FORM 10-K

PC MALL INC - MALL

Filed: March 12, 2007 (period: December 31, 2006)

Annual report which provides a comprehensive overview of the company for the past year

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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, 2006

☐ **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 Stock Market LLC

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 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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

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, 2006, the aggregate market value of the Common Stock held by non-affiliates of the registrant was approximately $46.8 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 8, 2007, the registrant had 12,409,169 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 2007 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report.

PC MALL, I NC.

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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 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 competitive advantages and growth opportunities;
- our ability to increase profitability and revenues;
- our focus on what we believe are high-growth segments of the market;
- our ability to leverage our market position and purchasing power and offer a wide selection of products at competitive prices;
- our ability to penetrate the public sector market;
- 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 capitalize on our inbound and outbound telemarketing activities and our expectations regarding related expense levels and their effect on profitability;
- our ability to generate vendor supported marketing;
- our ability to limit risk related to price reductions;
- our use of management information systems and their need for future support or upgrade;
- our expectations regarding competition;
- our compliance with laws and regulations;
- our expectations regarding our working capital, liquidity and cash flows from operations;
- our estimates of contingent liabilities resulting from the acquisition of GMRI and any effects on the purchase price and amounts allocated to goodwill;
- our expectations to continue our efforts to increase the productivity of our sales force and reduce costs;
- the impact on accounts receivable from our efforts to focus on commercial and public sector 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 belief that PC Mall Gov's purchasing power and rapid response technology is well suited to support the procurement models of government and education buyers;
- our beliefs regarding the benefits of in-house preparation of catalogs;
- our belief that backlog is not useful for predicting future sales;
- our belief that our existing distribution facilities are adequate for our current needs;
- the likelihood that new laws and regulations will be adopted with respect to the Internet that may impose additional restrictions or burdens on our business;

- our beliefs regarding the applicability of tax regulations;
- our expectations regarding the impact of accounting pronouncements;
- our plans for our growth strategy, capital needs and future financing.

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

ITEM 1. BUSINESS

General

PC Mall, Inc., together with its wholly-owned subsidiaries (collectively referred to as “PC Mall,” “we” or “us”), founded in 1987, is a rapid response direct marketer of computer hardware, software, peripherals, electronics, and other consumer products and services. We offer products and services to businesses, government and educational institutions, as well as individual consumers, through dedicated outbound and inbound telemarketing account executives, the Internet, direct marketing techniques, direct response catalogs, a direct sales force and three retail showrooms. We offer a broad selection of products through our distinctive full-color catalogs under the PC Mall, MacMall and PC Mall Gov brands, our websites pcmall.com, macmall.com, pcmallgov.com, gmri.com, wareforce.com and onsale.com, and other promotional materials.

We operate in two reportable segments: (1) a rapid response supplier of technology solutions for businesses, government and educational institutions, as well as consumers, collectively referred to as “Core business” and (2) an online retailer of computer and consumer electronic products under the OnSale.com brand. We allocate our resources to and evaluate the performance of our segments based on operating income. Corporate expenses are included in our measure of segment operating income for management reporting purposes.

On September 7, 2006, PC Mall Gov, Inc., or PC Mall Gov, our wholly-owned subsidiary, acquired the products business of Government Micro Resources, Inc., or GMRI, for approximately $3.4 million in cash, including transaction costs. The business includes assets of GMRI’s former products business, which include the GMRI trade names, contracts and the related employees, among other items. We are currently reviewing whether certain contingent liabilities existed at the time of the acquisition. We estimate that such contingent liabilities, if any, could result in an increase to the purchase price by approximately $0.1 million to $0.8 million and could increase the amount allocated to goodwill. Based on a preliminary purchase price allocation, we recorded $2.1 million of goodwill at the Core business segment and $1.3 million of intangible assets and furniture and equipment based on estimated fair values at the date of acquisition. These allocations are subject to further review. Any material adjustment to these allocations could have a material adverse effect on our results of operations in the future. Beginning with September 8, 2006, the results of the acquired products business of GMRI have been included in the pubic sector results of the Core business segment.

