystems and others, we continue to utilize our relationships with third party service contractors when we do not have in-house capabilities to deliver the most appropriate solution for our customers. Our IT services, whether they are delivered by us or through our partners, complement our offerings, and we strive to develop complete solutions that lead to growth and success.

### **Purchasing and Inventory**

Effective purchasing is a key element of our strategy to provide name brand computer products and related software and peripherals at competitive prices. We believe that our high volume of sales results in increased purchasing power with our primary suppliers, resulting in volume discounts, favorable product return policies and vendor promotional allowances. Products manufactured by Apple represented approximately 21%, 19% and 20% of our net sales in 2010, 2009 and 2008. Products manufactured by HP accounted for 20%, 19% and 19% of our net sales in 2010, 2009 and 2008. We are also linked electronically with 15 distributors and manufacturers, which allows our account executives to view applicable product availability online and drop-ship those products directly to customers. The benefits of this program include reduced inventory carrying costs, higher order fill rates and improved inventory turns.

Many of our vendor partners provide us with market development funds to assist in the active marketing and sales of their products. Such funds help offset portions of the cost of catalog publication and distribution based upon the amount of coverage given in the catalogs for their products, as well as other costs incurred to market their products. Termination or interruption of our relationships with our vendors, or modification of the terms of or discontinuance of our agreements with our vendors, could adversely affect our operating results. Our success is dependent in part upon the ability of our vendors to develop and market products that meet the changing requirements of the marketplace. As is customary in our industry, we have no long-term supply contracts with any of our vendors. Substantially all of our contracts with our vendors are terminable upon 30 days' notice or less.

We attempt to manage our inventory to optimize order fill rate and customer satisfaction, while limiting inventory risk. Inventory levels may vary from period to period, due in part to increases or decreases in sales levels, our practice of making large-volume purchases when we deem the terms of such purchases to be attractive and the addition of new manufacturers and products. We have negotiated agreements with many of our vendors that contain price protection provisions intended to reduce our risk of loss due to manufacturer price reductions. We currently have such rights with respect to certain products that we purchase from Apple, HP and certain other vendors; however, rights vary by product line, have conditions and limitations and generally can be terminated or changed at any time.

The market for information technology products, solutions and services is characterized by rapid technological change and growing diversity. We believe that our success depends in large part on our ability to identify and obtain the right to market products, solutions and services that meet the changing requirements of the marketplace and to obtain sufficient quantities to meet changing demands. There can be no assurance that we will be able to identify and offer products, solutions and services necessary to remain competitive or avoid losses related to excess or obsolete inventory.

### **Backlog**

Our backlog generally represents open, cancelable orders and may vary significantly from period to period. We do not believe that backlog is useful for predicting our future sales.

## **Distribution**

We operate a full-service 212,000 square foot distribution center in Memphis, Tennessee, an 84,640 square foot warehouse facility in Columbus, Ohio and a 20,254 square foot warehouse facility in Irvine, California. The Memphis warehouse is our primary distribution center and is strategically located near the FedEx main hub in Memphis, which allows most orders of in-stock products accepted by 10:00 p.m. Eastern Time to be shipped for delivery by 10:30 a.m. the following day via FedEx priority, if requested by the customer. Upon request, orders may also be shipped at a lower cost using other modes of transportation such as FedEx standard, FedEx overnight, United Parcel Service ground delivery or the United States Postal Service. The Columbus and Irvine warehouses primarily function as custom configuration and distribution centers for our corporate customers. We believe that our existing distribution facilities are adequate for our current and foreseeable future needs.

When an order is entered into our systems, a credit check or credit card verification is performed, and if approved, and the product is in stock, the order is electronically transmitted to the warehouse for order fulfillment. Inventory items are bar coded and located in computer-designated areas which are easily identified on the packing slip. Orders are checked with bar code scanners prior to final packing to ensure that each order is packed correctly.

We also have electronic purchasing and drop shipping systems for products that are not in stock at our distribution centers. Fifteen distributors and manufacturers are linked to us electronically to provide inventory availability and pricing information. We transmit orders electronically for immediate shipment via an electronic interchange to the selected distributor after considering inventory availability, service level, price and location. This capability has historically allowed us to ship a high percentage of orders on the same day that they are received.

## **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. 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 \$7.1 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 up to approximately \$4.0 million. The purchase is financed through a capital lease over a five year term. Our plan is to provide a unified platform for our entire company and to provide a robust and efficient contact center. We are implementing the Cisco solution across all of our locations and expect that all of our locations will be upgraded by the first half 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 hardware or software 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 that 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 2013. Any interruption, corruption, degradation or failure of our management information systems or telephone system could adversely impact our ability to receive and process customer orders on a timely basis.

## **Retail Stores**

We currently operate two retail stores, located in Santa Monica and Torrance, California whose target customers are consumers and small businesses residing or located in the local areas.

## **Competition**

The business of selling information technology products, solutions and services is highly competitive. We compete with a variety of companies that can be divided into several broad categories:

- other direct marketers, including CDW, Insight Enterprises and PC Connection;
- large value added resellers such as CompuCom Systems, Pomeroy IT Solutions and World Wide Technology;
- government resellers such as GTSI, CDWG and GovConnection;
- computer retail stores and resellers, including superstores such as Best Buy and Staples;
- 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;
- software focused resellers such as Soft Choice and Software House International; and
- other direct marketers and value added resellers of information technology products, solutions and services.

Barriers to entry are relatively low in the direct marketing industry, and the risk of new competitors entering the market is high. The markets in which our retail stores operate are also highly competitive.

Competition in our market is based on various factors, including but not limited to, price, product selection, quality and availability, ease of doing business, customer service, and brand recognition.

The manner in which the products, solutions and services we sell are distributed and sold is continually changing, and new methods of sales and distribution have emerged. Information technology resellers are consolidating operations and acquiring or merging with other resellers to achieve economies of scale and increased efficiency. Our largest manufacturers have sold, and continue to sell, their products directly to customers. To the extent additional manufacturers adopt this selling format or this trend becomes more prevalent, it could adversely affect our sales and profitability. In addition, traditional retailers have entered and may increase their penetration into direct marketing and the SMB market. The current industry reconfiguration and the trend toward consolidation could cause the industry to become even more competitive, further increase pricing pressures and make it more difficult for us to maintain our operating margins or to increase or maintain the same level of net sales or gross profit.

Although many of our competitors have greater financial resources than we do, we believe that our ability to offer SMB, mid-market/enterprise, public sector and consumer customers a wide selection of products, solutions and services, at competitive prices, with prompt delivery and a high level of customer satisfaction, together with good relationships with our vendors and suppliers, allows us to compete effectively. We compete not only for customers, but also for favorable product allocations and cooperative advertising support from product manufacturers. Some of our competitors could enter into exclusive distribution arrangements with our vendors and deny us access to their products and solutions, devote greater resources to marketing and promotional campaigns and devote substantially more resources to their websites and systems development than we can. New technologies and the continued enhancement of existing technologies also may increase competitive pressures on us. Some of our competitors have reduced their prices in an attempt to stimulate sales. If competition or technological changes cause the prices of our products, solutions and services to decrease, we must increase the quantity of the products, solutions and services we sell to achieve the same level of net sales and gross profit. If prices decrease and we are unable to attract new customers and sell increased quantities, our sales and profitability could be adversely affected. There can be no assurance that we can continue to compete effectively against existing or new competitors that may enter the market. We believe that competition may increase in the future, which could require us to adopt competitive pricing strategies, which could include reduced prices or a decision not to raise prices to offset any cost increases; increase advertising expenditures; or take other competitive actions that may have an adverse effect on our operating results.

## **Intellectual Property**

We rely on a combination of laws and contractual restrictions with our employees, customers, suppliers, affiliates and others to establish and protect our proprietary rights. Despite these precautions, it is possible that third parties may copy or otherwise obtain and use our intellectual property, including using our trademarks or domain names, without authorization. Although we regularly assert our intellectual property rights when we learn that they are being infringed, these claims can be time-consuming and may require litigation and administrative proceedings to be successful. We have numerous trademarks and service marks that we consider to be material to the successful operation of our business. The most important are PC Mall, SARCOM, MacMall, OnSale, and Abreon,

which we currently use in connection with telephone, mail order, catalog and/or online retail services. We have registrations for PC Mall and MacMall in the United States and in numerous foreign jurisdictions for telephone, mail order, catalog and/or online retail services.

Third parties have asserted, and may in the future assert, that our business methods or the technologies we use infringe their intellectual property rights. We may be subject to intellectual property claims and legal proceedings in the ordinary course of our business. If we are forced to defend against any third-party infringement claims, we could face expensive and time-consuming litigation and 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 business methods or technologies that are found to be infringing. 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 business methods or technology, which could be costly and time-consuming, or enter into costly royalty or licensing agreements.

Third parties have in the past, and may in the future, hire employees who have had access to our proprietary technologies, processes and operations. This exposes us to the risk that former employees will misappropriate our intellectual property.

Litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. Any litigation, regardless of outcome or merit, could result in substantial costs and diversion of management and technical resources, which could materially harm our business.

### **Segment Reporting Data**

Operating segment and principal geographic area data for 2010, 2009 and 2008 are summarized in Note 14 of the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report, which is incorporated herein by reference.

### **Employees**

At December 31, 2010, we had 2,562 full-time and 95 part-time employees, consisting of 1,784 in the United States, 342 in Canada and 531 in the Philippines. We emphasize recruiting and training high-quality personnel and, to the extent practical, promote people to positions of increased responsibility from within the company. Many employees initially receive training appropriate for their position, followed by varying levels of training in computer technology, communication and leadership. New account executives participate in an intensive sales training program, during which time they are introduced to our business ethics and philosophy, available resources, products and services, as well as basic and advanced sales skills. Training for specific product lines and continuing education programs are conducted on a regular basis, supplemented by vendor-sponsored training programs for account executives and technical support personnel.

We consider our employee relations to be good. None of our employees is represented by a labor union, and we have experienced no work stoppages.

### **Regulatory and Legal Matters**

Our direct response business is subject to the Mail or Telephone Order Merchandise Rule and other related regulations promulgated by the Federal Trade Commission and it is also subject to other laws and regulations applicable to access to or commerce on the Internet. 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 believe we are currently in compliance with such laws and regulations and 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. 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. Due to the increasing popularity and use of the Internet, it is likely that new laws and regulations will be adopted with respect to the Internet, including laws and regulations that may impose additional restrictions or burdens on our business. Moreover, the growth and development of the market for Internet commerce could prompt calls for more stringent consumer protection laws that, if enacted, could impose additional restrictions or burdens on us and other companies conducting business over the Internet. In addition to imposing restrictions or

burdens on our business, the adoption of any additional laws or regulations with respect to the Internet may decrease the growth of Internet usage, which, in turn, could decrease the demand for and growth of our Internet-based sales.

Based upon current law, certain of our subsidiaries currently collect and remit sales and 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. Various state taxing authorities have sought to impose on direct marketers with no physical presence in the taxing state the burden of collecting state sales and use taxes on the sale of products or services shipped or sold to those states' residents, and it is possible that such a requirement could be imposed in the future. In addition, a number of bills may be introduced or are pending before federal and state legislatures that would potentially expand our tax collection or reporting responsibility. Until these legislative efforts have run their course and the courts have considered and resolved some cases involving these tax collection and reporting issues, there can be no assurance that future laws or interpretations of existing laws imposing 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 of 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.

### **Available Information**

Our corporate website address is [www.pcmall.com](http://www.pcmall.com). We are subject to the informational requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and file or furnish reports, proxy statements, and other information with the Securities and Exchange Commission ("SEC"). We make our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and all amendments to these reports, if any, available free of charge on our corporate website as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the SEC. We have also adopted a code of conduct and ethics that applies to our directors, officers and employees which is available on our website. The information contained on our website is not part of this report or incorporated by reference herein.

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### **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](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.

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. Our plan is to provide a unified platform for our entire company and to provide a robust and efficient contact center. We are implementing the Cisco solution across all of our locations and expect that all of our locations will be upgraded by the first half 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 2013.

In addition to the specifically discussed IT and phone system upgrades discussed above, we also regularly upgrade our systems in an effort to better meet the information requirements of our users, and believe that to remain competitive, it will be necessary for us to upgrade our management information systems on a regular basis in the future. The implementation of any upgrades is complex, in part, because of the wide range of processes and the multiple systems that may need to be integrated across our business. In connection with any 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 accounted for approximately 21%, 19%

and 20% of our total net sales for 2010, 2009 and 2008, and products manufactured by HP accounted for approximately 20%, 19% and 19% of our total net sales for 2010, 2009 and 2008. 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;
- 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 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 acquisition of real property in March 2011, we expect to 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 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 or our inability to generate satisfactory revenue from any expanded product categories 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 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. In the direct marketing and Internet retail industries, barriers to entry are relatively low and the risk of new competitors entering the market is high. Certain 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.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

## ITEM 2. PROPERTIES

Our principal facilities at December 31, 2010 were as follows:

<u>Description</u>	<u>Sq. Ft.</u>	<u>Location</u>
Distribution Center and Retail Store .....	212,000	Memphis, TN
SARCOM Headquarters, Sales Office and Warehouse/Distribution Center .....	121,486	Lewis Center, OH
PC Mall Corporate Headquarters and Sales Office.....	59,692	Torrance, CA
Irvine Sales Office and Warehouse/Distribution Center.....	60,072	Irvine, CA
Canadian Office .....	45,128	Montreal, Quebec
Chicago Office.....	28,074	Chicago, Illinois
Philippines Office .....	25,134	Mandaluyong City, Philippines
Retail Store — Torrance.....	10,018	Torrance, CA
Retail Store — Santa Monica .....	9,750	Santa Monica, CA
Wisconsin Sales Office.....	4,887	Menomonee Falls, WI

We lease each of our principal facilities, except for the Santa Monica, California retail store, which we own. Our distribution centers include shipping, receiving, warehousing and administrative spaces. All of our segments, except our MacMall segment, use all the properties described above. Our MacMall segment uses each of the properties described above except for the Lewis Center, Ohio office, the Irvine, California office and the Menomonee Falls, Wisconsin office. In addition to the properties listed above, we lease sales offices in various cities in the U.S.

During the first week of January 2011, we closed our retail store located adjacent to our warehouse in Memphis, Tennessee. This retail store was primarily for clearance items and was not a material retail operation.

Effective January 1, 2011, AF Services, LLC, our wholly-owned subsidiary, entered into an amendment to the existing lease agreement, originally dated February 19, 2009, as amended, with SARCOM Properties, Inc., adding an additional 22,514 square feet of space to the existing 121,486 square feet of space utilized primarily by our SARCOM subsidiary. The 144,000 total square feet is used for office and warehouse/distribution space in Lewis Center, Ohio.

On March 11, 2011, we completed the purchase of the real property comprising approximately 82,000 square feet of office space located at 1940 East Mariposa Avenue, El Segundo, California, which 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 \$9.5 million in cash. In addition to the purchase price of the property, we expect to make certain improvements on the property for an expected cost of up to \$4.5 million. In the near term, we expect to complete financing of the building and improvements through a variable interest rate loan committed to us by a commercial bank.

## ITEM 3. LEGAL PROCEEDINGS

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

## ITEM 4. REMOVED AND RESERVED

### ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

Our executive officers as of March 25, 2011 and their respective ages and positions were as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Frank F. Khulusi .....	44	Chairman of the Board, President and Chief Executive Officer
Brandon H. LaVerne.....	39	Chief Financial Officer, Treasurer and Chief Accounting Officer
Kristin M. Rogers .....	52	Executive Vice President — Sales and Marketing
Robert I. Newton.....	45	Executive Vice President, General Counsel and Secretary
Joseph B. Hayek .....	38	Executive Vice President, Corporate Development and Investor Relations

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

*Frank F. Khulusi* is one of our co-founders and has served as our Chairman of the Board and Chief Executive Officer since our inception in 1987, served as President until July 1999, and resumed the office of President in March 2001. Mr. Khulusi attended the University of Southern California.

*Brandon H. LaVerne* has served as our Chief Financial Officer since July 2008. Mr. LaVerne previously served as our Interim Chief Financial Officer, Chief Accounting Officer and Treasurer of the Company since June 2007, and continues to serve as our principal financial and accounting officer. Prior to June 2007, Mr. LaVerne served as Vice President and Controller and has been with us since October 1998. Prior to joining us, Mr. La Verne worked for Computer Sciences Corporation, and started his career with Deloitte and Touche LLP. Mr. LaVerne received his B.S. in Accounting from the University of Southern California and is a Certified Public Accountant.

*Kristin M. Rogers* joined us in February 2000 and was appointed as our Executive Vice President — Sales in June 2001. Ms. Rogers currently serves as Executive Vice President — Sales and Marketing and is responsible for all of our sales and marketing functions. Prior to joining us, Ms. Rogers held a variety of positions with Merisel, a computer wholesale distributor from 1980 through 1999, most recently as Senior Vice President and General Manager of the U.S. region. In addition, Ms. Rogers spent one year (1997) as Executive Vice President and General Manager of the U.S. region for Micro Warehouse, a direct marketer based in Norwalk, Connecticut. Ms. Rogers received a B.A. degree in Political Science from Bates College in Lewiston, Maine. Ms. Rogers also serves as the President of the HP PC Mall Sales Advisory Council.

*Robert I. Newton* joined us in June 2004 and currently serves as our Executive Vice President, General Counsel and Secretary. Mr. Newton was Of Counsel in the corporate practice group of Morrison & Foerster LLP from February 2000 until joining our company. Prior to his employment at Morrison & Foerster LLP, Mr. Newton was a partner in the corporate practice group of McDermott, Will & Emery LLP. Mr. Newton received a B.B.A., with highest honors, and a J.D., with honors, from the University of Texas at Austin.

*Joseph B. Hayek* joined us in March 2008 as Executive Vice President, Corporate Development and Investor Relations. From August 2000 to March 2008, Mr. Hayek worked in corporate finance at Raymond James & Associates, an investment banking firm, where he most recently served as a Senior Vice President and headed the firm's Supply Chain Technologies Practice. Before joining Raymond James, Mr. Hayek was an investment banker in the technology group at Wachovia Securities. Mr. Hayek also worked for the Eastman Kodak Company. Mr. Hayek holds an MBA from Duke University's Fuqua School of Business and a B.S. in Business from Miami University in Oxford, Ohio.

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## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock has been publicly traded on the Nasdaq Global Market (formerly known as Nasdaq National Market) under the symbol "MALL" since our initial public offering on April 4, 1995. The following table sets forth the range of high and low sales price per share for our common stock for the periods indicated, as reported on the Nasdaq Global Market.

	Price Range of Common Stock	
	High	Low
<b>Year Ended December 31, 2010</b>		
First Quarter .....	\$ 5.67	\$ 4.40
Second Quarter .....	6.05	3.88
Third Quarter .....	7.24	3.20
Fourth Quarter.....	7.88	5.22
<b>Year Ended December 31, 2009</b>		
First Quarter .....	\$ 4.06	\$ 2.84
Second Quarter .....	8.58	4.38
Third Quarter .....	8.98	6.50
Fourth Quarter.....	8.08	5.04

As of the close of business on March 22, 2011, there were approximately 31 holders of record of our common stock.

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.

Information regarding compensation plans under which our equity securities may be issued is included in Item 12 of Part III of this report through incorporation by reference to our definitive Proxy Statement to be filed in connection with our 2011 Annual Meeting of Stockholders.