During the third quarter of 2005, we opened an office in the Philippines, an effort to reduce certain of our administrative, back-office and call-center labor costs. The opening of the Philippines office has also allowed us to devote additional resources towards enhancing our marketing content on the Internet, and other customer acquisition and retention activities, in an effort to increase sales in a cost-effective manner.

On April 11, 2005, we completed the spin-off of our 80.2% owned subsidiary, eCOST.com, Inc., when we distributed approximately 1.2071 shares of eCOST.com common stock as a special dividend on each outstanding share of our common stock to our stockholders of record on March 28, 2005. As a result of the spin-off, eCOST.com, which was a segment of our company, is presented as a discontinued operation for the prior periods presented herein.

For more information on the discontinued operation of eCOST.com, see Note 3 of the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report.

In June 2003, we established a call center in Montreal, Canada, serving the U.S. market. We believe that the Canadian call center allows us to access an abundant, educated labor pool and benefit from a Canadian government labor subsidy that extends through approximately the end of 2007. During the years through 2007, we expect to annually claim labor credits of up to 35% of eligible compensation for qualifying employees under the program. In 2006, we received the expected payment of $2.4 million from the Canadian government related to our 2004 claim, and in 2005, we received the expected payment of $0.4 million related to our 2003 claim. As of December 31, 2006, we had an accrued receivable of $6.2 million related to these labor credits and we expect to receive full payment under our labor credit claim.

In June 2002, we formed Onsale, Inc. as a wholly-owned subsidiary. We acquired the URL and software that operated the original OnSale.com website for approximately $0.4 million through bankruptcy proceedings of Egghead in December 2002. In October 2003, we formally launched OnSale.com and we began product sales in the fourth quarter of 2004. OnSale.com is focused on selling computer and consumer electronic products, primarily on the Internet.

Strategy

Our strategy is to be a leading rapid response direct marketer of a broad range of computers, software and related technology and consumer electronic products and solutions to businesses, government and educational institutions and individual consumers. Specific elements of our operating strategy include:

Continued Development of Outbound Telemarketing. During 2006, we continued to intensify our outbound telemarketing efforts to focus on the small and medium-sized business market, as well as large enterprise, government and education markets. We believe that inherent cost efficiencies and our purchasing power with key vendors provide us with competitive advantages and growth opportunities to acquire market-share from small value-added resellers ("VARs"). In 2006, we continued with a modified strategy of more modest hiring of new outbound account executives and continued to place a greater focus on increasing the productivity of our existing outbound telemarketing sales force through enhanced training and tools. We expect to continue our efforts to increase the productivity of our outbound telemarketing sales force.

As discussed above, we opened a new outbound call center in Canada in June 2003 to allow us to access an abundant, educated labor pool and to benefit from a government labor subsidy that extends through the end of 2007. As of December 31, 2006, we had 249 outbound telemarketing account executives in our Canadian sales office compared to 246 at December 31, 2005. In support of our overall objectives for the outbound telemarketing group, in 2006, we continued to invest in our internally developed customer relationship management ("CRM") system, while also building a new quote management system for our outbound sales force which is expected to go into production in 2007. Our CRM system, called X Sale, is designed to provide better capability for managing our commercial customer relationships and our leads to our sales force. During 2006, we continue to capitalize on our Philippines by improving the bandwidth of the sales support staff and enhancing our outbound telemarketing sales force's performance.

Focus on Sales of Enterprise Products. We continue to focus on sales of enterprise products such as networking products, servers, storage and volume licensing, which we believe represent high growth segments of the enterprise market. These products are sold primarily by our direct sales force known as Wareforce (formerly Wareforce and CCIT). We are authorized or otherwise have the ability to sell Cisco, HP, IBM, Lenovo, Microsoft, Symantec and other name brand enterprise products. We are also authorized to sell contractual licenses from leading publishers like Microsoft and IBM/Lotus to large enterprise customers as well as government and educational institutions.

Leverage Apple Market Position. Throughout 2006, we continued to be a leading rapid response direct marketer of Apple products. We believe our position provides us opportunities to acquire new customers as well as increase sales to existing customers. Our sales of Apple products in 2006 were $234.2 million, an increase of $27.4 million, or 13%, compared to $206.8 million in 2005, and a cumulative increase of $28.3 million, or 14%, compared to $205.9 million in 2004. During 2006, we published 13 editions of our MacMall catalog with a circulation of 13.5 million copies, a 23% decrease from the prior year's 17.5 million circulation. The decrease in MacMall catalog circulation was due to our attempt to improve the profitability of our catalog response rate.

Increased Relationship-Based Selling. Our account executives are trained in relationship building with their customers and in offering high levels of service. We are committed to relationship-based selling. Account executives are trained and empowered to handle a variety of customer needs, including ongoing customer service and returns-related issues. Additionally, account executives bring product expertise to bear as needed from within the company, leveraging technical specialists supporting our leading manufacturers including Apple, Cisco, HP, IBM, Lenovo, Microsoft and Symantec.

Leverage of Internet Expertise. We have been involved in Internet e-commerce since 1995 and are focused on leveraging our Internet expertise. In 2006, we expanded our use of "Corporate Access Pages," or CAP sites, which are custom extranet-based dedicated websites that are designed to allow business and public sector customers to perform routine tasks online and give account executives increased time for acquiring new customers. In 2006, we engaged with several large end users and OEMs to jointly develop and market employee purchase programs and other e-store versions of the traditional extranet platform. We believe that these traditional extranets and these newer applications of the extranets have the potential to yield additional sales opportunities in the future and the ability to reach new customer bases.

In October 2003, we formally launched OnSale.com, which today is focused on selling computer and consumer electronic products primarily on the Internet.

Penetration of the Public Sector Market. In April 2002, we formed PC Mall Gov and hired an experienced public sector technology executive to lead its public sector sales efforts, which includes sales to federal, state and local governmental departments and agencies, as well as educational institutions. PC Mall Gov is focused on establishing a larger presence in the federal government market and as a result, in September 2006, PC Mall Gov acquired the products business from GMRI, a government reseller of high-technology products and related service contracts. The acquisition expanded PC Mall Gov's footprint in the government marketplace and further enhanced the breadth of products we sell to include Sun Microsystems products. We believe that PC Mall Gov's purchasing power and rapid response technology is well suited to support the procurement models of government and education buyers. In 2006, our combined public sector net sales increased 13% over 2005. PC Mall Gov was also awarded several larger contracts in 2006, the most significant being the GSA EDD contract, which after several months of e-development work, was launched in late December 2006.

Selectively Pursue Strategic Acquisitions. Since our founding, we have supplemented our internal growth through selective, strategic acquisitions. We believe that the fragmented nature of the reseller industry and consolidation trends in our industry may continue to present acquisition opportunities for us, and we may target acquisitions in the markets that we already serve, as well as in new markets. We believe that acquisitions may allow us to increase our productivity and the efficiency of our operations by leveraging our existing infrastructure. Acquisitions in new markets may expand our geographic reach into markets we do not currently serve and may allow us to leverage fixed costs.

Marketing and Sales

We design our marketing programs to attract new customers and to stimulate additional purchases by previous customers. We employ outbound telemarketing sales techniques to establish new customer relationships with businesses, selectively mail catalogs to prospective customers and advertise on the Internet and, to a limited extent, in major computer user magazines such as PC World, Federal Computer Week and MacWorld. In addition, we obtain the names of prospective customers through selected mailing lists acquired from various sources, including manufacturers, suppliers and computer magazine publishers. We offer products and services to businesses, government and educational institutions, as well as individual consumers, primarily within the U.S.