#### Issuer Purchases of Equity Securities

In October 2008, our Board of Directors approved a discretionary common stock repurchase program for up to \$10 million of our common stock in aggregate with all other repurchases made under any repurchase programs following the date of such Board of Directors' approval. This repurchase program effectively superseded an earlier repurchase program adopted in 1996. Under this new program, the shares may be repurchased from time to time at prevailing market prices, through open market or unsolicited negotiated transactions, depending on market conditions. We expect that the repurchase of our common stock under this new program will be financed with existing working capital and amounts available under our existing credit facility. No limit was placed on the duration of the repurchase program. There is no guarantee as to the exact number of shares that we will repurchase. Subject to applicable securities laws, repurchases may be made at such times and in such amounts as our management deems appropriate. The program can also be discontinued at any time management feels additional purchases are not warranted.

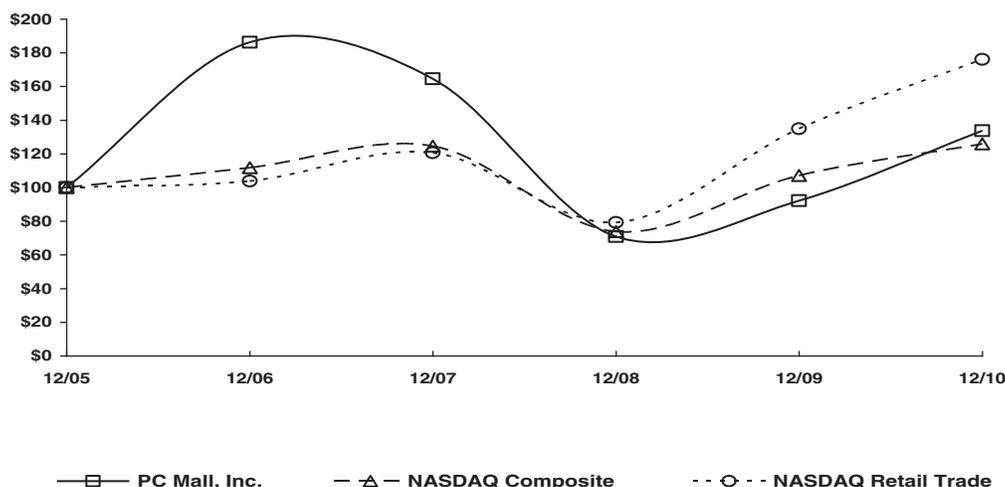
We did not repurchase any shares during the three months ended December 31, 2010. During the year ended December 31, 2010, we repurchased a total of 200,084 shares of our common stock under this program for a cost of \$0.9 million. From the inception of the program in October 2008 through December 31, 2010, we have repurchased an aggregate total of 1,524,494 shares of our common stock for a total cost of \$6.2 million. The repurchased shares are held as treasury stock.

Notwithstanding anything to the contrary set forth in any of the Company's filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, that might incorporate future filings, including this Annual Report on Form 10-K, in whole or in part, the Stock Performance Graph which follows shall not be deemed to be incorporated by reference into any such filings except to the extent that we specifically incorporate any such information into any such future filings.

### Stock Performance Graph

The performance graph below compares the cumulative total stockholder return of our company with the cumulative total return of the Nasdaq Stock Market—the Nasdaq Composite Index and the Nasdaq Retail Trade Index. The graph assumes \$100 invested at the per-share closing price of our common stock and each of the indices on December 31, 2005. The stock price performance shown in this graph is neither necessarily indicative of nor intended to suggest future stock price performance.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\***  
Among PC Mall, Inc., the NASDAQ Composite Index  
and the NASDAQ Retail Trade Index



\*\$100 invested on 12/31/05 in stock or index, including reinvestment of dividends.  
Fiscal year ending December 31.

	Measurement Period (fiscal years covered)					
	12/05	12/06	12/07	12/08	12/09	12/10
PC Mall, Inc.....	\$ 100.00	\$ 186.22	\$ 164.49	\$ 70.85	\$ 92.23	\$ 133.75
NASDAQ Composite .....	100.00	111.74	124.67	73.77	107.12	125.93
NASDAQ Retail Trade.....	100.00	103.82	120.64	79.21	134.98	176.03

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## ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data are qualified by reference to, and should be read in conjunction with, our consolidated financial statements and the notes thereto and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained elsewhere herein.

The selected consolidated statements of operations data for the years ended December 31, 2010, 2009 and 2008 and the selected consolidated balance sheet data as of December 31, 2010 and 2009 presented below were derived from our audited consolidated financial statements, which are included elsewhere herein. The selected consolidated statements of operations data for the years ended December 31, 2007 and 2006 along with the consolidated balance sheet data as of December 31, 2008, 2007 and 2006 presented below were derived from our audited consolidated financial statements which are not included elsewhere herein.

	Years Ended December 31,				
	2010	2009	2008	2007	2006
	(in thousands, except per share data)				
<b>Consolidated Statements of Operations Data:</b>					
Net sales.....	\$ 1,368,314	\$ 1,138,061	\$ 1,327,974	\$ 1,215,433	\$ 1,005,820
Cost of goods sold.....	1,197,019	985,045	1,148,593	1,067,595	881,902
Gross profit .....	171,295	153,016	179,381	147,838	123,918
Selling, general and administrative expenses....	156,827	145,274	155,494	123,520	111,817
Special charges (1).....	—	—	4,893	—	1,683
Operating profit.....	14,468	7,742	18,994	24,318	10,418
Interest expense, net.....	2,019	1,567	3,667	4,031	3,940
Income before income taxes .....	12,449	6,175	15,327	20,287	6,478
Income tax expense.....	4,876	2,818	5,724	7,844	2,522
Net income.....	<u>\$ 7,573</u>	<u>\$ 3,357</u>	<u>\$ 9,603</u>	<u>\$ 12,443</u>	<u>\$ 3,956</u>
<b>Basic and Diluted Earnings Per Common Share:</b>					
Basic .....	\$ 0.62	\$ 0.27	\$ 0.72	\$ 0.98	\$ 0.33
Diluted .....	0.61	0.26	0.69	0.90	0.31

(1) 2008 includes a \$4.1 million goodwill and intangible asset impairment charge and a \$0.8 million lawsuit settlement charge. 2006 relates to a lawsuit settlement charge.

	At December 31,				
	2010	2009	2008	2007	2006
	(in thousands)				
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents .....	\$ 10,711	\$ 9,215	\$ 6,748	\$ 6,623	\$ 5,836
Working capital.....	52,638	54,034	50,847	37,264	43,386
Total assets.....	334,091	301,176	282,385	296,235	203,567
Short-term debt .....	783	1,038	1,038	775	500
Line of credit.....	50,301	53,127	29,010	53,893	32,477
Long-term debt, excluding current portion ...	2,666	3,333	4,337	4,456	1,750
Total stockholders’ equity.....	107,293	97,755	93,551	84,424	60,824

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## **ITEM 7. 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 and SARCOM brands and our websites [pcmall.com](http://pcmall.com), [macmall.com](http://macmall.com), [sarcom.com](http://sarcom.com), [pcmallgov.com](http://pcmallgov.com), [abreon.com](http://abreon.com), [nspi.com](http://nspi.com), [onsale.com](http://onsale.com), [healthdynamix.com](http://healthdynamix.com), [pcmallsbnsbn.com](http://pcmallsbnsbn.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.

Our four operating segments, SMB, MME, Public Sector and MacMall, are primarily aligned based upon their respective customer base. We include 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 operating segments in Corporate & Other. We allocate our resources to and evaluate the performance of our segments based on operating income. A description of each of our segments is provided below.

In the fourth quarter of 2009, we changed the name of our Consumer segment to MacMall. The MacMall segment includes sales made under our MacMall and Onsale brand names via telephone and the Internet to consumers, businesses and creative professionals. This was a name change only and does not affect the segment results reported in the current or prior periods.

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), which ended 2010 with over 40,000 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.

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, 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 capabilities and IT infrastructure and tools in an effort to position us for enhanced productivity and future growth. We are currently engaged in an aggressive market share growth strategy in certain of our segments, which includes targeted aggressive pricing to acquire or enhance customer relationships as well as to enhance vendor relationships.

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%, 19% and 20% of our net sales in 2010, 2009 and 2008. Products manufactured by HP represented 20%, 19% and 19% of our net sales in 2010, 2009 and 2008.

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**

### *ERP and Web Infrastructure Upgrades*

We are currently upgrading many of our IT systems. We have purchased licenses for Microsoft Dynamics AX (Axapta) and other related tools, such as workflow software, web development tools and other related items, to upgrade our ERP and eCommerce systems. We initiated the implementation and upgrade of our eCommerce system in the second half of 2008 and have completed and launched a new generation of our public sites at macmall.com, onsale.com and pcmall.com. We are currently working on the implementation of the ERP modules and the upgrade of the ERP systems, including additional enhancements and features, and we expect to be 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 \$7.1 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 up to approximately \$4.0 million. The purchase is financed through a capital lease over a five year term. Our plan is to provide a unified platform for our entire company and to provide a robust and efficient contact center. We are implementing the Cisco solution across all of our locations and expect that all of our locations will be upgraded by the first half of 2011.

#### *eCOST.com Acquisition*

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

In conjunction with this transaction, beginning with the first quarter of 2011, our management will consider the OnSale and eCOST businesses together as a separate segment and will report their results accordingly, including revising all historical segment financial information reported therein. As such, existing sales under the OnSale brand will no longer be reported under the MacMall segment. We expect the MacMall segment to remain primarily focused on targeting small businesses, creative professionals and high-end consumers, predominantly in the Apple and related-products market.

#### *NSPI Acquisition*

In June 2010, our SARCOM 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, “Purchase Price Allocations” (formerly FAS No. 141R), 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 is based upon management’s initial forecasts of expected profitability of NSPI during the earnout period, and will be updated, if necessary, in future periods with adjustments reflected in our consolidated statement of operations.

#### *DSW Acquisition*

In December 2009, our SARCOM subsidiary acquired certain assets of Data Systems Worldwide, Inc. (“DSW”) for a total purchase price of approximately \$1.5 million. DSW, a provider of converged Cisco solutions in the western United States, had approximately 20 employees as of December 15, 2009, the majority of which are service or sales personnel. Each of these employees became employees of Sarcom in connection with the acquisition. DSW’s practice areas include managed and professional services and Cisco intelligent networks, facilities, data centers and security, with a focus on unified communications and connected real estate.

#### *Goodwill and Intangible Asset Impairment*

In accordance with ASC 350-20 (formerly Statement of Financial Accounting Standards No. 142, “Goodwill and Other Intangible Assets”), we performed our annual impairment analysis of goodwill and indefinite lived intangible assets for possible impairment. Our management, with the assistance of an independent third-party valuation firm, determined the fair values of our reporting units and their underlying assets and compared them to their respective carrying values. Based on our analysis, we have determined that no impairment of goodwill or indefinite lived intangible assets existed as of December 31, 2010 and 2009. For 2008, based on our analysis as of December 31, 2008, we determined that approximately \$2.7 million of goodwill and purchased intangibles held by our Public Sector segment, related to our acquisition of Government Micro Resources, Inc. in 2006, and approximately \$1.4 million of goodwill held by our MacMall segment, related to our acquisition of ClubMac in 2002, representing all of the goodwill held at each of these segments as of December 31, 2008, were impaired. As a result, we recorded a non-cash, pre-tax impairment charge totaling \$4.1

million to “Special charges” on our Consolidated Statements of Operations for the year ended December 31, 2008. The \$4.1 million impairment charge resulted in a deferred tax benefit of \$1.5 million. See below under “Critical Accounting Policies and Estimates — Goodwill and Intangible Assets” for more information.

## 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 this Annual Report on Form 10-K.

*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 granted during the years ended December 31, 2010, 2009 and 2008, we computed the expected term based upon an analysis of historical exercises of stock options by our employees. We compute our expected volatility using historical prices of our common stock for a period equal to the expected term of the options. The risk free interest rate is determined using the implied yield on U.S. Treasury issues with a remaining term within the contractual life of the award. We estimate an annual forfeiture rate based on our historical forfeiture data, which rate will be revised, if necessary, in future periods if actual forfeitures differ from those estimates. Any material change in the estimates used in calculating the stock-based compensation expense could result in a material impact on our results of operations.

*Goodwill and Intangible Assets.* Goodwill and indefinite-lived intangible assets are carried at historical cost, subject to write-down, as needed, based upon an impairment analysis that we perform annually, or sooner if an event occurs or circumstances change that would more likely than not result in an impairment loss. We perform our annual impairment test for goodwill and indefinite-lived intangible assets as of December 31 of each year. Under ASC 350 (formerly SFAS No. 142, "Goodwill and Other Intangible Assets"), 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.

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

As of December 31, 2010, we performed our annual impairment analysis of goodwill and indefinite-lived intangible assets for possible impairment. Our management, with the assistance of an independent third-party valuation firm, determined the fair values of our reporting units and their underlying assets, and compared them to their respective carrying values. Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in each business combination. The carrying value of goodwill was allocated to our reporting units pursuant to ASC 350. As a result of our annual impairment analysis, we determined that the estimated fair value of our MME segment exceeded its net carrying value and as such, no impairment of goodwill and indefinite-lived intangible assets existed as of December 31, 2010.

For the year ended December 31, 2009, no impairment of goodwill and indefinite-lived intangible assets existed. For the year ended December 31, 2008, as a result of the global economic downturn and its effect on the results of each of our reporting units and as a result of our 2008 annual impairment analysis, which indicated that there would be no remaining implied value attributable to the goodwill of our Public Sector and MacMall reporting units, we determined that the goodwill and purchased intangible assets related to our Public Sector and the goodwill related to our MacMall segments were impaired. Therefore, we recorded an impairment charge totaling \$4.1 million, which represents the entire goodwill and purchased intangible asset amounts related to our Public Sector (\$2.7 million) and MacMall (\$1.4 million) segments, for the year ended December 31, 2008. The \$4.1 million of total impairment charge was included as part of "Special charges" on our Consolidated Statements of Operations for the year ended December 31, 2008.

Fair value was determined by using a weighted combination of a market-based approach and an income approach, as this combination was deemed to be the most indicative of fair value in an orderly transaction between market participants. Under the market-based approach, we utilized information regarding our company and publicly available comparable company and industry information to determine cash flow multiples and revenue multiples that are used to value our reporting units. Under the income approach, we determined fair value based on estimated future cash flows of each reporting unit, discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of a reporting unit and the rate of return an outside investor would expect to earn. Determining the fair value of a reporting unit requires the use of significant estimates and assumptions, including revenue growth rates and operating margins, discount rates and future market conditions, among others.

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

	Years Ended December 31,		
	2010	2009	2008
Net sales.....	\$ 1,368,314	\$ 1,138,061	\$ 1,327,974
Cost of goods sold.....	1,197,019	985,045	1,148,593
Gross profit .....	171,295	153,016	179,381
Selling, general and administrative expenses.....	156,827	145,274	155,494
Special charges .....	—	—	4,893
Operating profit.....	14,468	7,742	18,994
Interest expense, net.....	2,019	1,567	3,667
Income before income taxes .....	12,449	6,175	15,327
Income tax expense.....	4,876	2,818	5,724
Net income.....	\$ 7,573	\$ 3,357	\$ 9,603

	As a Percentage of Net Sales For Years Ended December 31,		
	2010	2009	2008
Net sales.....	100.0%	100.0%	100.0%
Cost of goods sold.....	87.5	86.5	86.5
Gross profit .....	12.5	13.5	13.5
Selling, general and administrative expenses.....	11.5	12.8	11.7
Special charges .....	—	—	0.4
Operating profit.....	1.0	0.7	1.4
Interest expense, net.....	0.1	0.2	0.3
Income before income taxes .....	0.9	0.5	1.1
Income tax expense.....	0.3	0.3	0.4
Net income.....	0.6%	0.2%	0.7%

### Year Ended December 31, 2010 Compared to the Year Ended December 31, 2009

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

	Years Ended December 31,		Change	
	2010	2009	\$	%
SMB.....	\$ 487,865	\$ 368,846	\$ 119,019	32.3%
MME.....	493,733	382,725	111,008	29.0
Public Sector.....	187,331	173,957	13,374	7.7
MacMall.....	199,534	212,531	(12,997)	(6.1)
Corporate and Other.....	(149)	2	(151)	NMF(1)
Consolidated net sales.....	\$ 1,368,314	\$ 1,138,061	\$ 230,253	20.2%

(1) Not meaningful.

Our consolidated net sales for 2010 were \$1,368.3 million, a \$230.2 million, or 20%, increase from consolidated net sales of \$1,138.1 million in 2009.

Our SMB segment net sales increased by \$119.1 million, or 32%, to \$487.9 million in 2010 from \$368.8 million in 2009. This increase was primarily due to continuing economic recovery by small and medium sized businesses, increased productivity of our account executives, inclusive of significant growth in our new Chicago office, and an increase in sales to promotional companies.

Our MME segment net sales increased by \$111.0 million, or 29%, to \$493.7 million in 2010 from \$382.7 million in 2009. This increase was primarily due to increased spending by customers in the mid-market and enterprise sector and increased account executive productivity in 2010. Product revenues increased by 38% in 2010 compared to the same period in 2009 while service revenues decreased by 2% in 2010 compared to the same period in 2009. Service revenues represented 17% of MME net sales in 2010 compared to 23% of net sales in 2009. The service revenue decline as a percentage of sales was due primarily to the aforementioned growth in products sales, and a 17% decline in MME's Sarcos branded professional and managed services in 2010 compared to 2009 resulting from certain large service projects in 2009 that did not reoccur in 2010. This decline was partially offset by the inclusion of service revenues of NSPI, which we acquired in June 2010, and services performed under our Abreon brand, which service revenues increased by 12% in 2010 compared to 2009. MME's service revenue vehicles are primarily contract-based and have longer lead times.

Our Public Sector segment net sales increased by \$13.3 million, or 8%, in 2010 to \$187.3 million from \$174.0 million in 2009. This increase was primarily due to an increase in net sales in both our SLED business and our federal government business driven by stronger demand in both markets and our aggressive public sector market share growth strategy, as well as significant backlog from a large customer carried over from the fourth quarter of 2009. The increase in our federal government business was, however, largely offset by the impact of a 33% reduction in sales of Sun Microsystems solutions, which we believe is substantially related to the acquisition of Sun by Oracle in January 2010 and resulting vendor program changes made in the second quarter of 2010 in connection with Sun solutions. In addition, these changes had a significant negative impact on our federal government net sales through a large contract vehicle. We expect our federal government sales of Sun solutions may be negatively impacted for the foreseeable future.

Our MacMall segment net sales decreased by \$13.0 million, or 6%, to \$199.5 million in 2010 compared to \$212.5 million in 2009. This decrease in MacMall net sales was primarily due to our shift in strategy, which focused the MacMall brand on higher profit customer segments such as small businesses, creative professionals and high-end consumers, as well as the effect of continued competition in the market for Apple products and the absence of year end opportunistic purchases we made in 2008 which we were able to profitably sell in the first half of 2009. These decreases in MacMall net sales in 2010 were partially offset by significant seasonal sales of iPads during the fourth quarter of 2010.