We utilize sophisticated analysis tools designed to manage marketing campaigns using different media channels and to optimize campaigns through advanced data mining techniques. The analysis combines optimization techniques with multiple models to more effectively match offers to individuals and businesses in an effort to provide the most profitable results.

Inbound and Outbound Telemarketing. We believe that much of our success has come from the quality and training of our account executives. 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 meet prices of competitors. 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 attend regular training sessions to stay up-to-date on new products. Account executives staff our toll-free order lines 24 hours a day, seven days a week. Customer service and technical support personnel assist outbound and inbound telemarketing account executives. Our phone and computer systems are used for order entry, customer tracking and inventory management. In mid 2005, we introduced a new CRM system called X Sale for our outbound account executives to assist them in the prospecting and account management functions. We also introduced a Customer Acquisition and Retention Development ("CARD") model for the outbound account executives to support the ability of the account executives to sell across more product categories into their accounts.

Catalogs. Active PC Mall and MacMall customers receive a catalog several times a year depending upon purchasing history, and we include a catalog with most orders shipped, as well as special promotional flyers and manufacturers' product brochures. We published 13 editions of our PC Mall catalog during 2006 and distributed approximately 3.1 million PC Mall catalogs, a decrease of 37% compared to 4.9 million catalogs distributed in 2005 and a cumulative 55% decrease compared to 6.9 million catalogs distributed in 2004. We published 13 editions of our MacMall catalog in 2006 and distributed approximately 13.5 million catalogs, a decrease of 23% compared to 17.5 million catalogs distributed in 2005 and a cumulative 32% decrease compared to 19.8 million catalogs distributed in 2004. We also published and distributed ClubMac and PC Mall Gov catalogs in 2006, totaling an additional 12 editions, with approximately 1.3 million catalogs. In 2006, we launched our first Wareforce catalog, leveraging our relationships with key OEMs such as HP and utilizing the catalog to reach thousands of Wareforce customers and prospects.

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

The Internet. We operate several websites, including pcmall.com, macmall.com, clubmac.com, pcmallgov.com, gmri.com, wareforce.com and onsale.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 an extranet for our corporate customers, called CAP sites at PC Mall and Ops Track at Wareforce. These extranet sites provide custom catalogs and online purchasing channels for business and corporate customers and their employees. These extranet sites are designed to enhance sales productivity by allowing customers to perform routine tasks online, freeing the account executive’s time for other tasks. Sales generated through the Internet have grown as we offer our customers a convenient means of shopping and ordering our products. Our websites also serve as another source of new customers. During 2006, 2005 and 2004, our consolidated direct Internet sales were $167.9 million, $162.2 million and $138.9 million, representing 17%, 16% and 14% of our total net sales.

Vendor Supported Marketing. We sell advertising space in our catalogs and on our websites and provide vendor supported outbound telemarketing campaigns. These advertising sales generate funds that have historically offset a substantial portion of the expense of publishing and distributing the catalogs. We also develop marketing campaigns designed to maximize product sales, and we receive funds from our vendors in the form of cooperative marketing allowances, volume incentive rebate programs and other programs.

Commercial Sales. We fulfill the specific needs of commercial buyers, including businesses, and government and educational institutions, through an outbound telemarketing sales force and a direct sales force. The sales forces are trained in our systems, processes and our products, and are then provided leads of corporate or public sector customers in the U.S. Account executives prospect aggressively into their lead pool to build relationships with new buying customers and re-establish relationships with inactive 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 lease options for financing product purchases, and we extend credit to certain commercial customers based upon an evaluation of each customer’s financial condition and credit history.

Customer Return Policy. We offer a limited return policy on a number of our products, subject to vendor terms and conditions. Returns are monitored to identify trends in product acceptance and defects, to enhance customer satisfaction and to reduce overall returns.