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

	Years Ended December 31,					
	2010		2009		Change	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	\$	Margin
SMB.....	\$ 60,324	12.4%	\$ 47,259	12.8%	\$ 13,065	(0.4)%
MME.....	75,301	15.3	65,182	17.0	10,119	(1.7)
Public Sector.....	14,189	7.6	18,300	10.5	(4,111)	(2.9)
MacMall.....	21,404	10.7	22,095	10.4	(691)	0.3
Corporate and Other.....	77	NMF(1)	180	NMF(1)	(103)	NMF(1)
Consolidated gross profit and gross profit margin .....	<u>\$ 171,295</u>	12.5%	<u>\$ 153,016</u>	13.4%	<u>\$ 18,279</u>	(0.9)%

(1) Not meaningful.

Consolidated gross profit for 2010 was \$171.3 million compared to \$153.0 million in 2009, an \$18.3 million or 12% increase. Consolidated gross profit margin was 12.5% in 2010 compared to 13.4% in 2009.

Gross profit for our SMB segment was \$60.3 million in 2010 compared to \$47.3 million in 2009, an increase of \$13.0 million or 28%. SMB gross profit margin decreased by 40 basis points to 12.4% in 2010 compared to 12.8% in 2009. The increase in SMB gross profit was primarily due to the increase in SMB net sales discussed above and a \$1.9 million increase in vendor consideration. The decrease in SMB gross profit margin was primarily due to a 48 basis point decline in vendor consideration as a percentage of net sales.

Gross profit for our MME segment increased by \$10.1 million, or 16%, to \$75.3 million in 2010 compared to \$65.2 million 2009, and gross profit margin decreased by 170 basis points to 15.3% in 2010 compared to 17.0% in 2009. The increase in MME gross profit was primarily due to the increased MME net sales discussed above. The decrease in MME gross profit margin was primarily due to a change in overall sales mix, as hardware sales grew more rapidly than service sales.

Gross profit for our Public Sector segment decreased by \$4.1 million, or 22%, to \$14.2 million in 2010 compared to \$18.3 million in 2009. Public Sector gross profit margin decreased by 290 basis points to 7.6% in 2010 compared to 10.5% in 2009. The decrease in our Public Sector gross profit and gross profit margin was primarily due to the impact of the Sun changes mentioned above and a

higher mix of large, lower margin deals in 2010. Gross profit margin for 2010 also reflects the effects of our previously stated market share growth strategy in the Public Sector business, specifically on the Windows platform in order to broaden our sales mix. We expect that future sales of Sun Microsystems solutions will be made at lower margins than we have historically experienced prior to the vendor program changes made by Oracle.

Gross profit for our MacMall segment was \$21.4 million for 2010 compared to \$22.1 million in 2009, a decrease of \$0.7 million or 3%. Gross profit margin for our MacMall segment increased by 30 basis points to 10.7% in 2010 compared to 10.4% in 2009. The decrease in our MacMall gross profit was primarily due to the decrease in MacMall net sales discussed above. The increase in MacMall gross profit margin was primarily due to the aforementioned strategy shift to focus the MacMall brand on higher profit customer segments.

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

	Years Ended December 31,					
	2010		2009		Change	
	Operating Profit (Loss)	Operating Profit Margin(1)	Operating Profit (Loss)	Operating Profit Margin(1)	\$	Margin
SMB .....	\$ 31,362	6.4%	\$ 23,048	6.2%	\$ 8,314	0.2%
MME .....	23,190	4.7	18,613	4.9	4,577	(0.2)
Public Sector .....	737	0.4	5,847	3.4	(5,110)	(3.0)
MacMall .....	5,329	2.7	3,191	1.5	2,138	1.2
Corporate and Other .....	(46,150)	(3.4)	(42,957)	(3.8)	(3,193)	0.4%
Consolidated operating profit and operating profit margin..	<u>\$ 14,468</u>	1.1%	<u>\$ 7,742</u>	0.7%	<u>\$ 6,726</u>	0.4%

(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 2010 increased by \$6.8 million, or 87%, to \$14.5 million compared to \$7.7 million in 2009. Consolidated operating profit margin for 2010 was 1.1% compared to 0.7% in 2009, an increase of 40 basis points.

Operating profit for our SMB segment increased by \$8.4 million, or 36%, to \$31.4 million in 2010 compared to \$23.0 million in 2009. The increase in SMB operating profit was primarily due to the increase in SMB gross profit discussed above, partially offset by a \$4.6 million increase in SMB personnel costs. This increase in SMB personnel costs was primarily due to an increase in variable compensation expenses due to the increased SMB gross profit discussed above and our continuing investment in the growth of our Chicago office.

Our MME segment operating profit increased by \$4.6 million, or 25%, to \$23.2 million in 2010 compared to \$18.6 million in 2009. The increase in MME operating profit was primarily due to the increase in MME gross profit discussed above, partially offset by a \$3.4 million increase in MME personnel costs and a \$0.6 million increase in depreciation and amortization expenses primarily relating to the acquisition of NSPI. The increase in MME personnel costs was primarily due to an increase in variable compensation costs related to the increased gross profit discussed above and the acquisition of NSPI.

Operating profit for our Public Sector segment was \$0.7 million in 2010 compared to \$5.8 million in 2009, a decrease of \$5.1 million, or 87%. The decrease in Public Sector operating profit was primarily due the decrease in Public Sector gross profit discussed above and a \$0.9 million increase in Public Sector personnel costs related to our investment in our Public Sector's Health Dynamix division and incremental investments in headcount. The increase in Public Sector personnel costs was partially offset by a decrease in variable compensation expenses due to the decreased Public Sector gross profit.

Operating profit for our MacMall segment increased by \$2.1 million, or 67%, to \$5.3 million in 2010 compared to \$3.2 million in 2009. The increase in MacMall segment operating profit was primarily due to a \$3.1 million decrease in MacMall advertising expenditures, a \$0.6 million decrease in credit card related fees and a \$0.6 million decrease in variable fulfillment expenses, partially offset by a \$1.2 million increase in MacMall personnel costs and the decrease in MacMall gross profit discussed above. The increase in MacMall personnel costs were primarily due to an increase in sales executives supporting our MacMall small business initiative.

Corporate and 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. Corporate and Other expenses increased by \$3.2 million, or 7%, to \$46.2 million in 2010 from

\$43.0 million in 2009. This increase was primarily due to a \$2.6 million increase in personnel costs, which included a \$0.5 million increase in stock-based compensation expenses, an increase in depreciation expenses of \$1.7 million primarily related to the completed portions of our ERP and infrastructure upgrades, partially offset by a \$0.6 million decrease in legal costs, a \$0.4 million decrease in telecommunication costs and a \$0.3 million decrease in other professional fees.

*Net Interest Expense.* Total net interest expense in 2010 increased to \$2.0 million compared with \$1.6 million in 2009. The increase in interest expense of \$0.4 million resulted primarily from increase in our average total outstanding borrowings in 2010 partially offset by the decrease in our average effective borrowing rate in 2010 compared to 2009.

*Income Tax Expense.* We recorded an income tax expense of \$4.9 million in 2010 compared to an income tax expense of \$2.8 million in 2009. Our effective tax rates for 2010 and 2009 were 39% and 46%. The increase in income tax expense is primarily attributable to the increase in pre-tax income. The decrease in our effective tax rate in 2010 compared to 2009 was primarily due to the impact of a tax adjustment relating to a dividend from a foreign subsidiary in 2009.

### Year Ended December 31, 2009 Compared to the Year Ended December 31, 2008

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

	Years Ended December 31,		Change	
	2009	2008	\$	%
SMB.....	\$ 368,846	\$ 486,876	\$ (118,030)	(24.2)%
MME.....	382,725	426,101	(43,376)	(10.2)
Public Sector.....	173,957	161,418	12,539	7.8
MacMall.....	212,531	253,537	(41,006)	(16.2)
Corporate and Other.....	2	42	(40)	NMF(1)
Consolidated net sales.....	\$ 1,138,061	\$ 1,327,974	\$ (189,913)	(14.3)%

(1) Not meaningful.

Our consolidated net sales for 2009 were \$1,138.1 million, a \$189.9 million, or 14%, decrease from consolidated net sales of \$1,328.0 million in 2008.

Our SMB segment net sales decreased by \$118.1 million, or 24%, to \$368.8 million in 2009 from \$486.9 million in 2008. The decrease in SMB segment net sales was primarily due to general economic weakness and the resulting softness in IT spending by small and medium sized businesses in North America and a \$25.0 million decrease in lower margin volume iPod sales to certain customers.

Our MME segment net sales decreased by \$43.4 million, or 10%, to \$382.7 million in 2009 from \$426.1 million in 2008. The decrease in MME segment net sales was primarily due to a 13% decrease in product revenues, which was due to general economic weakness and the resulting softness in IT spending by customers in the mid-market and enterprise sector in 2009. The decline in product revenues was partially offset by a 1% increase in service revenues in 2009 compared to 2008. Service revenues included an 8% increase in SARCOM branded professional and managed services and an 18% decline in Abreon branded services, which are primarily focused on change management and eLearning consulting. Service revenues represented 23% of MME net sales in 2009 compared to 20% of MME net sales in 2008.

Our Public Sector segment net sales increased by \$12.6 million, or 8%, in 2009 to \$174.0 million from \$161.4 million in 2008. This increase was primarily due to an 18% increase in sales in our SLED business reflecting increased productivity of SLED account executives and a 4% increase in our Federal business.

Our MacMall segment net sales decreased by \$41.0 million, or 16%, to \$212.5 million in 2009 compared to \$253.5 million in 2008. This decrease was primarily due to general economic weakness, increased competition for retail customers, significant pricing pressure for Apple products and a decrease in average selling prices resulting from a decrease in sales of higher priced items in the notebook computer category. We expect to continue to encounter a similarly competitive economic environment in 2010.

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

	Years Ended December 31,					
	2009		2008		Change	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	\$	Margin
SMB.....	\$ 47,259	12.8%	\$ 60,368	12.4%	\$ (13,109)	0.4%
MME.....	65,182	17.0	73,600	17.3	(8,418)	(0.3)
Public Sector.....	18,300	10.5	16,565	10.3	1,735	0.2
MacMall.....	22,095	10.4	28,647	11.3	(6,552)	(0.9)
Corporate and Other.....	180	NMF(1)	201	NMF(1)	(21)	NMF(1)
Consolidated gross profit and gross profit margin.....	<u>\$ 153,016</u>	13.4%	<u>\$ 179,381</u>	13.5%	<u>\$ (26,365)</u>	(0.1)%

(1) Not meaningful.

Consolidated gross profit for 2009 was \$153.0 million compared to \$179.4 million in 2008, a \$26.4 million or 15% decrease. Consolidated gross profit margin was 13.4% in 2009 compared to 13.5% in 2008.

Gross profit for our SMB segment was \$47.3 million in 2009 compared to \$60.4 million in 2008, a decrease of \$13.1 million or 22%. SMB segment gross profit margin increased by 40 basis points to 12.8% in 2009 compared to 12.4% in 2008. The decrease in SMB gross profit was primarily due to the decrease in SMB net sales discussed above. The increase in SMB gross profit margin resulted primarily due to a decline in low margin volume iPod sales discussed above.

Gross profit for our MME segment decreased by \$8.4 million, or 11%, to \$65.2 million in 2009 compared to \$73.6 million 2008, and gross profit margin decreased by 30 basis points to 17.0% in 2009 compared to 17.3% in 2008. The decrease in MME gross profit was primarily due to the decreased MME net sales discussed above. The decrease in gross profit margin was primarily due to a decrease in MME selling margin due to a competitive pricing environment, partially offset by a 36 basis point increase in vendor consideration as a percentage of net sales.

Gross profit for our Public Sector segment increased by \$1.7 million, or 10%, to \$18.3 million in 2009 compared to \$16.6 million in 2008. Public Sector gross profit margin increased by 20 basis points to 10.5% in 2009 compared to 10.3% in 2008. The increase in our Public Sector gross profit was primarily due to the increase in Public Sector net sales discussed above. The increase in our Public Sector gross profit margin was primarily due to an increase in selling margin related to an improved product mix, partially offset by a decrease of 9 basis points in vendor consideration as a percentage of net sales.

Gross profit for our MacMall segment for 2009 was \$22.1 million compared to \$28.6 million in 2008, a decrease of \$6.5 million or 23%. Gross profit margin for our MacMall segment decreased by 90 basis points to 10.4% in 2009 compared to 11.3% in 2008. The decrease in our MacMall gross profit was primarily due to the decrease in MacMall net sales discussed above. The decrease in our MacMall gross profit margin was primarily due to a very competitive pricing environment and a 33 basis point decrease in vendor consideration as a percentage of net sales. We expect this competitive environment to continue in 2010.

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

	Years Ended December 31,					
	2009		2008		Change	
	Operating Profit (Loss)	Operating Profit Margin(1)	Operating Profit (Loss)	Operating Profit Margin(1)	\$	Margin
SMB.....	\$ 23,048	6.2%	\$ 29,514	6.1%	\$ (6,466)	0.1%
MME.....	18,613	4.9	18,379	4.3	234	0.6
Public Sector.....	5,847	3.4	2,200	1.4	3,647	2.0
MacMall.....	3,191	1.5	7,540	3.0	(4,349)	(1.5)
Corporate and Other.....	(42,957)	(3.8)	(38,639)	(2.9)	(4,318)	(0.9)%
Consolidated operating profit and operating profit margin.....	<u>\$ 7,742</u>	0.7%	<u>\$ 18,994</u>	1.4%	<u>\$ (11,252)</u>	(0.7)%

(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 2009 decreased by \$11.3 million, or 59%, to \$7.7 million compared to \$19.0 million in 2008. Consolidated operating profit margin for 2009 was 0.7% compared to 1.4% in 2008, a decrease of 70 basis points. Consolidated operating profit and operating profit margin in 2008 were impacted by a \$4.1 million goodwill and intangible asset impairment charge and a \$0.8 million lawsuit settlement charge.

Operating profit in 2009 for our SMB segment decreased by \$6.5 million, or 22%, to \$23.0 million compared to \$29.5 million in 2008. The decrease was primarily due to the \$13.1 million decrease in SMB gross profit discussed above, partially offset by a \$5.2 million decrease in SMB personnel costs, a \$0.6 million decrease in credit card related fees, a \$0.6 million decrease in bad debt expense and a \$0.6 million decrease in variable fulfillment costs.

Our MME segment operating profit in 2009 increased by \$0.2 million, or 1%, to \$18.6 million compared to \$18.4 million in 2008. The increase in MME operating profit was primarily due to a \$7.7 million decrease in MME personnel costs, which resulted primarily from centralization of resources of \$3.7 million to our Corporate & Other segment and a \$2.4 million decrease in variable compensation, a \$0.5 million decrease in travel and entertainment expenses offset by the \$8.4 million decrease in MME gross profit discussed above.

Operating profit in 2009 for our Public Sector segment was \$5.8 million compared to \$2.2 million in 2008, an increase of \$3.6 million, or 166%. The increase in Public Sector segment operating profit in 2009 was primarily due to the \$1.7 million increase in Public Sector gross profit discussed above and a \$2.7 million goodwill impairment charge in 2008, partially offset by a \$0.6 million increase in personnel costs in 2009 primarily in our federal government business.

Operating profit in 2009 for our MacMall segment decreased by \$4.3 million, or 58%, to \$3.2 million compared to \$7.5 million in 2008. The decrease in MacMall segment operating profit was primarily due to the \$6.6 million decrease in MacMall segment gross profit discussed above, partially offset by a \$1.4 million goodwill impairment charge in 2008, a \$0.8 million decrease in credit card related fees and a \$0.4 million decrease in advertising expenditures.

Corporate and Other expenses increased by \$4.4 million, or 11%, to \$43.0 million in 2009 from \$38.6 million in 2008. This increase was primarily due to a \$3.3 million increase in personnel costs, which includes \$3.7 million of centralization of certain resources from our MME segment, partially offset by a \$0.4 million decrease in other personnel costs. The increase in Corporate and Other expenses also included a \$1.7 million increase in professional service related costs, which includes \$1.0 million in legal costs related to defending what we believe is a meritless lawsuit by a competitor in connection with our hiring of two account executives. Corporate and Other expenses in 2008 included a \$0.8 million lawsuit settlement in the second quarter of 2008. As a percent of consolidated net sales, Corporate and Other expenses increased by 90 basis points in 2009 to 3.8% compared to 2.9% in 2008, primarily due to the decrease in consolidated net sales discussed above and the centralization of certain resources from our MME segment.

*Net Interest Expense.* Total net interest expense in 2009 decreased to \$1.6 million compared with \$3.7 million in 2008. The decrease in interest expense resulted primarily from a decrease in our average effective rate in 2009 compared to 2008 and a decrease in our average total outstanding borrowings in 2009.

*Income Tax Expense.* We recorded an income tax expense of \$2.8 million in 2009 compared to an income tax expense of \$5.7 million in 2008. Our effective tax rates for 2009 and 2008 were 46% and 37%. The decrease in income tax expense is primarily attributable to the decrease in pre-tax income. The increase in our effective tax rate was primarily due to the impact of a tax adjustment relating to a dividend from a foreign subsidiary.

## **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, and possible repurchases of our common stock under a discretionary repurchase program, which is discussed below. Our primary sources of financing have historically come from borrowings from financial institutions, public and private issuances of our common stock and cash flows from operations. Our 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 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, which was amended in December 2010, will be adequate to support our current operating plans for at least the next 12 months.

On February 18, 2011, we acquired certain assets, including approximately \$1 million of inventory, of eCOST.com, a subsidiary of PFSweb, Inc., for \$2.3 million. Also, as part of this acquisition, we assumed certain liabilities related to a web-based promotional membership program available on eCOST.com's website and liabilities with respect to customer warranty claims, credits, returns and refunds, related to the operation of eCOST.com's business or through the website from and after the acquisition date. For more information, see Part II, Item 8, Note 16 of the Notes to the Consolidated Financial Statements of this report.

On March 11, 2011, we completed the purchase of the real property comprising approximately 82,000 square feet of office space located at 1940 East Mariposa Avenue, El Segundo, California, which 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 \$9.5 million in cash. In addition to the purchase price of the property, we expect to make certain improvements on the property for an expected cost of up to \$4.5 million. In the near term, we expect to complete financing of the building and improvements through a variable interest rate loan committed to us by a commercial bank. Under the terms of a commitment letter to us from a commercial bank, the maximum amount of the committed loan is the lesser of \$12 million, 75% of the "as improved" value of the property, and 75% of our acquisition and improvement costs. The commitment for the loan provides for a five year term with 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. The loan will be secured by the real property, and will contain financial covenants substantially similar to those of our existing asset-based credit facility.

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.

We had cash and cash equivalents of \$10.7 million at December 31, 2010 and \$9.2 million at December 31, 2009. Our working capital decreased by \$1.2 million to \$52.8 million at December 31, 2010 from working capital of \$54.0 million at December 31, 2009.