Products and Merchandising

We offer hardware, software, peripherals, components and accessories for users of computer products, as well as electronics equipment and other consumer products. We screen new products and select products for inclusion in our catalogs and websites based on features, quality, sales trends, price, margins, cooperative/market development funds and warranties. We offer our customers other value-added services, such as the ability to purchase systems that have been specifically configured to meet the customer’s requirements. Through frequent mailings of our catalogs and e-mails to our customers, we are able to quickly introduce new products and replace slower selling products with new products.

The following table sets forth our net sales by major product categories as a percentage of total net sales for the periods presented, determined based upon our internal product code classifications. Product classifications for the years ended December 31, 2005 and 2004 presented below have been retroactively adjusted for certain changes in individual product classifications.

	Years Ended December 31,		
	2006	2005	2004
Notebooks	16.2%	15.6%	17.3%
Desktops and servers	14.6	16.4	16.7
Software	14.4	15.1	15.3
Home electronics	10.5	7.9	5.5
Printers and related supplies	8.2	8.4	8.6
Storage and related supplies	7.5	7.8	8.1
Displays	6.7	7.8	8.0
Network and telecommunications	5.0	5.5	5.2
Accessories	4.4	4.2	3.8
Memory	3.2	3.5	4.0
Input devices	1.9	1.8	1.7
Other[1]	7.4	6.0	5.8
Total	100.0%	100.0%	100.0%

[1] Other consists primarily of other electronic products, income from configuration charges, sales of extended warranties and other consumer products.

Purchasing and Inventory

We believe that 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 HP accounted for 20.7% of net sales in 2006, 21.4% of net sales in 2005 and 21.5% of net sales in 2004. Products manufactured by Apple represented approximately 23.3%, 20.8% and 20.6% of our net sales in 2006, 2005 and 2004. We are also linked electronically with thirteen distributors or manufacturers, which allows account executives to view distributor product availability online and drop-ship product directly to customers. The benefits of this program include reduced inventory carrying costs, higher order fill rates and improved inventory turns.

Most key vendors have agreements to 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 position to maximize 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 and HP and certain other vendors; however, rights vary by product line, have conditions and limitations, and can be terminated or changed at any time.

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

Backlog

Our backlog generally represents open, cancelable orders. 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 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 Federal Express 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 Federal Express, if requested by the customer. Upon request, orders may also be shipped at a lower cost using other modes of transportation such as United Parcel Service delivery. The Irvine warehouse primarily functions as a custom configuration and distribution center for Wareforce's corporate customers. We believe that our existing distribution facilities are adequate for our current 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, where a packing slip is printed 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. Thirteen distributors or manufacturers are linked to us electronically to provide inventory availability and pricing information. We transmit an electronic order for immediate shipment via an electronic interchange to the selected distributor after considering inventory availability, 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 telemarketing, 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. We also apply our management information systems to the task of managing our inventory. We believe that in order to remain competitive we need to upgrade our management information systems on a regular basis.

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 our management information systems using an HP3000 Enterprise System. Hewlett-Packard has indicated that it will support this system until December 2008, by which time we expect that we will need to seek third party support for such systems or upgrade our management information systems hardware and software. 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 Showrooms

We currently operate three retail showrooms, located in Santa Monica and Torrance, California, and Memphis, Tennessee, that are targeted at consumers and small businesses residing in the local area.

Competition

The business of direct marketing of computer and consumer electronic products is highly competitive. We believe that competition in our market is based predominantly on:

- price;
- product selection, quality and availability;
- shopping convenience;
- customer service; and
- brand recognition.

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;
- computer retail stores and resellers, including superstores such as Best Buy and CompUSA;
- 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 only 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.

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 showrooms operate are also highly competitive.