In October 2008, our Board of Directors approved a discretionary common stock repurchase program for up to \$10 million of our common stock in aggregate with all other repurchases made under any repurchase programs following the date of such Board of Directors' approval. This repurchase program effectively superseded an earlier repurchase program adopted in 1996. Under this new program, the shares may be repurchased from time to time at prevailing market prices, through open market or unsolicited negotiated transactions, depending on market conditions. We expect that any repurchases of our common stock under this program will be financed with existing working capital and amounts available under our existing credit facility. No limit was placed on the duration of the repurchase program. There is no guarantee as to the exact number of shares that we will repurchase. Subject to applicable securities laws, repurchases may be made at such times and in such amounts as our management deems appropriate. The program can also be discontinued at any time management feels additional purchases are not warranted. During the year ended December 31, 2010, we had repurchased a total of 200,084 shares of our common stock under this program for a cost of \$0.9 million. From the inception of the program in October 2008 through December 31, 2010, we had repurchased an aggregate total of 1,524,494 shares of our common stock for a cost of \$6.2 million. The repurchased shares are held as treasury stock.

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 December 31, 2010, we had an accrued receivable of \$6.8 million related to the 2009 and 2010 calendar years, and we expect to receive full payment under our remaining labor credit claims.

*Cash Flows from Operating Activities.* Net cash provided by operating activities was \$28.3 million in 2010 compared to net cash used in operating activities of \$9.0 million in 2009 and net cash provided by operating activities of \$28.2 million in 2008. The \$37.3 million of increase in net cash provided by operating activities in 2010 from 2009 was primarily related to a \$30.7 million improvement in the management of our working capital and a \$6.6 million increase in our net income adjusted for non-cash items. The \$30.7 million improvement in the management of our working capital resulted from a \$20.1 million improvement in the management of our accounts payable, a \$6.8 million improvement in the management of our deferred revenue, a \$5.7 million improvement in the management of our inventory and a \$5.0 million improvement in the management of our accrued expenses and other current liabilities. The \$6.6 million increase in our net income adjusted for non-cash items resulted primarily from the \$4.2 million increase in our net income in 2010 from 2009 and a \$2.6 million increase in depreciation and amortization expense relating to the completed portions of our ERP and IT infrastructure upgrades.

The \$37.2 million decrease in net cash provided by operating activities in 2009 from 2008 was primarily related to a \$30.2 million decrease in the management of our working capital and a \$7.0 million decrease in our net income adjusted for non-cash items. The \$30.2 million decrease resulted primarily from a \$24.4 million increase in our accounts receivable and a \$6.8 million decrease related to our deferred revenues. The \$7.0 million decrease in our net income adjusted for non-cash items resulted primarily from the \$6.2 million decrease in our net income in 2009 from 2008 and the \$4.1 million of goodwill and intangible asset impairment charge in 2008, partially offset by a \$2.6 million increase in provision for deferred taxes.

*Cash Flows from Investing Activities.* Net cash used in investing activities during the years ended December 31, 2010, 2009 and 2008 was \$16.8 million, \$9.3 million and \$3.2 million, respectively. The \$16.8 million of net cash used in investing activities in 2010 was primarily related to the \$8.8 million (net of cash acquired) used for the acquisition of NSPI in June 2010 and \$8.0 million of capital expenditures. The \$8.0 million of capital expenditures 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. The \$9.3 million of net cash used in investing activities in 2009 was primarily related to investment in our IT infrastructure, including ERP, security and telecommunications upgrades and the acquisition of certain assets of DSW. The \$3.2 million of net cash used in investing activities in 2008 was primarily due to the creation of enhanced electronic tools for our account executives and sales support staff, the continued expansion of our Philippines offices, leasehold improvements and capitalized labor relating to internally developed software.

*Cash Flows from Financing Activities.* Net cash used in financing activities was \$10.2 million in 2010 compared to net cash provided by financing activities of \$19.8 million in 2009 and net cash used in financing activities of \$25.2 million in 2008. The \$10.2 million of net cash used in financing activities in 2010 was primarily due to the \$4.2 million of net payments on our line of credit, a \$3.4 million change in book overdraft and a \$1.1 million of net repayments under our notes payable. The \$19.8 million of net cash provided by financing activities in 2009 was primarily due to a \$24.1 million increase in our outstanding balance on our line of credit, partially offset by repurchases of our common shares totaling \$2.6 million, a \$1.1 million decrease in book overdraft and \$1.0 million of net payment on our notes payable. The \$25.2 million of net cash used in financing activities in 2008 was primarily due to the \$24.9 million repayment on our line of credit and a \$2.6 million repurchase of our common shares into treasury stock, partially offset by a \$2.4 million increase in book overdraft.

*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 December 31, 2010, we did not have an FCCR triggering event.

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 December 31, 2010, we had \$50.3 million of net working capital advances outstanding under the line of credit. At December 31, 2010, the maximum credit line was \$160 million and we had \$96.7 million available to borrow for working capital advances under the line of credit.

In connection with and as part of the amended credit facility, we entered into an amended term note on December 14, 2010 with a principal balance of \$2.87 million, payable in equal monthly principal installments beginning on January 1, 2011, plus interest at the prime rate with a LIBOR option. The amended term note matures in December 2017 or in the event of a default, termination or non-renewal of our credit facility, is payable in its entirety upon demand by our lender. At December 31, 2010, we had \$2.87 million outstanding under the amended term note. The remaining balance of our term note matures as follows: \$410,000 annually in each of the years 2011 through 2017.

At December 31, 2010, our effective weighted average annual interest rate on outstanding amounts under the credit facility and term note was 2.57%.

At December 31, 2010, \$0.3 million and \$0.2 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. See “Other Planned Capital Projects” below for a detailed discussion.

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.

### **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.

## CONTRACTUAL OBLIGATIONS, OFF-BALANCE SHEET ARRANGEMENTS AND CONTINGENCIES

### Contractual Obligations

The following tables set forth our future contractual obligations and other commercial commitments as of December 31, 2010 (in thousands), including the future periods in which payments are expected. Additional details regarding these obligations are provided in the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report.

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
<b>Contractual obligations</b>					
Long-term debt obligation (a) (Note 7)....	\$ 3,360	\$ 647	\$ 1,073	\$ 820	\$ 820
Purchase obligations (b) (Note 9) .....	8,457	6,963	1,494	—	—
Operating lease obligations (Note 9).....	18,946	6,173	8,120	3,880	773
Capital lease obligations (Note 9).....	2,549	870	1,448	231	—
Total contractual obligations.....	<u>\$ 33,312</u>	<u>\$ 14,653</u>	<u>\$ 12,135</u>	<u>\$ 4,931</u>	<u>\$ 1,593</u>
<b>Other commercial commitments</b>					
Line of credit (a) (Note 7).....	\$ 50,301	\$ 50,301	\$ —	\$ —	\$ —
Standby Letters of Credit (c).....	10,098	10,000	—	98	—
Earn-out (d).....	3,200	1,421	1,779	—	—

- (a) Long-term debt obligation and line of credit exclude interest, which is based on a variable rate tied to the prime rate or LIBOR plus a variable spread, at our option.
- (b) Purchase obligations consist of minimum commitments under non-cancelable contracts for services relating to telecommunications, IT maintenance, financial services and employment contracts with certain employees (which consist of severance arrangements that, if exercised, would become payable in less than one year).
- (c) Standby LOCs are commitments issued to third party beneficiaries, underwritten by a third party bank, representing funding responsibility in the event of third party demands or contingent events. The outstanding balance of our standby LOCs reduces the amount available to us from our revolving credit facility. The LOC amounts in the table above represent the amount of commitment expiration per period presented. There were no claims made against any standby LOCs during the year ended December 31, 2010.
- (d) Earn-out represents the fair value of the future contingent liability, arising from our acquisition of NSPI, as it is recorded on our Consolidated Balance Sheet under "Accrued expenses and other current liabilities." At completion of acquisition of NSPI in June 2010, the fair value of the earn-out was based on an initial valuation of the fair value of the contingent consideration, under which the sellers of NSPI can earn up to a total of \$5.2 million over a two year period commencing from the acquisition date. The earn-out amounts in the table above represent the fair value of the contingent liability and the respective earn-out periods.

Effective January 1, 2011, AF Services, LLC, our wholly-owned subsidiary, entered into an amendment to the existing lease agreement, originally dated February 19, 2009, as amended, with SARCOM Properties, Inc., adding an additional 22,514 square feet of space to the existing 121,486 square feet of space utilized primarily by our SARCOM subsidiary. For more information, see Part II, Item 8, Note 16 of the Notes to the Consolidated Financial Statements of this report.

### Other Planned Capital Projects

#### *ERP and Web Infrastructure Upgrades*

We are currently upgrading many of our IT systems. We have purchased licenses for Microsoft Dynamics AX (Axapta) and other related tools, such as workflow software, web development tools and other related items, to upgrade our ERP and eCommerce systems. We initiated the implementation and upgrade of our eCommerce system in the second half of 2008 and have completed and launched a new generation of our public sites at macmall.com, onsale.com and psmall.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 \$7.1 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 up to approximately \$4.0 million. The purchase is financed through a capital lease over a five year term. Our plan is to provide a unified platform for our entire company and to provide

a robust and efficient contact center. To date, we have received \$3.7 million of the Cisco solution. We expect to receive the remainder of the equipment and services in the first quarter of 2011. We are implementing the Cisco solution across all of our locations and expect that all of our locations will be upgraded by the first half of 2011.

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

As of December 31, 2010, we did not have any off-balance sheet arrangements.

### **Contingencies**

For a discussion of contingencies, see Part II, Item 8, Note 9 of the Notes to the Consolidated Financial Statements of this report.

### **RELATED-PARTY TRANSACTIONS**

For a discussion of related-party transactions, see Part II, Item 8, Note 15 of the Notes to the Consolidated Financial Statements of this report.

### **IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS**

In October 2009, the FASB issued ASU 2009-14, "Certain Arrangements That Contain Software Elements (Topic 985) — a consensus of the FASB Emerging Issues Task Force." ASU 2009-14 amends the scope of software revenue guidance in ASC Subtopic 985-605, "Software-Revenue Recognition," to exclude tangible products containing software and non-software components that function together to deliver the product's essential functionality. In October 2009, FASB also issued ASU 2009-13, "Multiple-Deliverable Revenue Arrangements (Topic 605) — a consensus of the FASB EITF." ASU 2009-13 eliminates the residual method of allocation and requires the relative selling price method when allocating arrangement consideration to all deliverables at the inception of the arrangement. ASU 2009-13 specifies that the best estimate of a selling price is consistent with that used to determine the price to sell the deliverable on a standalone basis. ASU 2009-14 and ASU 2009-13 are effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, and must be adopted in the same period using the same transition method. If adoption is elected in a period other than the beginning of a fiscal year, the amendments in these standards must be applied retrospectively to the beginning of the fiscal year. Full retrospective application of these amendments to prior fiscal years is optional. We believe that the adoption of ASU 2009-14 and ASU 2009-13 will not have a significant impact on our consolidated financial statements.

In May 2009, the FASB issued ASC 855-10-05 (formerly SFAS No. 165, "Subsequent Events") which establishes accounting and disclosure requirements for subsequent events. ASC 855-10-05 sets forth the period after the balance sheet date during which we should evaluate events or transactions that occur for potential recognition or disclosure in our financial statements, the circumstances under which we should recognize events or transactions occurring after the balance sheet date in our financial statements and the required disclosures for such events or transactions. ASC 855-10-05 is effective for interim or annual financial periods ending after June 15, 2009, and as such, we adopted ASC 855-10-05 prospectively beginning in our quarterly period ended June 30, 2009. In February 2010, the FASB issued ASU 2010-09, "Subsequent Events (Topic 855) — Amendments to Certain Recognition and Disclosure Requirements." ASU 2010-09 removes the requirement for an SEC filer to disclose the date through which subsequent events have been evaluated in both issued and revised financial statements. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of U.S. GAAP. The amendment in the ASU was effective for the Company upon issuance (February 24, 2010). We have evaluated subsequent events through the filing date of this report pursuant to ASC 855-10-05.

### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our financial instruments include cash and cash equivalents and long-term debt. At December 31, 2010, 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 December 31, 2010. However, from time-to-time, we contemplate and may enter into derivative financial instruments related to interest rate, foreign currency, and other market risks.

#### *Interest Rate Risk*

We have exposure to the risks of fluctuating interest rates on our line of credit and note payable. The variable interest rates on our line of credit and note payable are tied to the prime rate or the LIBOR, at our discretion. At December 31, 2010, we had \$50.3 million

outstanding under our line of credit and \$2.9 million outstanding under our note payable. As of December 31, 2010, the hypothetical impact of a one percentage point increase in interest rate related to the outstanding borrowings under our line of credit and note payable would be to increase our annual interest expense by approximately \$0.5 million. Additionally, we expect that in connection with the acquisition of real property located in El Segundo, California in March 2011, we will enter into additional variable rate financing arrangements which also will be subject to risks of fluctuating interest rates. For more information on the acquisition of real property, see discussion above under “Liquidity and Capital Resources — Working Capital.”

#### *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,” 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 December 31, 2010, 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.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

**Financial Statements and Supplementary Data**

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

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of PC Mall, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders' equity, and cash flows present fairly, in all material respects, the financial position of PC Mall, Inc. and its subsidiaries at December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

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Los Angeles, California  
March 25, 2011

**PC MALL, INC.**

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

	At December 31,	
	2010	2009
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents .....	\$ 10,711	\$ 9,215
Accounts receivable, net of allowances of \$1,802 and \$2,740 .....	183,944	161,468
Inventories, net.....	63,583	68,564
Prepaid expenses and other current assets .....	10,022	9,290
Deferred income taxes .....	3,798	3,297
Total current assets .....	272,058	251,834
Property and equipment, net .....	21,851	17,091
Deferred income taxes .....	604	1,538
Goodwill .....	25,510	19,291
Intangible assets, net.....	11,749	10,354
Other assets .....	2,319	1,068
Total assets.....	\$ 334,091	\$ 301,176
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable.....	\$ 124,851	\$ 108,773
Accrued expenses and other current liabilities.....	31,279	25,148
Deferred revenue.....	12,206	9,714
Line of credit.....	50,301	53,127
Note payable — current .....	783	1,038
Total current liabilities .....	219,420	197,800
Note payable and other long-term liabilities .....	4,607	5,621
Deferred income taxes .....	2,771	—
Total liabilities .....	226,798	203,421
Commitments and contingencies (Note 9)		
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; 14,089,672 and 14,031,740 shares issued; and 12,148,500 and 12,290,652 shares outstanding, respectively .....	14	14
Additional paid-in capital .....	104,894	102,361
Treasury stock, at cost: 1,941,172 and 1,741,088 shares .....	(7,176)	(6,254)
Accumulated other comprehensive income .....	2,465	2,111
Retained earnings (deficit).....	7,096	(477)
Total stockholders' equity.....	107,293	97,755
Total liabilities and stockholders' equity .....	\$ 334,091	\$ 301,176

See Notes to the Consolidated Financial Statements.

**PC MALL, INC.**

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

	Years Ended December 31,		
	2010	2009	2008
Net sales.....	\$ 1,368,314	\$ 1,138,061	\$ 1,327,974
Cost of goods sold.....	1,197,019	985,045	1,148,593
Gross profit.....	171,295	153,016	179,381
Selling, general and administrative expenses.....	156,827	145,274	155,494
Special charges .....	—	—	4,893
Operating profit.....	14,468	7,742	18,994
Interest expense, net.....	2,019	1,567	3,667
Income before income taxes .....	12,449	6,175	15,327
Income tax expense.....	4,876	2,818	5,724
Net income.....	<u>\$ 7,573</u>	<u>\$ 3,357</u>	<u>\$ 9,603</u>
<b>Basic and Diluted Earnings Per Common Share</b>			
Basic .....	\$ 0.62	\$ 0.27	\$ 0.72
Diluted .....	0.61	0.26	0.69
Weighted average number of common shares outstanding:			
Basic .....	12,220	12,373	13,268
Diluted .....	12,468	12,675	13,861

See Notes to the Consolidated Financial Statements.

PC MALL, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(in thousands)

	Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income	Retained Earnings (Deficit)	Total
	Outstanding	Amount					
<b>Balance at December 31, 2007</b> .....	13,260	\$ 14	\$ 97,869	\$ (1,015)	\$ 993	\$ (13,437)	\$ 84,424
Stock option and warrant exercises, including related income tax benefit .....	142	—	354	—	—	—	354
Restricted stock awards .....	21	—	—	—	—	—	—
Stock-based compensation expense .....	—	—	1,509	—	—	—	1,509
Purchases of common stock under a stock repurchase program .....	(742)	—	—	(2,608)	—	—	(2,608)
Subtotal .....	—	—	—	—	—	—	83,679
Net income .....	—	—	—	—	—	9,603	9,603
Translation adjustments, net of taxes ...	—	—	—	—	269	—	269
Comprehensive income .....	—	—	—	—	—	—	9,872
<b>Balance at December 31, 2008</b> .....	12,681	14	99,732	(3,623)	1,262	(3,834)	93,551
Stock option and warrant exercises, including related income tax benefit .....	193	—	945	—	—	—	945
Stock-based compensation expense .....	—	—	1,684	—	—	—	1,684
Purchases of common stock under a stock repurchase program .....	(583)	—	—	(2,631)	—	—	(2,631)
Subtotal .....	—	—	—	—	—	—	93,549
Net income .....	—	—	—	—	—	3,357	3,357
Translation adjustments, net of taxes ...	—	—	—	—	849	—	849
Comprehensive income .....	—	—	—	—	—	—	4,206
<b>Balance at December 31, 2009</b> .....	12,291	14	102,361	(6,254)	2,111	(477)	97,755
Stock option exercises and restricted stock awards, including related income tax benefit .....	58	—	168	—	—	—	168
Stock-based compensation expense .....	—	—	2,365	—	—	—	2,365
Purchases of common stock under a stock repurchase program .....	(200)	—	—	(922)	—	—	(922)
Subtotal .....	—	—	—	—	—	—	99,366
Net income .....	—	—	—	—	—	7,573	7,573
Translation adjustments, net of taxes ...	—	—	—	—	354	—	354
Comprehensive income .....	—	—	—	—	—	—	7,927
<b>Balance at December 31, 2010</b> .....	12,149	\$ 14	\$ 104,894	\$ (7,176)	\$ 2,465	\$ 7,096	\$ 107,293

See Notes to the Consolidated Financial Statements.

PC MALL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)

	Years Ended December 31,		
	2010	2009	2008
<b>Cash Flows From Operating Activities</b>			
Net income .....	\$ 7,573	\$ 3,357	\$ 9,603
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization .....	8,157	5,597	5,606
Goodwill and intangible assets impairment charge .....	—	—	4,103
Provision for deferred income taxes .....	3,327	4,273	1,698
Net tax benefit (expense) related to stock option exercises .....	96	309	(74)
Excess tax benefit related to stock option exercises .....	(31)	(289)	(487)
Non-cash stock-based compensation .....	2,365	1,684	1,509
Loss (gain) on sale of fixed assets .....	14	22	(1)
Change in operating assets and liabilities:			
Accounts receivable .....	(21,516)	(12,921)	11,513
Inventories .....	4,981	(719)	(4,028)
Prepaid expenses and other current assets .....	(561)	(1,942)	1,905
Other assets .....	324	(24)	410
Accounts payable .....	19,352	(779)	(2,858)
Accrued expenses and other current liabilities .....	2,351	(2,672)	(2,578)
Deferred revenue .....	1,908	(4,858)	1,899
Total adjustments .....	20,767	(12,319)	18,617
Net cash provided by (used in) operating activities .....	28,340	(8,962)	28,220
<b>Cash Flows From Investing Activities</b>			
Acquisition of NSPI, net of cash acquired .....	(8,788)	—	—
Purchases of property and equipment .....	(8,019)	(8,240)	(3,153)
Acquisition of DSW .....	—	(1,020)	—
Proceeds from sale of fixed assets .....	19	—	2
Net cash used in investing activities .....	(16,788)	(9,260)	(3,151)
<b>Cash Flows From Financing Activities</b>			
Net (payments) borrowings under line of credit .....	(4,236)	24,117	(24,883)
Change in book overdraft .....	(3,454)	(1,117)	2,367
Payments under note payable .....	(1,143)	(1,004)	(775)
Payments for deferred financing costs .....	(104)	—	(75)
Payments of obligations under capital lease .....	(483)	(450)	(154)
Proceeds from stock issued under stock option plans .....	72	636	428
Excess tax benefit related to stock option exercises .....	31	289	487
Common shares repurchased and held in treasury .....	(922)	(2,631)	(2,608)
Net cash (used in) provided by financing activities .....	(10,239)	19,840	(25,213)
Effect of foreign currency on cash flow .....	183	849	269
Net change in cash and cash equivalents .....	1,496	2,467	125
Cash and cash equivalents at beginning of the period .....	9,215	6,748	6,623
Cash and cash equivalents at end of the period .....	\$ 10,711	\$ 9,215	\$ 6,748
<b>Supplemental Cash Flow Information</b>			
Interest paid .....	\$ 1,829	\$ 1,516	\$ 3,745
Income taxes paid .....	1,558	2,446	2,945
<b>Supplemental Non-Cash Investing and Financing Activities (Notes 4 and 7)</b>			
Deferred financing costs .....	\$ 1,410	\$ —	\$ —
Purchase of infrastructure system .....	—	1,105	2,741
Seller financed purchase of ERP system .....	—	—	919
Goodwill related to acquisitions .....	—	—	374
NSPI and DSW acquisitions related:			
Fair value of assets, net of cash acquired .....	\$ 13,472	\$ 1,510	\$ —
Cash paid .....	(8,788)	(1,020)	—
Liabilities assumed .....	\$ 4,684	\$ 490	\$ —

See Notes to the Consolidated Financial Statements.

## PC MALL, INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 1. 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 and SARCOM brands and our websites [pcmall.com](http://pcmall.com), [macmall.com](http://macmall.com), [sarcom.com](http://sarcom.com), [pcmallgov.com](http://pcmallgov.com), [abreon.com](http://abreon.com), [nspi.com](http://nspi.com), [onsale.com](http://onsale.com), [healthdynamix.com](http://healthdynamix.com), [pcmallsbnsbn.com](http://pcmallsbnsbn.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.

Our four operating segments, SMB, MME, Public Sector and MacMall, are primarily aligned based upon their respective customer base. We include 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 operating segments in Corporate & Other. We allocate our resources to and evaluate the performance of our segments based on operating income. A description of each of our segments is provided below.

In the fourth quarter of 2009, we changed the name of our Consumer segment to MacMall. The MacMall segment includes sales made under our MacMall and Onsale brand names via telephone and the Internet to consumers, businesses and creative professionals. This was a name change only and does not affect the segment results reported in the current or prior periods.

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), which ended 2010 with over 40,000 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.

#### 2. Basis of Presentation and Summary of Significant Accounting Policies

In June 2009, the Financial Accounting Standards Board (“FASB”) issued FASB Accounting Standards Codification (“ASC”) 105-10-05 (formerly Statement of Financial Accounting Standards (“SFAS”) No. 168, “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162”). ASC 105-10-05 establishes that the FASB ASC will become the source of authoritative generally accepted accounting principles (“GAAP”) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. ASC 105-10-05 is not intended to change existing GAAP and as such, it will not have a significant impact on our consolidated financial statements. We adopted ASC 105-10-05 effective on July 1, 2009 and we have replaced references to legacy GAAP with references to the ASC, where appropriate.

## ***Principles of Consolidation***

The accompanying financial statements included herein are presented on a consolidated basis and include our accounts and the accounts of all of our wholly-owned subsidiaries after elimination of intercompany accounts and transactions.

## ***Use of Estimates in the Preparation of the Consolidated Financial Statements***

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, which requires management to make estimates, judgments and assumptions that affect the amounts reported herein. Management bases its estimates, judgments and assumptions on historical experience and on various other factors that are believed to be reasonable under the circumstances. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods could differ from those estimates.

## ***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.

## ***Cost of Goods Sold***

Cost of goods sold includes product costs, outbound and inbound shipping costs and costs of delivered services, offset by certain market development funds and other consideration from vendors included in our catalogs, as described in "Advertising Costs and Vendor Consideration" below.

## ***Cash and Cash Equivalents***

All highly liquid investments with initial maturities of three months or less and credit card receivables with settlement terms less than 5 days are considered cash equivalents. Amounts due from credit card processors classified as cash totaled \$4.1 million and \$5.2 million at December 31, 2010 and 2009. Checks issued but not presented for payment to the bank, net of available cash subject to a right of offset, totaling \$0.7 million and \$4.1 million as of December 31, 2010 and 2009 were included in "Accounts payable" in our Consolidated Balance Sheets. Our cash management programs result in utilizing available cash to pay down our line of credit.

## ***Accounts Receivable***

We generate the majority of our accounts receivable through the sale of products and services to certain customers on account. In addition, we record vendor receivables at such time as all conditions have been met that would entitle us to receive such vendor funding, and is thereby considered fully earned.

The following table presents the gross amounts of our accounts receivable (in thousands):

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Trade receivables .....	\$ 161,930	\$ 138,450
Vendor receivables .....	22,132	23,499
Other receivables .....	1,684	2,259
Total gross accounts receivable .....	185,746	164,208
Less: Allowance for doubtful accounts receivable .....	(1,802)	(2,740)
Accounts receivable, net .....	<u>\$ 183,944</u>	<u>\$ 161,468</u>

For the years ended December 31, 2010 and 2009, “Vendor receivables” presented above included \$9.4 million and \$12.4 million, respectively, of unbilled receivables relating to vendor consideration, which are described below under “Advertising Costs and Vendor Consideration.”

Accounts receivable potentially subject us to credit risk. 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. No customer accounted for more than 10% of trade accounts receivable at December 31, 2010 and 2009. We maintain an allowance for doubtful accounts receivable based upon estimates of future collection. We regularly evaluate our customers’ financial condition and credit history in determining the adequacy of our allowance for doubtful accounts. We have historically incurred credit losses within management’s expectations. 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.

## ***Inventories***

Inventories consist primarily of finished goods, and are stated at the lower of cost (determined under the first-in, first-out method) or market. We had reserves of \$1.3 million and \$1.6 million as of December 31, 2010 and 2009, reflecting lower of cost or market pricing and allowance for potential excess and obsolete inventory. As discussed under “Revenue Recognition” above, we do not record revenue and related cost of goods sold until there is persuasive evidence of an arrangement for sale, delivery has occurred, the sales price is fixed and determinable and collectability is reasonably assured. As such, inventories include goods-in-transit to customers at December 31, 2010 and 2009.

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%, 19% and 20% of our net sales in 2010, 2009 and 2008. Products manufactured by HP represented 20%, 19% and 19% of our net sales in 2010, 2009 and 2008.

## ***Advertising Costs and Vendor Consideration***

We account for advertising costs in accordance with ASC 340-20 (formerly Statement of Position No. 93-7, “Reporting on Advertising Costs”). Our advertising expenditures are generally expensed in the period incurred. Total net advertising expenditures, which were included in “Selling, general and administrative expenses” in our Consolidated Statements of Operations, were \$5.4 million, \$8.5 million and \$8.9 million in the years ended December 31, 2010, 2009 and 2008, respectively.

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.”

**Property and Equipment**

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, as noted below. Leasehold improvements are amortized over the shorter of their useful lives or the remaining lease term. We also capitalize computer software costs that meet both the definition of internal-use software and defined criteria for capitalization in accordance with ASC 350-40 (formerly SOP 98-1, “Accounting for the Cost of Computer Software Developed or Obtained for Internal Use”).

Autos.....	3 – 5 years
Computers, software, machinery and equipment.....	1 – 7 years
Leasehold improvements.....	1 – 10 years
Furniture and fixtures.....	3 – 15 years
Building and improvements.....	5 – 31 years

We had \$4.6 million and \$2.5 million of unamortized internally developed software at December 31, 2010 and 2009, respectively.

**Disclosures About Fair Value of Financial Instruments**

The carrying amounts of our cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and other current liabilities approximate their fair values because of the short-term maturity of these instruments. The carrying amounts of our line of credit borrowings and notes payable approximate their fair values based upon the current rates offered to us for obligations of similar terms and remaining maturities.

**Goodwill and Intangible Assets**

Goodwill and indefinite-lived intangible assets are carried at historical cost, subject to write-down, as needed, based upon an impairment analysis that we perform annually, or sooner if an event occurs or circumstances change that would more likely than not result in an impairment loss. We perform our annual impairment test for goodwill and indefinite-lived intangible assets as of December 31 of each year. Under ASC 350 (formerly SFAS No. 142, “Goodwill and Other Intangible Assets”), 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.

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

As of December 31, 2010, we performed our annual impairment analysis of goodwill and indefinite-lived intangible assets for possible impairment. Our management, with the assistance of an independent third-party valuation firm, determined the fair values of our reporting units and their underlying assets, and compared them to their respective carrying values. Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in each business combination. The carrying value of goodwill was allocated to our reporting units pursuant to ASC 350. As a result of our annual impairment analysis, we determined that the estimated fair value of our MME segment exceeded its net carrying value and as such, no impairment of goodwill and indefinite-lived intangible assets existed as of December 31, 2010.

For the year ended December 31, 2009, no impairment of goodwill and indefinite-lived intangible assets existed. For the year ended December 31, 2008, as a result of the global economic downturn and its effect on the results of each of our reporting units and as a result of our 2008 annual impairment analysis, which indicated that there would be no remaining implied value attributable to the goodwill of our Public Sector and MacMall reporting units, we determined that the goodwill and purchased intangible assets related to

our Public Sector and the goodwill related to our MacMall segments were impaired. Therefore, we recorded an impairment charge totaling \$4.1 million, which represents the entire goodwill and purchased intangible asset amounts related to our Public Sector (\$2.7 million) and MacMall (\$1.4 million) segments, for the year ended December 31, 2008. The \$4.1 million of total impairment charge was included as part of “Special charges” on our Consolidated Statements of Operations for the year ended December 31, 2008.

Fair value was determined by using a weighted combination of a market-based approach and an income approach, as this combination was deemed to be the most indicative of fair value in an orderly transaction between market participants. Under the market-based approach, we utilized information regarding our company and publicly available comparable company and industry information to determine cash flow multiples and revenue multiples that are used to value our reporting units. Under the income approach, we determined fair value based on estimated future cash flows of each reporting unit, discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of a reporting unit and the rate of return an outside investor would expect to earn. Determining the fair value of a reporting unit requires the use of significant estimates and assumptions, including revenue growth rates and operating margins, discount rates and future market conditions, among others.

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.

#### ***Valuation of Long-Lived Assets***

We review long-lived assets and certain intangible assets for impairment when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. In the event the undiscounted future cash flow attributable to the asset is less than the carrying amount of the asset, an impairment loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset. Changes in estimates of future cash flows attributable to the long-lived assets could result in a write-down of the asset in a future period.

#### ***Debt Issuance Costs***

We defer costs incurred to obtain our credit facility and amortize these costs to interest expense using the straight-line method over the term of the respective obligation.

#### ***Income Taxes***

We account for income taxes under the liability method as prescribed in accordance with ASC 740 (formerly SFAS No. 109, “Accounting for Income Taxes”). Under this method, deferred tax assets and liabilities are recognized by applying enacted statutory tax rates applicable to future years to differences between the tax basis and financial reporting amounts of existing assets and liabilities. We make certain estimates and judgments in determining income tax provisions and benefits, in assessing the likelihood of recovering our deferred tax assets and in evaluating our tax positions. A valuation allowance is provided when it is more likely than not that all or some portion of deferred tax assets will not be realized. See Note 8 for more detailed information.

We account for uncertainty in income taxes recognized in financial statements in accordance with ASC 740 (formerly FIN 48, “Accounting for Uncertainty in Income Taxes — An Interpretation of FASB Statement No. 109,”) which we adopted on January 1, 2007. ASC 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Only tax positions that meet the more-likely-than-not recognition threshold may be recognized. Under ASC 740, we recognize penalties and interest accrued related to unrecognized tax benefits, if any, as part of “Income tax expense (benefit)” in our Consolidated Statements of Operations.

#### ***Sales Taxes***

We present sales tax we collect from our customers on a net basis (excluded from our revenues), a presentation which is prescribed as one of two methods available under ASC 605-45-50-3 (formerly EITF Issue No. 06-03, “How Sales Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross Versus Net Presentation)”).

### ***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 granted during the years ended December 31, 2010, 2009 and 2008, we computed the expected term based upon an analysis of historical exercises of stock options by our employees. We compute our expected volatility using historical prices of our common stock for a period equal to the expected term of the options. The risk free interest rate is determined using the implied yield on U.S. Treasury issues with a remaining term within the contractual life of the award. We estimate an annual forfeiture rate based on our historical forfeiture data, which rate will be revised, if necessary, in future periods if actual forfeitures differ from those estimates. Any material change in the estimates used in calculating the stock-based compensation expense could result in a material impact on our results of operations.

### ***Foreign Currency Translation***

The local currency of our foreign operations is their functional currency. The financial statements of our foreign subsidiaries are translated into U.S. dollars in accordance with ASC 830-30 (formerly SFAS No. 52, “Foreign Currency Translation”). Accordingly, the assets and liabilities of our Canadian and Philippine subsidiaries are translated into U.S. dollars at the exchange rate in effect at the balance sheet dates. Income and expense items are translated at the average exchange rate for each month within the year. The resulting translation adjustments are recorded in “Accumulated other comprehensive income (loss),” a separate component of stockholders’ equity on our Consolidated Balance Sheets. All transaction gains or losses are recorded in “Selling, general and administrative expenses” on our Consolidated Statements of Operations. These gains or losses were not material in any of the years presented in our consolidated financial statements.

### ***Subsequent Events***

In May 2009, the FASB issued ASC 855-10-05 (formerly SFAS No. 165, “Subsequent Events”) which establishes accounting and disclosure requirements for subsequent events. ASC 855-10-05 sets forth the period after the balance sheet date during which we should evaluate events or transactions that occur for potential recognition or disclosure in our financial statements, the circumstances under which we should recognize events or transactions occurring after the balance sheet date in our financial statements and the required disclosures for such events or transactions. ASC 855-10-05 is effective for interim or annual financial periods ending after June 15, 2009, and as such, we adopted ASC 855-10-05 prospectively beginning in our quarterly period ended June 30, 2009. In February 2010, the FASB issued ASU 2010-09, “Subsequent Events (Topic 855) — Amendments to Certain Recognition and Disclosure Requirements.” ASU 2010-09 removes the requirement for an SEC filer to disclose the date through which subsequent events have been evaluated in both issued and revised financial statements. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of U.S. GAAP. The amendment in the ASU was effective upon issuance (February 24, 2010). We have evaluated subsequent events pursuant to ASC 855-10-05.

### ***Recent Accounting Pronouncements***

In October 2009, the FASB issued ASU 2009-14, “Certain Arrangements That Contain Software Elements (Topic 985) — a consensus of the FASB Emerging Issues Task Force.” ASU 2009-14 amends the scope of software revenue guidance in ASC Subtopic 985-605, “Software-Revenue Recognition,” to exclude tangible products containing software and non-software components that function together to deliver the product’s essential functionality. In October 2009, FASB also issued ASU 2009-13, “Multiple-Deliverable Revenue Arrangements (Topic 605) — a consensus of the FASB EITF.” ASU 2009-13 eliminates the residual method of allocation and requires the relative selling price method when allocating arrangement consideration to all deliverables at the inception of the arrangement. ASU 2009-13 specifies that the best estimate of a selling price is consistent with that used to determine the price to sell the deliverable on a standalone basis. ASU 2009-14 and ASU 2009-13 are effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, and must be adopted in the same period using the same transition method. If adoption is elected in a period other than the beginning of a fiscal year, the amendments in these standards must be applied retrospectively to the beginning of the fiscal year. Full retrospective application of these amendments to prior fiscal years is optional. We believe that the adoption of ASU 2009-14 and ASU 2009-13 will not have a significant impact on our consolidated financial statements.

In April 2008, the FASB issued ASC 350-30 (formerly FASB Staff Position FAS 142-3, “Determination of Useful Life of Intangible Assets”). ASC 350-30 amends the factors that should be considered in developing the renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, “Goodwill and Other Intangible Assets” and also requires expanded disclosure related to the determination of intangible asset useful lives. ASC 350-30 intends to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R, and other GAAP. ASC 350-30 is effective for fiscal years beginning after December 15, 2008. We adopted ASC 350-30 on January 1, 2009 and it did not have a significant impact on our consolidated financial statements.

In March 2008, the FASB issued ASC 815-10 (formerly SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133”). ASC 815-10 requires entities to provide enhanced disclosures about (a) how and why an entity uses derivative instruments and the objectives for using derivative instruments in terms of underlying risk and accounting designation, (b) how derivative instruments and related hedged items are accounted for under SFAS 133, “Accounting for Derivative Instruments and Hedging Activities” and its related interpretations, including a tabular format disclosure of the fair values of derivative instruments and their gains and losses and (c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance and cash flows. ASC 815-10 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. ASC 815-10 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. We adopted ASC 815-10 on January 1, 2009 and it did not have a significant impact on our consolidated financial statements.

In December 2007, the FASB issued ASC 805-20 (formerly SFAS No. 141 (revised 2007), “Business Combinations,” which replaces SFAS 141). ASC 805-20 retains the fundamental requirements in SFAS 141 and establishes principles and requirements for (a) how an acquirer recognizes and measures the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired business, (b) how an acquirer recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (c) what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. ASC 805-20 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We adopted ASC 805-20 on January 1, 2009. We cannot anticipate whether the adoption of ASC 805-20 will have a material impact on our results of operations and financial condition as the impact will depend on the terms and nature of any business combination we enter into after January 1, 2009.

### **3. Stock-Based Compensation**

#### **Stock-Based Benefit Plans**

##### *1994 Stock Incentive Plan*

In November 1994, our Board of Directors and stockholders approved the 1994 Stock Incentive Plan, as amended in May 2000 and June 2002 and approved by our Board of Directors and stockholders (the “1994 Plan”), which provides for the grant of equity awards such as stock options, restricted stock or restricted stock units to our employees, officers, directors and consultants. The 1994 Plan has an “evergreen provision” which automatically increases the number of shares of our common stock available for issuance under the 1994 Plan as of January 1 of each year by three percent of our outstanding common stock as of December 31 of the immediately preceding fiscal year. Under the 1994 Plan, we may grant options (“Incentive Stock Options”) within the meaning of Section 422A of the Internal Revenue Code, or options not intended to qualify as Incentive Stock Options (“Nonstatutory Stock Options”).