The manner in which the products and services we sell are distributed and sold is changing, and new methods of sales and distribution have emerged. Computer 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 the direct mail channel and small and medium-sized business 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 businesses, government and educational institutions and individual consumers a wide selection of products, at competitive prices, with prompt delivery and a high level of customer service, 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, 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 causes the prices of products we offer to decrease, we must sell a greater number of products 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 of products, 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 our 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, MACMALL and WAREFORCE, 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 U.S. and in numerous foreign jurisdictions for telephone, mail order, catalog and/or online retail services, and applications in the U.S. and foreign jurisdictions for WAREFORCE for a variety of online services. In addition, we consider ONSALE and the ONSALE and price tag logo marks to be material to the successful operation of our business, and have registrations for the ONSALE and price tag logo mark in the U.S. and in numerous foreign jurisdictions for auction services and/or online retail store services, and pending applications for ONSALE in the U.S. and in numerous foreign jurisdictions for auction services and/or online retail store services.

Third parties have asserted, and may in the future assert, that our business or the technologies we use infringe their intellectual property rights. We may be subject to intellectual property legal proceedings and claims in the ordinary course of our business. If we are forced to defend against any other 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 technologies we are 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.

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 2006, 2005 and 2004 are summarized in Note 15 of the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report, which is incorporated herein by reference.

Employees

As of December 31, 2006, we had 1,449 full-time employees. 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 laws or regulations directly applicable to access to or commerce on the Internet. While we believe we are currently in compliance with such laws and regulations and have implemented processes, programs and systems to address our ongoing compliance with such regulations, 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 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 responsibility. Until these legislative efforts have run their course and the courts have considered and resolved some cases involving these tax collection issues, there can be no assurance that future laws imposing taxes or other regulations on direct marketing or Internet commerce would not substantially impair our growth and as a result have a material adverse effect on our business, results of operations and financial condition.

Available Information

We are subject to the informational requirements of the Exchange Act and file or furnish reports, proxy statements, and other information with the 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 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. Our corporate website address is www.pcmall.com. The information contained on our website is not part of this report or incorporated by reference herein.

The public may read and copy any materials we file with or furnish to the SEC at the Public Reference Room maintained by the SEC located at 100 F Street, N.E., Washington, D.C. 20549. You can request copies of these documents by writing to the SEC and paying a fee for the copying costs. The SEC can be reached at 1-800-SEC-0330 for more information about the operation of the Public Reference Room. We are an electronic filer with the SEC and all reports filed or furnished by us with the SEC are also available free of charge via EDGAR through the SEC's website at www.sec.gov.

Executive Officers of the Registrant

Our executive officers as of March 12, 2007 and their respective ages and positions were as follows:

Name	Age	Position
Frank F. Khulusi	40	Chairman of the Board, President and Chief Executive Officer
Theodore R. Sanders	52	Chief Financial Officer and Treasurer
Kristin M. Rogers	48	Executive Vice President – Sales
Daniel J. DeVries	45	Executive Vice President – Marketing
Robert I. Newton	41	General Counsel and Secretary

The following is a biographical summary of the experience of the 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.

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

Kristin M. Rogers joined us in February 2000 and was appointed as our Executive Vice President – Sales in June 2001. Ms. Rogers is responsible for commercial sales strategy. Prior to joining us, Ms. Rogers held a variety of positions with Merisel, a computer wholesale distributor from 1980 through 1999, the most recent position being 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 (Lewiston, Maine).

Daniel J. DeVries has served as our Executive Vice President – Marketing since February 1996 and was our Senior Vice President from October 1994 to that time. Mr. DeVries is responsible for marketing and consumer sales strategy. From April 1993 to October 1994, he held various sales and marketing positions with our company. From July 1988 to April 1993, Mr. DeVries was a Regional Manager for Sun Computers, a computer retailer. Mr. DeVries attended the University of Michigan.

Robert I. Newton joined us in June 2004 as our General Counsel. 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.