The 1994 Plan is administered by the Compensation Committee of the Board of Directors. Subject to the provisions of the 1994 Plan, the Compensation Committee has the authority to select the employees, officers, directors and consultants to whom options are granted and determine the terms of each option, including (i) the number of shares of common stock covered by the option, (ii) when the option becomes exercisable, (iii) the option’s exercise price, which must be at least 100% of the fair market value of the common stock as of the date of grant with respect to Incentive Stock Options, and (iv) the duration of the option (which may not exceed ten years). All options generally vest over three to five years, expire ten years from the grant date, are granted at exercise prices equal to the market price of our stock at grant date and are nontransferable other than by will or by the laws of descent and distribution. The Compensation Committee has delegated to our Chief Executive Officer the authority to approve option grants to eligible employees under the 1994 Plan (other than executive officers), subject to certain numerical limits. The Compensation Committee has delegated to our Chief Executive Officer the authority to approve option grants to eligible employees under the 1994 Plan (other than executive officers), subject to certain numerical limits.

On August 21, 2009 and July 31, 2008, our Compensation Committee approved and granted, under our 1994 Plan, the award of 7,500 shares and 4,000 shares, respectively, of restricted stock to each of our non-employee members of the board for a total award of 22,500 shares and 12,000 shares of restricted stock in the years ended December 31, 2009 and 2008. The restricted stock awards each vested quarterly in equal amounts over a one year period from the date of grant. In accordance with ASC 718 (formerly SFAS 123R), we valued the restricted stock award at fair value as of the grant date and we recognized compensation expense on a straight-line basis over the vesting period.

At December 31, 2010, a total of 842,797 shares of authorized and unissued shares were available for future grants. All options granted through December 31, 2010 have been Nonstatutory Stock Options. We satisfy stock option exercises with newly issued shares.

### Stock-Based Compensation

For the years ended December 31, 2010, 2009 and 2008, we recognized stock-based compensation expense of \$2.4 million, \$1.7 million and \$1.5 million in "Selling, general and administrative expenses" in our Consolidated Statements of Operations, and related deferred income tax benefits of \$0.9 million, \$0.8 million and \$0.6 million.

#### Valuation Assumptions

We estimated the grant date fair value of each stock option grant awarded during the years ended December 31, 2010, 2009 and 2008 pursuant to ASC 718 using the Black-Scholes option pricing model and management assumptions made regarding various factors which require extensive use of accounting judgment and financial estimates. In estimating our assumption regarding the expected term for options granted during the year ended December 31, 2010, 2009 and 2008, we computed the expected term based upon an analysis of historical exercises of stock options by our employees. We computed our expected volatility using historical prices of our common stock for a period equal to the expected term of the options, which we determined to be six years for grants made during each of the years ended December 31, 2010, 2009 and 2008. The risk free interest rate was determined using the implied yield on U.S. Treasury issues with a remaining term within the contractual life of the award. Each year, we estimated an annual forfeiture rate based on our historical forfeiture data, which rate is revised, if necessary, in future periods if actual forfeitures differ from those estimates.

The following table presents the weighted average assumptions we used in each of the following years:

	<b>Years Ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
Risk free interest rate .....	2.51%	2.71%
Expected volatility .....	78%	77%
Expected term (in years) .....	6	6
Expected dividend yield.....	None	None

#### Stock-Based Payment Award Activity

##### Stock Options

The following table summarizes our stock option activity during the year ended December 31, 2010 and stock options outstanding and exercisable at December 31, 2010 for the above plans:

	<b>Number</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term (in years)</b>	<b>Aggregate Intrinsic Value (in thousands)</b>
Outstanding at December 31, 2009 .....	2,687,718	\$ 5.68		
Granted .....	768,000	4.76		
Exercised.....	(38,245)	3.49		
Forfeited.....	(72,503)	4.59		
Expired/cancelled.....	(5,360)	2.22		
Outstanding at December 31, 2010.....	<u>3,339,610</u>	<u>\$ 5.81</u>	<u>6.62</u>	<u>\$ 7,428</u>
Exercisable at December 31, 2010.....	<u>1,995,048</u>	<u>\$ 5.81</u>	<u>5.32</u>	<u>\$ 4,624</u>

The aggregate intrinsic value is calculated for in-the-money options based on the difference between the exercise price of the underlying awards and the closing price of our common stock on December 31, 2010, which was \$7.57.

	Years Ended December 31,		
	2010	2009	2008
Weighted average grant-date fair value of options granted during the period.....	\$ 3.32	\$ 4.87	\$ 3.76
Total intrinsic value of options exercised during the period (in thousands).....	95	805	1,030
Total fair value of shares vested during the period (in thousands).....	2,290	1,603	1,399

#### *Restricted Stock*

The following table summarizes our restricted stock activity during the year ended December 31, 2010 for the above plans:

	Number	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2009.....	16,875	\$ 7.99
Granted.....	—	—
Vested.....	(16,875)	7.99
Forfeited.....	—	—
Non-vested at December 31, 2010.....	—	—

The grant date fair values of restricted stock awards which vested during 2010, 2009 and 2008 were \$134,831, \$125,224 and \$109,583.

As of December 31, 2010, there was \$4.4 million of unrecognized compensation cost related to unvested outstanding stock options and restricted stock. We expect to recognize these costs over a weighted average period of 3.05 years.

#### **4. Acquisitions**

##### *NSPI*

In June 2010, Sarcom, Inc. (“SARCOM”), 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 is based upon management’s initial forecasts of expected profitability of NSPI during the earnout period, and will be updated, if necessary, in future periods with adjustments reflected in our consolidated statement of operations.

##### *DSW*

In December 2009, SARCOM, our wholly-owned subsidiary, acquired certain assets of Data Systems Worldwide, Inc. (“DSW”) for a total purchase price of approximately \$1.5 million. DSW, a provider of converged Cisco solutions in the western United States, had approximately 20 employees as of December 15, 2009, the majority of which are service or sales personnel and each of these employees became employees of SARCOM. DSW’s practice areas include managed and professional services and Cisco intelligent networks, facilities, data centers and security, with a focus on unified communications and connected real estate. The assets SARCOM recorded as a result of this purchase, based on a preliminary purchase price allocation, include certain fixed assets, customer relations, covenants not to compete and goodwill.

On February 17, 2011, we acquired certain assets and assumed certain liabilities of eCOST.com. See Note 16 for more information.

## 5. Property and Equipment

Property and equipment consisted of the following (in thousands):

	At December 31,	
	2010	2009
Computers, software, machinery and equipment.....	\$ 47,665	\$ 40,134
Leasehold improvements .....	6,224	5,450
Furniture and fixtures.....	3,249	3,027
Building and improvements .....	1,725	1,725
Land .....	912	912
Software development and other equipment in progress .....	3,949	5,493
Subtotal .....	63,724	56,741
Less: Accumulated depreciation and amortization .....	(41,873)	(39,650)
Property and equipment, net .....	<u>\$ 21,851</u>	<u>\$ 17,091</u>

Depreciation and amortization expense for property and equipment, including fixed assets under capital leases, for the years ended December 31, 2010, 2009 and 2008 totaled \$6.3 million, \$4.0 million and \$3.9 million.

## 6. Goodwill and Intangible Assets

### Goodwill

The changes in the carrying amounts of goodwill were as follows (in thousands):

	SMB	MME	Public Sector	MacMall	Corporate & Other	Consolidated
Balance at December 31, 2008 ....	\$ —	\$ 18,781	\$ —	\$ —	\$ —	\$ 18,781
Acquisition of DSW.....	—	510	—	—	—	510
Balance at December 31, 2009 ....	—	19,291	—	—	—	19,291
Acquisition of NSPI.....	—	6,219	—	—	—	6,219
Balance at December 31, 2010 ....	<u>\$ —</u>	<u>\$ 25,510</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 25,510</u>

### Intangible Assets

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

	Weighted Average Estimated Useful Lives (years)	At December 31, 2010			At December 31, 2009		
		Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Patent, trademarks & URLs.....	11	\$ 5,925(1)	\$ 203	\$ 5,722	\$ 5,878(1)	\$ 557	\$ 5,321
Customer relationships.....	6	10,100	4,672	5,428	8,104	3,662	4,442
Non-compete agreements.....	4	1,168	569	599	918	327	591
Other .....	5	5	5	—	32	32	—
Total intangible assets.....		<u>\$ 17,198</u>	<u>\$ 5,449</u>	<u>\$ 11,749</u>	<u>\$ 14,932</u>	<u>\$ 4,578</u>	<u>\$ 10,354</u>

(1) Included in the total amount for "Patent, trademarks & URLs" at December 31, 2010 and 2009 are \$5.2 million of trademarks with indefinite useful lives acquired in the SARCOM acquisition that are not amortized.

Amortization expense for intangible assets was \$1.9 million, \$1.5 million and \$1.7 million in each of the years ended December 31, 2010, 2009 and 2008.

Estimated amortization expense for intangible assets in each of the next five years and thereafter, as applicable, is as follows: \$2.0 million in 2011, \$1.7 million in 2012, \$0.8 million in 2013, \$0.4 million in 2014, \$0.3 million in 2015 and \$1.3 million thereafter.

## 7. 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 December 31, 2010, we did not have an FCCR triggering event.

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 December 31, 2010, we had \$50.3 million of net working capital advances outstanding under the line of credit. At December 31, 2010, the maximum credit line was \$160 million and we had \$96.7 million available to borrow for working capital advances under the line of credit.

In connection with and as part of the amended credit facility, we entered into an amended term note on December 14, 2010 with a principal balance of \$2.87 million, payable in equal monthly principal installments beginning on January 1, 2011, plus interest at the prime rate with a LIBOR option. The amended term note matures in December 2017 or in the event of a default, termination or non-renewal of our credit facility, is payable in its entirety upon demand by our lender. At December 31, 2010, we had \$2.87 million outstanding under the amended term note. The remaining balance of our term note matures as follows: \$410,000 annually in each of the years 2011 through 2017.

At December 31, 2010, our effective weighted average annual interest rate on outstanding amounts under the credit facility and term note was 2.57%.

At December 31, 2010, \$0.3 million and \$0.2 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. See "Other Planned Capital Projects" below for a detailed discussion.

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.

## 8. Income Taxes

Our income tax expense consisted of the following for the years ended December 31 (in thousands):

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current			
Federal .....	\$ 966	\$ (1,701)	\$ 3,290
State .....	583	246	736
Total — Current .....	<u>1,549</u>	<u>(1,455)</u>	<u>4,026</u>
Deferred			
Federal .....	2,846	3,998	1,633
State .....	238	146	32
Foreign .....	243	129	33
Total — Deferred .....	<u>3,327</u>	<u>4,273</u>	<u>1,698</u>
Total income tax expense .....	<u>\$ 4,876</u>	<u>\$ 2,818</u>	<u>\$ 5,724</u>

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Expected taxes at federal statutory tax rate .....	34.0%	34.0%	34.0%
State income taxes, net of federal income tax benefit .....	4.1	3.6	3.1
Income from foreign subsidiary .....	—	5.6	—
Non-deductible business expenses .....	2.0	3.0	2.0
Other .....	(1.0)	(0.6)	(1.8)
Total .....	<u>39.1%</u>	<u>45.6%</u>	<u>37.3%</u>

The significant components of deferred tax assets and liabilities were as follows at December 31 (in thousands):

	<u>2010</u>	<u>2009</u>
<u>Deferred tax assets (liabilities):</u>		
Accounts receivable .....	\$ 680	\$ 1,080
Inventories .....	194	182
Property and equipment .....	(2,879)	(603)
Amortization .....	(1,933)	(2,199)
Accrued expenses and reserves .....	2,828	2,012
Foreign employment tax subsidy .....	(1,533)	(1,345)
Tax credits and loss carryforwards .....	2,881	4,505
Other .....	96	23
Total deferred tax assets .....	<u>334</u>	<u>3,655</u>
Valuation allowance .....	(237)	(165)
Net total deferred tax assets .....	<u>\$ 97</u>	<u>\$ 3,490</u>

Current deferred tax liabilities relating to foreign employment tax subsidy of \$1.5 million and \$1.3 million at December 31, 2010 and 2009, respectively, as provided in the table above, were included as part of “Accrued expenses and other current liabilities” on our Consolidated Balance Sheets.

The exercise of stock options and warrants in 2010 and 2009 resulted in tax benefit of approximately \$34,000 and \$310,000, respectively, that have been reflected as a reduction of taxes payable and an increase to additional paid-in capital.

At December 31, 2010, we had state net operating loss carryforwards of \$23.3 million, which begin to expire at the end of 2013, and federal net operating loss carryforwards of \$5.3 million, which begin to expire at the end of 2024. All of the federal net operating loss carryforwards and \$2.8 million of the state net operating loss carryforwards relate to pre-acquisition losses from an acquired subsidiary and, accordingly, are subject to annual limitations as to their use under the provisions of IRC Section 382. As such, the extent to which these losses may offset future taxable income may be limited.

## Accounting for Income Taxes

We account for income taxes under the liability method. Under this method, deferred income taxes are recognized by applying enacted statutory tax rates applicable to future years to differences between the tax bases and financial reporting amounts of existing assets and liabilities. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon sufficient taxable income within the carryback years and the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers taxable income in carryback years, if carryback is permitted in the tax law, the projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and the projections for future taxable income over the periods when the deferred tax assets are deductible, management believes it is more likely than not that we will realize all of these deductible differences. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward periods are reduced.

## Accounting for Uncertainty in Income Taxes

We adopted ASC 740 (formerly FIN 48) on January 1, 2007 as described above in Note 2. 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 year ended December 31, 2010, there were no changes in our unrecognized tax benefits, and we had no accrued interest or penalties as of December 31, 2010.

We are subject to U.S. and foreign income tax examinations for years subsequent to 2006, and state income tax examinations for years following 2005. In addition, certain federal and state net operating loss carryforwards generated after 2002 and 1996, respectively, and used in a subsequent year, may still be adjusted by a taxing authority upon examination.

## 9. Commitments and Contingencies

### Commitments

We lease office and warehouse space and equipment under various non-cancelable operating leases which provide for minimum annual rentals and escalations based on increases in real estate taxes and other operating expenses. We also have minimum commitments under non-cancelable contracts for services relating to telecommunications, IT maintenance, financial services and employment contracts with certain employees (which consist of severance arrangements that, if exercised, would become payable in less than one year). In addition, we have obligations under capital leases for computers and related equipment, telecommunications equipment and software. As of December 31, 2010, minimum payments over the terms of applicable contracts were payable as follows (in thousands):

	2011	2012	2013	2014	2015	Thereafter	Total
Operating lease obligations.....	\$ 6,173	\$ 4,394	\$ 3,726	\$ 2,554	\$ 1,326	\$ 773	\$ 18,946
Capital lease obligations .....	870	737	711	231	—	—	2,549
Other commitments (a) .....	6,963	1,286	208	—	—	—	8,457
Standby Letters of Credit (b).....	10,000	—	—	98	—	—	10,098
Earn-out (c).....	1,421	1,779	—	—	—	—	3,200
Total minimum payments .....	<u>\$ 25,427</u>	<u>\$ 8,196</u>	<u>\$ 4,645</u>	<u>\$ 2,883</u>	<u>\$ 1,326</u>	<u>\$ 773</u>	<u>\$ 43,250</u>

- (a) Other commitments consist of minimum commitments under non-cancelable contracts for services relating to telecommunications, IT maintenance, financial services and employment contracts with certain employees (which consist of severance arrangements that, if exercised, would become payable in less than one year).
- (b) Standby LOCs are commitments issued to third party beneficiaries, underwritten by a third party bank, representing funding responsibility in the event of third party demands or contingent events. The outstanding balance of our standby LOCs reduces the amount available to us from our revolving credit facility. The LOC amounts in the table above represent the amount of commitment expiration per period presented. There were no claims made against any standby LOCs during the year ended December 31, 2010.
- (c) Earn-out represents the fair value of the future contingent liability, arising from our acquisition of NSPI, as it is recorded on our Consolidated Balance Sheet under "Accrued expenses and other current liabilities." At completion of acquisition of NSPI in June 2010, the fair value of the earn-out was based on an initial valuation of the fair value of the contingent consideration, under which the sellers of NSPI can earn up to a total of \$5.2 million over a two year period commencing from the acquisition date. The earn-out amounts in the table above represent the fair value of the contingent liability and the respective earn-out periods.

For the years ended December 31, 2010, 2009 and 2008, total rent expense, net of sublease income, totaled \$6.6 million, \$6.3 million and \$6.1 million. Some of the leases contain renewal options and escalation clauses, and require us to pay taxes, insurance and maintenance costs.

Effective January 1, 2011, AF Services, LLC, our wholly-owned subsidiary, entered into an amendment to the existing lease agreement, originally dated February 19, 2009, as amended, with SARCOM Properties, Inc., adding an additional 22,514 square feet of space to the existing 121,486 square feet of space utilized by PC Mall's wholly-owned subsidiary, SARCOM, Inc. See Note 16 for more detailed information.

#### *ERP and Web Infrastructure Upgrades*

We are currently upgrading many of our IT systems. We have purchased licenses for Microsoft Dynamics AX (Axapta) and other related tools, such as workflow software, web development tools and other related items, to upgrade our ERP and eCommerce systems. We initiated the implementation and upgrade of our eCommerce system in the second half of 2008 and have completed and launched a new generation of our public sites at macmall.com, onsale.com and pcmall.com. We are currently working on the implementation of the ERP modules and the upgrade of the ERP systems, including additional enhancements and features, and we expect to be 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 \$7.1 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 up to approximately \$4.0 million. The purchase is financed through a capital lease over a five year term. Our plan is to provide a unified platform for our entire company and to provide a robust and efficient contact center. To date, we have received all of the Cisco equipment. We are implementing the Cisco solution across all of our locations and expect that all of our locations will be upgraded by the first half of 2011.

#### *Legal Proceedings*

##### *Zekiya Whitmill and Lee Hanzy v. PC Mall Gov, Inc.*

On July 6, 2007, Zekiya Whitmill and Lee Hanzy filed a purported class action lawsuit entitled Zekiya Whitmill and Lee Hanzy, individually and on behalf of others similarly situated, Plaintiffs, vs. PC Mall Gov, Inc., a Delaware corporation, and Does 1 through 200, inclusive, Defendants, Case No., BC373934 in the Superior Court of California, County of Los Angeles. The potential class consists of current and former account executives in California who worked for PC Mall Gov., Inc., one of our wholly-owned subsidiaries. The lawsuit alleges that PC Mall Gov. improperly classified members of the putative class as "exempt" employees and failed to provide putative class members with meal and rest breaks. The complaint in this action asserts the following three causes of action: (1) failure to pay wages, including overtime, in violation of California Labor Code sections 201 through 203, and section 1194(a); (2) failure to provide meal and rest periods in violation of California Labor Code section 226.7; and (3) violation of section 17200 of the California Business and Professions Code. The lawsuit seeks unpaid overtime, statutory penalties, interest, attorneys' fees, punitive damages, restitution and injunctive relief. While the case was originally filed in Los Angeles Superior Court, on September 26, 2007, the Superior Court ordered the action to arbitration and stayed all proceedings in superior court. The case was settled in July 2008 as described below.

##### *Lee Hanzy v. PC Mall, Inc. dba MACMALL, et al.*

On July 6, 2007, Lee Hanzy filed a purported class action lawsuit entitled Lee Hanzy, individually and on behalf of others similarly situated, Plaintiff, vs. PC Mall, Inc., a Delaware corporation dba MACMALL, and Does 1 through 200, inclusive, Defendants, Case No., BC373935 in the Superior Court of California, County of Los Angeles. The potential class consists of current and former account executives in California who worked for PC Mall, and in particular, the MacMall operating division of PC Mall. The lawsuit alleges that PC Mall improperly classified members of the putative class as "exempt" employees and failed to provide putative class members with meal and rest breaks. The Complaint in this action asserts the following three causes of action: (1) failure to pay wages, including overtime, in violation of California Labor Code sections 201 through 203, and section 1194(a); (2) failure to provide meal and rest periods in violation of California Labor Code section 226.7; and (3) violation of section 17200 of the California Business and Professions Code. The lawsuit seeks unpaid overtime, statutory penalties, interest, attorneys' fees, punitive damages, restitution and injunctive relief. While the case was originally filed in Los Angeles Superior Court, on August 30, 2007, the Superior Court ordered the action to arbitration and stayed all proceedings in superior court. The case was settled in July 2008 as described below.

On July 17, 2008, we entered into a settlement agreement to settle each of the above described Whitmill and Hanzy lawsuits in accordance with a memorandum of understanding (the "MOU") entered into on June 26, 2008. Under the MOU and the settlement agreement, we agreed to pay an aggregate of \$0.7 million, which includes amounts to pay class members (shared proportionally

among class members based on the number of verified class members and the amount of weeks worked during the class period), the plaintiff's attorneys' fees and costs, enhanced payments for class representatives, and all funds needed for the administration of the settlement. We have the right to nullify the settlement in the event that 5% or more of the class members opted out of the settlement. In exchange for the settlement payment, the plaintiff and all class members who do not opt out of the settlement will release us and our affiliates for all asserted and unasserted claims, known and unknown, relating to the class action. As part of the settlement, we continue to deny any liability or wrongdoing with respect to the claims made in the class action.

On July 28, 2008, the arbitrator granted the parties joint application for preliminary approval of the settlement and ordered notices and claim forms to be distributed to all class members. On October 7, 2008, the arbitrator granted final approval of the class action settlement, the incentive awards to plaintiffs and the award of attorneys' fees and costs to class counsel. On October 8, 2008, the arbitrator also executed the proposed judgment dismissing the cases before JAMS with prejudice as against all class members.

On October 21 and 24, 2008, the Superior Court confirmed the arbitrator's award and entered judgments dismissing the respective actions with prejudice as against the plaintiffs and all class members. Based on the parties' settlement agreement, we distributed settlement funds to class members, class counsel and the plaintiffs in the fourth quarter of 2008 and the first quarter of 2009.

As a result of the settlement discussed above, during the second quarter of 2008, we recorded a charge of \$0.8 million, which includes the settlement amount and other costs related to the lawsuit, in "Special charges" on our Consolidated Statements of Operations for the year ended December 31, 2008.

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, including the litigation discussed above, could be costly and time consuming and could divert our management and key personnel from our business operations. In connection with any such litigation, we may be subject to significant damages or equitable remedies relating to the operation of our business. Any such litigation may materially harm our business, results of operations and financial condition.

## **10. Stockholders' Equity**

In October 2008, our Board of Directors approved a discretionary common stock repurchase program for up to \$10 million of our common stock in aggregate with all other repurchases made under any repurchase programs following the date of such Board of Directors' approval. This repurchase program effectively superseded an earlier repurchase program adopted in 1996. Under this new program, the shares may be repurchased from time to time at prevailing market prices, through open market or unsolicited negotiated transactions, depending on market conditions. We expect that the repurchase of our common stock under this new program will be financed with existing working capital and amounts available under our existing credit facility. No limit was placed on the duration of the repurchase program. There is no guarantee as to the exact number of shares that we will repurchase. Subject to applicable securities laws, repurchases may be made at such times and in such amounts as our management deems appropriate. The program can also be discontinued at any time management feels additional purchases are not warranted.

During 2010, 2009 and 2008, we repurchased a total of 200,084 shares, 582,779 shares and 741,631 shares of our common stock at an annual aggregate cost of \$0.9 million, \$2.6 million and 2.6 million, respectively. The repurchased shares were recorded as treasury stock. As of December 31, 2010 and 2009, we had total treasury shares of 1,941,172 and 1,741,088 shares, respectively. The common shares held as treasury stock are available for general corporate purposes.

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.

## **11. Earnings Per Common 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. Potential common shares of approximately 1,395,000, 1,666,000 and 660,000 for the years ended December 31, 2010, 2009 and 2008 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):

	<u>Income</u>	<u>Shares</u>	<u>Per Share Amounts</u>
<b>Year Ended December 31, 2010:</b>			
Basic EPS			
Net income .....	\$ 7,573	12,220	\$ <u>0.62</u>
Effect of dilutive securities			
Dilutive effect of stock options .....	<u>—</u>	<u>248</u>	
Diluted EPS			
Adjusted net income .....	<u>\$ 7,573</u>	<u>12,468</u>	<u>\$ 0.61</u>
<b>Year Ended December 31, 2009:</b>			
Basic EPS			
Net income .....	\$ 3,357	12,373	\$ <u>0.27</u>
Effect of dilutive securities			
Dilutive effect of stock options .....	<u>—</u>	<u>302</u>	
Diluted EPS			
Adjusted net income .....	<u>\$ 3,357</u>	<u>12,675</u>	<u>\$ 0.26</u>
<b>Year Ended December 31, 2008:</b>			
Basic EPS			
Net income .....	\$ 9,603	13,268	\$ <u>0.72</u>
Effect of dilutive securities			
Dilutive effect of stock options and warrants.....	<u>—</u>	<u>593</u>	
Diluted EPS			
Adjusted net income .....	<u>\$ 9,603</u>	<u>13,861</u>	<u>\$ 0.69</u>

## 12. Employee & Non-Employee Benefits

### *401(k) Savings Plan*

We maintain a 401(k) Savings Plan which covers substantially all full-time employees who meet the plan's eligibility requirements. Participants are allowed to make tax-deferred contributions up to limitations specified by the Internal Revenue Code. On July 1, 2007, we began making 25% matching contributions for amounts that did not exceed 4% of the participants' compensation. The matched contributions to the employees are subject to a 5 year vesting provision, with credit given towards vesting for employment during prior years. We made matching contributions to the plan totaling approximately \$733,000 and \$406,000 in 2010 and 2009.

### *Restricted Stock, Stock Warrants and Options Issued to Non-employees*

On March 2, 2010, our Compensation Committee approved and granted, under our 1994 Plan, the award options to purchase 20,000 shares of our common stock to a third-party investor relations consultant. The options were issued at an exercise price of \$4.76 with a five-year term, and vests quarterly over a one-year term. We valued the options at fair value at grant date based on a Black-Scholes fair value calculation and the options were measured at fair value at each subsequent reporting period, with changes in value recorded over the twelve month performance period of the option.

On August 18, 2010, our Compensation Committee approved and granted, under our 1994 Plan, the award options to purchase 10,000 shares of our common stock to each of our non-employee members of our board. These options were issued at an exercise price of \$4.22 with a ten-year term, and vests quarterly over a two-year term. See Note 3 for more information on our accounting for stock-based compensation.

On August 21, 2009, July 31, 2008 and on August 31, 2007, our Compensation Committee approved and granted, under our 1994 Plan, the award of 7,500 shares, 4,000 shares and 3,000 shares, respectively, of restricted stock to each of our non-employee members of our board for a total award of 22,500 shares, 12,000 shares and 9,000 shares of restricted stock in the years ended December 31, 2009, 2008 and 2007. The restricted stock awards each vest quarterly in equal amounts over a one year period from the date of grant.

In October 2004, we issued options to purchase 45,000 shares of our common stock under our 1994 Plan to an investor and public relations consultant. The options were issued at an exercise price of \$15.43 with a five-year term. Effective April 11, 2005, as a result of the spin-off of eCOST.com, the exercise price of the options was reduced to \$6.12 and the consultant received options to purchase 54,319 shares of eCOST.com common stock in the transaction. Of the original grant of options to purchase 45,000 shares, an aggregate of 7,500 shares of the options vested on the date of the grant, and the remaining shares vested quarterly over a one-year period from the date of grant. We valued the options at fair value based on a Black-Scholes fair value calculation. The options were valued at the date of grant and were measured at fair value at each subsequent reporting period, with changes in value recorded over the twelve month performance period of the option. The options became fully vested in October 2005. We recorded a cumulative compensation expense of \$0.4 million through the vesting period. The options were exercised in full in 2009.

In June 2003, we issued a warrant to purchase 30,000 shares of our common stock to a consulting firm for investor and public relations services. The warrant was issued at an exercise price of \$3.99 with a five-year term, which vested monthly over a one year period from the date of grant. Effective April 11, 2005, as a result of the spin-off of eCOST.com, the exercise price of the warrant was reduced to \$1.59, and the consulting firm received a warrant to purchase 36,213 shares of eCOST.com common stock in the transaction. We valued the warrant at fair value based on a Black-Scholes fair value calculation. The warrant was valued at the date of grant and was measured at fair value at each subsequent reporting period, with changes in value recorded over the twelve month performance period of the warrant. The warrant became fully vested in June 2004. We recorded a cumulative compensation expense of \$0.4 million through the vesting period. The warrant was exercised in full in the second quarter of 2008.

### 13. Comprehensive Income

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

	Year Ended December 31,		
	2010	2009	2008
Net income.....	\$ 7,573	\$ 3,357	\$ 9,603
Other comprehensive income (loss), before tax:			
Foreign currency translation adjustments .....	354	849	(933)
Income tax benefit (expense) related to other comprehensive income.....	—	—	1,202
Total comprehensive income .....	<u>\$ 7,927</u>	<u>\$ 4,206</u>	<u>\$ 9,872</u>

### 14. Segment Information

Our four operating segments, SMB, MME, Public Sector and MacMall, are primarily aligned based upon their respective customer base. We include 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 operating segments in Corporate & Other. We allocate our resources to and evaluate the performance of our segments based on operating income. A description of each of our new segments is provided below.

In the fourth quarter of 2009, we changed the name of our Consumer segment to MacMall. The MacMall segment includes sales made under our MacMall and Onsale brand names via telephone and the Internet to consumers, businesses and creative professionals. This was a name change only and does not affect the segment results reported in the current or prior periods.

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

	<u>SMB</u>	<u>MME</u>	<u>Public Sector</u>	<u>MacMall</u>	<u>Corporate &amp; Other</u>	<u>Consolidated</u>
<b>Year Ended December 31, 2010</b>						
Net sales.....	\$ 487,865	\$ 493,733	\$ 187,331	\$ 199,534	\$ (149)	\$ 1,368,314
Gross profit.....	60,324	75,301	14,189	21,404	77	171,295
Depreciation and amortization expense (1).....	15	3,103	210	432	4,397	8,157
Operating profit (loss).....	31,362	23,190	737	5,329	(46,150)	14,468
<b>Year Ended December 31, 2009</b>						
Net sales.....	\$ 368,846	\$ 382,725	\$ 173,957	\$ 212,531	\$ 2	\$ 1,138,061
Gross profit.....	47,259	65,182	18,300	22,095	180	153,016
Depreciation and amortization expense (1).....	43	2,506	213	119	2,716	5,597
Operating profit (loss).....	23,048	18,613	5,847	3,191	(42,957)	7,742
<b>Year Ended December 31, 2008</b>						
Net sales.....	\$ 486,876	\$ 426,101	\$ 161,418	\$ 253,537	\$ 42	\$ 1,327,974
Gross profit.....	60,368	73,600	16,565	28,647	201	179,381
Depreciation and amortization expense (1).....	65	2,654	261	114	2,512	5,606
Operating profit (loss).....	29,514	18,379	2,200	7,540	(38,639)	18,994

(1) Primary fixed assets relating to centralized 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 December 31, 2010 and 2009, we had total consolidated assets of \$334.1 million and \$301.2 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.

Sales of our products and services are made to customers primarily within the U.S. During the years ended December 31, 2010, 2009 and 2008, less than 1% of our total net sales were made to customers outside of the continental U.S. No single customer accounted for more than 10% of our total net sales in the years ended December 31, 2010, 2009 and 2008.

Our property and equipment, net, were located in the following countries as of the periods presented (in thousands):

<u>Location:</u>	<u>At December 31,</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
U.S. ....	\$ 20,848	\$ 16,235	\$ 10,854
Philippines .....	566	516	870
Canada .....	437	340	115
Property and equipment, net .....	<u>\$ 21,851</u>	<u>\$ 17,091</u>	<u>\$ 11,839</u>

## 15. Related Party Transactions

In February 2009, we entered into a Software License and Maintenance and Support Agreement with Eruces, Inc., a Delaware corporation, pursuant to which Eruces licensed data security technology to our company. Dr. Bassam Khulusi and Sam Khulusi, each of whom is a brother of our Chairman and Chief Executive Officer Frank Khulusi, together beneficially own a majority of the outstanding voting stock of Eruces. Ronald Reck, a member of our Board of Directors and the Audit Committee and the chairman of our Compensation Committee, is a minority stockholder in Eruces. The Eruces technology licensed under the agreement is proprietary encryption software that was independently identified by our Director of Security as the best solution for certain of our data security needs. The transactions contemplated by the agreement were approved by the independent members of our Board of Directors and Audit Committee in accordance with our Audit Committee Charter and our policy for approval of related party transactions. The agreement provides for a one-time license fee of \$270,300 in consideration for a worldwide, non-exclusive, perpetual and irrevocable license to use the software, a one-time \$23,625 installation and integration fee and annual support fees in the initial amount of \$40,545.

## 16. Subsequent Events

Effective January 1, 2011, AF Services, LLC, our wholly-owned subsidiary, entered into an amendment to the existing lease agreement, originally dated February 19, 2009, as amended, with SARCOM Properties, Inc., adding an additional 22,514 square feet of space to the existing 121,486 square feet of space utilized by PC Mall's wholly-owned subsidiary, SARCOM, Inc. The lease agreement for the additional 22,514 square feet of space requires an additional \$0.1 million of lease payment per year to be paid monthly. The 144,000 total square feet is used for office and warehouse/distribution space in Lewis Center, Ohio.

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

In conjunction with this transaction, beginning with the first quarter of 2011, our management will consider the OnSale and eCOST businesses together as a separate segment and will report their results accordingly, including revising all historical segment financial information reported therein. As such, existing sales under the OnSale brand will no longer be reported under the MacMall segment. We expect the MacMall segment to remain primarily focused on targeting small businesses, creative professionals and high-end consumers, predominantly in the Apple and related-products market.

On March 11, 2011, we completed the purchase of the real property comprising approximately 82,000 square feet of office space located at 1940 East Mariposa Avenue, El Segundo, California, which 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 \$9.5 million in cash. In addition to the purchase price of the property, we expect to make certain improvements on the property for an expected cost of up to \$4.5 million. In the near term, we expect to complete financing of the building and improvements through a variable interest rate loan committed to us by a commercial bank. Under the terms of a commitment letter to us from a commercial bank, the maximum amount of the committed loan is the lesser of \$12 million, 75% of the "as improved" value of the property, and 75% of our acquisition and improvement costs. The commitment for the loan provides for a five year term with 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. The loan will be secured by the real property, and will contain financial covenants substantially similar to those of our existing asset-based credit facility.

\* \* \*

PC MALL, INC.

SUPPLEMENTARY DATA  
 QUARTERLY FINANCIAL INFORMATION  
 (unaudited, in thousands, except per share data)

	2010			
	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter
Net sales.....	\$ 289,854	\$ 316,983	\$ 336,099	\$ 425,378
Gross profit .....	38,029	40,555	43,240	49,741
Net income.....	173	1,363	2,120	3,917
<b>Basic and diluted earnings per common share:</b>				
Basic .....	\$ 0.01	\$ 0.11	\$ 0.17	\$ 0.33
Diluted .....	0.01	0.11	0.17	0.33
	2009			
	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter
Net sales.....	\$ 259,300	\$ 261,412	\$ 280,349	\$ 337,000
Gross profit .....	37,495	35,837	39,184	40,500
Net income.....	1,011	815	1,448	83
<b>Basic and diluted earnings per common share:</b>				
Basic .....	\$ 0.08	\$ 0.07	\$ 0.12	\$ 0.01
Diluted .....	0.08	0.06	0.11	0.01

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

None.

**ITEM 9A. 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 our most recent fiscal year. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2010.

**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 fourth quarter of 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## Report on Internal Control Over Financial Reporting

### *Management's Report on Internal Control Over Financial Reporting*

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934, as amended, as a process designed by, or under the supervision of, our principal executive and principal financial officers, or persons performing similar functions, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, with the participation of our principal executive officer and principal financial officers, has assessed the effectiveness of our internal control over financial reporting as of December 31, 2010. In making its assessment of internal control over financial reporting, management used the criteria described in "Internal Control — Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment and those criteria, management believes that, as of December 31, 2010, our internal control over financial reporting was effective.

## ITEM 9B. OTHER INFORMATION

The following disclosure would otherwise be filed on Form 8-K under the heading "Item 5.02 - Compensatory Arrangements of Certain Officers."

On March 22, 2011, the Compensation Committee of our Board of Directors approved, effective March 27, 2011, increases to the base salary annual rates of pay for our executive officers and adopted new executive incentive bonus plans for our executive officers to be effective for the fiscal year ending December 31, 2011 in replacement of prior executive bonus plans, previously adopted on August 18, 2010 for fiscal year ending December 31, 2010. The base salary rate increases include an increase for Frank Khulusi, Brandon LaVerne, Kristin Rogers, Robert Newton and Joseph Hayek, respectively, from \$807,919, \$279,414, \$339,414, \$304,414 and \$255,194, to \$833,000, \$317,500, \$350,000, \$317,500 and \$263,000.

The new executive incentive bonus plans were adopted by the Compensation Committee after consideration by the Committee of our compensation philosophies, principles and processes as described in our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2009 filed with the Securities and Exchange Commission on April 30, 2010. These philosophies, principles and processes provide for periodic review by the Committee of the performance of our executive officers, the components of their compensation and the effectiveness of our compensation programs in rewarding the contributions of our executive officers towards enhancing our specific business goals while retaining and motivating high quality individuals. In adopting the new executive incentive bonus plan for the fiscal year ending December 31, 2011, the Committee considered a report from an independent third party compensation consultant, Towers Watson, together with other recent competitive market data.

The general executive incentive bonus plan covers the following executive officers, with applicable incentive targets under the plan indicated as a percentage of base salary for each as follows: Frank F. Khulusi, Chairman, President and Chief Executive Officer — 50% of base salary; Brandon H. LaVerne, Chief Financial Officer — 40% of base salary; Kristin M. Rogers, Executive Vice President of Sales and Marketing — 40% of base salary; and Joseph B. Hayek, Executive Vice President of Corporate Development and Investor Relations — 40% of base salary. Additionally, the Compensation Committee approved an increase to Mr. Newton's annual contractual bonus opportunity of \$120,000 to an annual bonus opportunity of \$127,000. Mr. Newton does not participate in the general executive incentive bonus plan based on an agreement between the Company and Mr. Newton, which was originally entered into in June of 2004 in an effort to avoid any conflict of interest in the outcome of his legal advice to the Company.

The general plan will be funded at the above amounts if the company achieves 100% of a target of adjusted EBITDA for the 2011 calendar year, excluding the results of its new OnSale segment. Adjusted EBITDA is defined under the plan as earnings before interest, taxes, depreciation and amortization, and adjusted for stock-based compensation and non-recurring special charges, if any, to be excluded from the calculation of EBITDA in the discretion of the Compensation Committee.

The plan also has a minimum adjusted EBITDA for any incentive bonuses to be paid under the plan and contains incentive bonus decelerators based on performance below the performance target. If the company's performance falls below the performance target, but is at least 90% of the performance target, the incentive bonuses may be reduced by a percentage of the incentive bonus target equal to two times the percentage points by which adjusted EBITDA falls below the performance target. For example, if the company achieves 90% of the performance target, incentive bonuses under the plan may be funded at 80% of the target incentive bonus amounts described above.

Additional decelerators will apply if the company's performance is between 80% and 90% of the performance target. In such event, in addition to the first decelerator described above for performance between 90% and 100% of the performance target, the incentive bonus amounts may be further decreased by an additional eight times the percentage points by which adjusted EBITDA falls below 90% of the performance target. For example, if the company achieves 85% of the performance target, incentive bonuses under the plan may be funded at 40% of the incentive bonus amounts described above. If the company achieves less than 80% of the performance target, the plan will not be funded, and no incentive bonuses will be paid under the plan.

The plan also contains accelerators under which the incentive bonus amounts can exceed the above described target incentive bonus amounts. If the company's performance is between 100% and 110% of the performance target, the incentive bonuses may be increased at a rate of two times the percentage points by which adjusted EBITDA exceeds 100% of the performance target. For example, if the company achieves 110% of the performance target, the incentive bonuses may be paid at 120% of the above described incentive bonus target amounts.

Additional accelerators are available if the company's performance is between 111% and 130% of the performance target. In such event, in addition to the first accelerator described above for performance between 100% and 110% of the performance target, the incentive bonus amounts may be further increased by an additional four times the percentage points by which the performance target exceeds 110%, with a maximum funding of 200% of the incentive bonus targets. For example, if the company achieves 120% of the performance target, the plan may be funded and incentive bonuses paid at 160% of the above described incentive bonus target amounts. If the company achieves 130% or more of the performance target, the plan may be funded and incentive bonuses paid at 200% of the above described incentive bonus target amounts.

All amounts funded may be reduced at the sole discretion of the Compensation Committee based upon qualitative or quantitative factors. In addition to participation in the executive incentive bonus plan, as described above, all of our executive officers are eligible for discretionary bonuses as determined from time to time by our Compensation Committee.

## **PART III**

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Information regarding our board of directors, audit committee, audit committee financial expert, code of business conduct and ethics, and other corporate governance matters is set forth under the caption “Election of Directors” in our definitive Proxy Statement to be filed in connection with our 2011 Annual Meeting of Stockholders and such information is incorporated herein by reference.

Information regarding Section 16(a) beneficial ownership compliance is set forth under the caption “Executive Compensation — Section 16(a) Beneficial Ownership Reporting Compliance” in our definitive Proxy Statement to be filed in connection with our 2011 Annual Meeting of Stockholders and such information is incorporated herein by reference.

A list of our executive officers is included in Part I, Item 4A of this annual report under the caption “Executive Officers of the Registrant” and such information is incorporated herein by reference.

We have adopted a code of business conduct and ethics that applies to our directors, officers and employees, including our principal executive officer and principal financial and accounting officer. Our code of business conduct and ethics is posted in the “Investor Relations” section of our website at [www.pcmall.com](http://www.pcmall.com). Any amendments to, or waivers from, a provision of our code of business conduct and ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions will be posted in the “Investor Relations” section of our website. We will provide a copy of our code of business conduct and ethics to any person, without charge, upon receipt of a written request directed to our Corporate Secretary at our principal executive offices.

### **ITEM 11. EXECUTIVE COMPENSATION**

The information required by this item is set forth under the caption “Executive Compensation” and “Election of Directors-Director Compensation” in our definitive Proxy Statement to be filed in connection with our 2011 Annual Meeting of Stockholders and such information is incorporated herein by reference.

### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this item is set forth under the caption “Security Ownership of Certain Beneficial Owners” and “Executive Compensation — Equity Compensation Plan Information” in our definitive Proxy Statement to be filed in connection with our 2011 Annual Meeting of Stockholders and such information is incorporated herein by reference.

### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this item is set forth under the captions “Certain Relationships and Related Transactions,” “Election of Directors — Director Independence” and “Executive Compensation — Compensation Committee Interlocks and Insider Participation” in our definitive Proxy Statement to be filed in connection with our 2011 Annual Meeting of Stockholders and such information is incorporated herein by reference.

### **ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by this item is set forth under the caption “Ratification of the Appointment of Independent Registered Public Accounting Firm” in our definitive Proxy Statement to be filed in connection with our 2011 Annual Meeting of Stockholders and such information is incorporated herein by reference.

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

	<u>Page Number</u>
(1) Financial Statements	See Part II, Item 8, beginning on page 54
(2) Financial Statement Schedule II - Valuation and Qualifying Accounts for the Years Ended December 31, 2010, 2009 and 2008	See Part IV, Item 15, beginning on page 84
(3) Exhibits	See Part IV, Item 15, beginning on page 85

PC MALL, INC.

**SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS**  
**For the Years Ended December 31, 2010, 2009 and 2008**  
(in thousands)

	<u>Balance at Beginning of Year</u>	<u>Additions Charged to Operations</u>	<u>Deduction from Reserves</u>	<u>Balance at End of Year</u>
Allowance for doubtful accounts for the years ended:				
December 31, 2010 .....	\$ 2,740	\$ 1,358	\$ (2,296)(a)	\$ 1,802
December 31, 2009 .....	4,241	2,088	(3,589)(a)	2,740
December 31, 2008 .....	4,653	3,338	(3,750)(a)	4,241
Reserve for inventory for the years ended:				
December 31, 2010 .....	\$ 1,571	\$ 94	\$ (352)(b)	\$ 1,313
December 31, 2009 .....	1,713	642	(784)(b)	1,571
December 31, 2008 .....	1,680	1,045	(1,012)(b)	1,713
Sales returns reserve for the years ended:				
December 31, 2010 .....	\$ 1,690	\$ 19,334	\$ (19,455)(c)	\$ 1,569
December 31, 2009 .....	1,653	20,637	(20,600)(c)	1,690
December 31, 2008 .....	2,078	21,940	(22,365)(c)	1,653
Valuation allowance for deferred tax assets for the years ended:				
December 31, 2010 .....	\$ 165	\$ 176(d)	(104)(d)	\$ 237
December 31, 2009 .....	179	115(d)	(129)(d)	165
December 31, 2008 .....	214	—	(35)(d)	179

(a) Relates primarily to accounts written-off.

(b) Relates primarily to excess and/or obsolete inventory written-off.

(c) Relates to sales returns received and applied to sales returns reserve.

(d) Relates primarily to changes in valuation allowances applied to various state net operating loss carryforwards.

## EXHIBIT LIST

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of August 17, 2007, by and among PC Mall, Inc., Mall Acquisition 2, Inc., Sarcom, Inc., Zohar CDO 2003-1, Limited, Zohar II 2005-1, Limited, Charles E. Sweet, Robert F. Angart & Company, John R. Strauss, Daniel A. Schneider and Howard Schapiro (incorporated herein by reference to Exhibit 2.1 to the Current Report on Form 8-K of PC Mall, Inc. (File no. 0-25790) filed with the Securities and Exchange Commission (the “Commission”) on September 18, 2007)
3.1	Amended and Restated Certificate of Incorporation of PC Mall, Inc. (incorporated herein by reference to Exhibit 3.1(C) to the Quarterly Report on Form 10-Q of PC Mall, Inc. for the quarter ended September 30, 2003 (File No. 0-25790) filed with the Commission on November 14, 2002)
3.2	Amended and Restated Bylaws of PC Mall, Inc. (incorporated herein by reference to Exhibit 3.2 to the Annual Report on Form 10-K of PC Mall, Inc. for the year ended December 31, 2000 (File No. 0-25790) filed with the Commission on April 2, 2001 (the “2000 Form 10-K”))
10.1*	Amended and Restated 1994 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of PC Mall, Inc. (File No. 0-25790) for the period ended June 30, 2010 filed with the Commission on August 9, 2010)
10.2*	Employment Agreement, dated January 1, 1995, between Creative Computers, Inc. and Frank F. Khulusi (incorporated herein by reference to the Registration Statement on Form S-1 of PC Mall, Inc. (File No. 33-89572), declared effective on April 4, 1995 (the “1995 Form S-1”))
10.3*	Amendment to Employment Agreement made and entered into as of December 28, 2005, by and between PC Mall, Inc. and Frank F. Khulusi (incorporated herein by reference to Exhibit 10.32 to the Annual Report on Form 10-K of PC Mall, Inc. for the year ended December 31, 2005 (File No. 0-25790) filed with the Commission on March 31, 2006 (the “December 31, 2005 Form 10-K”))
10.4*	Second Amendment to Employment Agreement made and entered into as of December 28, 2005, by and between PC Mall, Inc. and Frank F. Khulusi (incorporated herein by reference to Exhibit 10.33 to the December 31, 2005 Form 10-K)
10.5*	Employment Agreement, dated January 20, 2000, between PC Mall, Inc. and Kristin M. Rogers (incorporated herein by reference to Exhibit 10.45 to the Annual Report on Form 10-K of PC Mall, Inc., for the year ended December 31, 2001 (File No. 0-25790) filed with the Commission on April 1, 2002)
10.6*	Employment Agreement, dated January 1, 1994, between Creative Computers, Inc. and Daniel J. DeVries (incorporated herein by reference to the 1995 Form S-1)
10.7*	Severance Agreement, dated January 31, 2006, between PC Mall Inc. and Daniel J. DeVries (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 February 3, 2006)
10.8*	Employment Agreement, dated June 8, 2004, between PC Mall, Inc. and Rob Newton (incorporated herein by reference to Exhibit 10.54 to the Quarterly Report on Form 10-Q of PC Mall, Inc. for the quarter ended June 30, 2004 (File No. 0-25790) filed with the Commission on August 11, 2004 (the “June 30, 2004 Form 10-Q”))
10.9*	Amendment to Employment Agreement, dated March 22, 2005, between PC Mall, Inc. and Rob Newton (incorporated herein by reference to Exhibit 10.2 to the Current Report on form 8-K of PC Mall, Inc. (File No. 0-25790) filed with the commission on March 25, 2005)
10.10*	Severance Agreement between AF Services, LLC and Brandon LaVerne (incorporated herein by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q of PC Mall, Inc. for the quarter ended September 30, 2007 (File No. 0-25790) filed with the Commission on November 14, 2007 (the “September 30, 2007 Form 10-Q”))
10.11*	Form of Executive Non-Qualified Stock Option Agreement (full acceleration upon change in control) (incorporated herein by reference to Exhibit 10.61 to the Quarterly Report on Form 10-Q of PC Mall, Inc. for the quarter ended September 30, 2004 (File No. 0-25790) filed with the Commission on November 15, 2004 (the “September 30, 2004 Form 10-Q”))
10.12*	Form of Executive Non-Qualified Stock Option Agreement (partial acceleration upon change in control) (incorporated

herein by reference to Exhibit 10.62 to the September 30, 2004 Form 10-Q)

- 10.13\* Directors' Non-Qualified Stock Option Plan, amended and restated as of May 18, 1999 (incorporated herein by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of PC Mall, Inc. for the quarter ended June 30, 1999 (File No. 0-25790) filed with the Commission on August 16, 1999)
- 10.14\* Form of Indemnification Agreement between PC Mall, Inc. and each of its directors and executive officers (incorporated herein by reference to Exhibit 10.48 to the Annual Report on Form 10-K of PC Mall, Inc. for the year ended December 31, 2002 (File No. 0-25790) filed with the Commission on March 31, 2003)
- 10.15\* Form of Director Restricted Stock Bonus Award Agreement (incorporated herein by reference to Exhibit 10.3 to the September 30, 2007 Form 10-Q)
- 10.16 Master Separation and Distribution Agreement, dated September 1, 2004, between PC Mall, Inc. and eCOST.com, Inc. (incorporated herein by reference to Exhibit 10.56 to the Current Report on Form 8-K of PC Mall, Inc. (File No. 0-25790) filed with the Commission on September 8, 2004 (the "September 8, 2004 Form 8-K"))
- 10.17 Tax Allocation and Indemnification Agreement, dated September 1, 2004, between PC Mall, Inc. and eCOST.com, Inc. (incorporated herein by reference to Exhibit 10.57 to the September 8, 2004 Form 8-K)
- 10.18 Employee Benefit Matters Agreement, dated September 1, 2004, between PC Mall, Inc. and eCOST.com, Inc. (incorporated herein by reference to Exhibit 10.58 to the September 8, 2004 Form 8-K)
- 10.19 Office Lease by and between St. Paul Properties, Inc., as Landlord, and PC Mall, Inc., as Tenant (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 June 21, 2007)
- 10.20 Lease Agreement, dated September 1, 2003, between PC Mall, Inc. and Anderson Tully Company for the premises located at 4715 E. Shelby Drive, Memphis, TN (incorporated herein by reference to Exhibit 10.63 to the Annual Report on Form 10-K of PC Mall, Inc. for the year ended December 31, 2004 (File No. 0-25790) filed with the Commission on March 31, 2005 (the "December 31, 2004 Form 10-K"))
- 10.21 Renewal Letter for lease of property in Memphis, Tennessee, entered into on October 2, 2006 (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 October 6, 2006)
- 10.22 Lease Agreement, dated June 11, 2003, among PC Mall, Inc., PC Mall Canada, Inc. and Canaprev, Inc. for the premises located at 1100, University, 2nd Floor, Montreal (Quebec) Canada (incorporated herein by reference to Exhibit 10.64 to the December 31, 2004 Form 10-K)
- 10.23 Addendum to Lease Agreement, dated January 26, 2004, between PC Mall, Inc., PC Mall Canada, Inc. and Canaprev, Inc. for premises located at 1100 University, Montreal, Quebec, Canada, dated January 26, 2004 (incorporated herein by reference to Exhibit 10.70 to the December 31, 2004 Form 10-K)
- 10.24 Lease Agreement, dated as of July 1, 2001, by and between Sarcom Properties, Inc. and Sarcom Desktop Solutions, Inc., as amended as of December 1, 2002 and as of March 22, 2004 (incorporated herein by reference to Exhibit 10.8 to the September 30, 2007 Form 10-Q)
- 10.25 Addendum No. 2, by and between Complexe Rue Universite S.E.C., PC Mall Canada, Inc. and PC Mall, Inc., dated January 10, 2008 (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 January 15, 2008)
- 10.26 Asset Purchase Agreement, dated as of September 7, 2006, by and among a wholly-owned subsidiary of PC Mall Gov, Inc. GMRI and the shareholders of GMRI (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K of PC Mall, Inc. (File No. 0-25790) filed with the Commission on September 12, 2006)
- 10.27 Joint Stipulation of Settlement and Release made and entered into by and between Plaintiff Nicole Atkins, Class Representative and Defendants PC Mall, Inc. and PC Mall Sales, Inc. (incorporated herein by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of PC Mall, Inc. (File No. 0-25790) for the period ended March 31, 2007 filed with the Commission on May 15, 2007)
- 10.28 Registration Rights Agreement, dated as of September 17, 2007, by and among PC Mall, Inc., Zohar CDO 2003-1, Limited, Zohar II 2005-1, Limited, Charles E. Sweet, Robert F. Angart & Company, John R. Strauss, Daniel A. Schneider and Howard Schapiro (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of PC Mall, Inc. (File No. 0-25790) filed with the Commission on September 18, 2007)

- 10.29+ Second Amended and Restated Loan and Security Agreement, dated as of December 14, 2010, by and among PC Mall, Inc., wholly-owned subsidiaries of PC Mall, Inc., Wells Fargo Capital Finance, LLC (Western) and certain other financial institutions
- 10.30 Agreement for Purchase and Sale of Real Estate and Joint Escrow Instructions by and between PC Mall, Inc. and Citibank N.A., dated as of January 7, 2011
- 10.31 First Amendment to Agreement for Purchase and Sale of Real Estate and Joint Escrow Instructions, dated as of February 7, 2011
- 10.32 Second Amendment to Agreement for Purchase and Sale of Real Estate and Joint Escrow Instructions, dated as of February 22, 2011
- 10.33 Lease Agreement, Executed By and Between SARCOM Properties, Inc. and AF Services, LLC, effective January 1, 2010 (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 February 26, 2010)
- 10.34\* Summary of Executive Bonus Plan, adopted August 18, 2010 (incorporated herein by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of PC Mall, Inc. (File No. 0-25790) for the period ended September 30, 2010 filed with the Commission on November 9, 2010)
- 10.35\* Summary of Executive Bonus Plan, adopted March 22, 2011
- 10.36\* Summary of Executive Salary and Bonus Arrangements
- 10.37\* Summary of Director Compensation Arrangements (incorporated herein by reference to Exhibit 10.35 to the Annual Report on Form 10-K of PC Mall, Inc. (File No. 0-25790) for the year ended December 31, 2009 filed with the Commission on March 16, 2010)
- 10.38\* Employment Agreement, by and between PC Mall, Inc. and Joseph B. Hayek, dated March 17, 2008 (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 March 19, 2008)
- 10.39\* Amendment to Employment Agreement made and entered into as of December 30, 2008, by and between PC Mall, Inc. and Frank F. Khulusi (incorporated herein by reference to Exhibit 10.37 to the Annual Report on Form 10-K of PC Mall, Inc. (File No. 0-25790) filed with the Commission on March 16, 2009)
- 10.40 Renewal Letter, by and between WNI/Tennessee, L.P. and AF Services, LLC, dated September 30, 2009 (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 October 6, 2009)
- 21.1 Subsidiaries of PC Mall, Inc. as of December 31, 2010
- 23.1 Consent of PricewaterhouseCoopers LLP
- 31.1 Certification of the Chief Executive Officer of PC Mall, Inc. pursuant to Exchange Act Rule 13a-14(a)
- 31.2 Certification of the Chief Financial Officer of PC Mall, Inc. pursuant to Exchange Act Rule 13a-14(a)
- 32.1 Certification of the Chief Executive Officer of PC Mall, Inc. 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 PC Mall, Inc. pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002

\* Management contract, or compensatory plan or arrangement.

+ Confidential portions omitted and filed separately with the U.S. Securities and Exchange Commission pursuant to a request for confidential treatment under Rule 24b-2 promulgated under the Securities Exchange Act of 1934, as amended.

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

PC MALL, INC.  
(Registrant)

Date: March 25, 2011

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

## POWER OF ATTORNEY

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

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ FRANK F. KHULUSI</u> Frank F. Khulusi	Chairman, Chief Executive Officer and President (Principal Executive Officer)	March 25, 2011
<u>/s/ BRANDON H. LAVERNE</u> Brandon H. LaVerne	Chief Financial Officer, Chief Accounting Officer and Treasurer (Principal Financial and Accounting Officer)	March 25, 2011
<u>/s/ THOMAS A. MALOOF</u> Thomas A. Maloof	Director	March 25, 2011
<u>/s/ RONALD B. RECK</u> Ronald B. Reck	Director	March 25, 2011
<u>/s/ PAUL C. HEESCHEN</u> Paul C. Heeschen	Director	March 25, 2011

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