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 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, including Apple, HP, Lenovo, Microsoft and Sony. For example, products manufactured by HP accounted for approximately 20.7%, 21.4% and 21.5% of our total net sales in 2006, 2005 and 2004, and products manufactured by Apple accounted for approximately 23.3%, 20.8% and 20.6% of our total net sales in 2006, 2005 and 2004. 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 key 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 key vendors, including Apple, HP, IBM, Ingram Micro, Lenovo, Microsoft, Sony and Tech Data, provide us with trade credit or substantial incentives in the form of discounts, credits and cooperative advertising. We have agreements with most of our key 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.

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, the personal computer 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 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 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 terminate our right to sell some or all of their products, 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. Our narrow gross margins magnify the impact of variations in our operating costs and of adverse or unforeseen events on our operating results. 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 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, the loss or consolidation of significant suppliers or customers, general competitive conditions such as pricing, our ability to control costs, the timing of our capital expenditures, the condition of the personal computer and electronics 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**,** adverse weather conditions that affect response, distribution or shipping to our customers, and general economic conditions 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 commercial 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 commercial 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 commercial 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.

Our investments in our outbound telemarketing 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 telemarketing sales force. We have also incurred, and expect to continue to incur, significant expenses resulting from infrastructure investments related to our outbound telemarketing sales force. We cannot assure you that any of our investments in our outbound telemarketing 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 was quite limited (e.g., visiting the state several times a year to aid customers or to inspect showrooms stocking their goods). 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 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 shipped or services sold to those states' residents, and it is possible that such a requirement could be imposed in the future.

Furthermore, we are subject to general business regulations and laws, as well as regulations and laws specifically governing companies that do business over the Internet. Such existing and future laws and regulations may impede the growth of the Internet or other online services. These regulations and laws may cover taxation of e-commerce, 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, unauthorized access (including the Computer Fraud and Abuse Act), and the characteristics and quality of products and services. It is not clear how existing laws governing issues such as property ownership, sales and other taxes, libel, trespass, data mining and collection, and personal privacy, among other laws, apply to the Internet and e-commerce. Unfavorable resolution of these issues may expose us to liabilities 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. For example, legislation in California requires us to notify our California customers if certain personal information about them is obtained by an unauthorized person, such as a computer hacker. These consumer protection laws could result in substantial compliance costs and could decrease our profitability.

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 complementary or supplementary companies or businesses will be realized to the extent or in the time frame we initially 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 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 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 contingent liabilities, adverse tax consequences, deferred compensation charges, and the recording and later amortization of amounts related to deferred compensation and certain purchased intangible assets, 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 are not able to obtain financing, then we may not be in a position to consummate acquisitions. 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 increase our interest expense, leverage and debt service requirements and could negatively impact 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 results that we anticipated at the time of the acquisition. 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.

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 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 maintain customer acquisition costs at acceptable levels. 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 we project. In addition, we may find that our business plan costs more to execute than we currently anticipate. Some of the factors that affect our ability to maintain profitability on a quarterly or annual basis are beyond our control.

The effect of the change in 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. In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123R, "Share-Based Payment," which requires 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. We adopted SFAS 123R on January 1, 2006. The recognition of non-cash stock-based compensation expenses in our consolidated statements of operations had and will 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 future 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 understocking 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;
- economic conditions generally or economic conditions specific to the Internet, e-commerce, the retail industry or the mail order industry;
- 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 most 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 future cash flows from operations and available borrowing capacity under our line of credit, will be adequate to support our current operating plans for at least the next twelve months. However, if we need additional financing, such as for acquisitions or expansion or to fund 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 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 opportunities, respond to competitive pressures or continue operations.

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 the prime rate, with a LIBOR option, plus a spread of 2.0% or 2.50% depending on certain earnings targets. In connection with and as part of the line of credit, we also entered into a term note, bearing interest at the prime rate with a LIBOR option. If the variable interest rates on our line of credit and term note 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 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 commercial 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. 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 merchandise categories, product offerings, websites and 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 merchandise categories, product offerings, websites and 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 able to or successful in implementing any such changes when and if they are required.

We have generated substantially all of our revenue in the past from the sale of computer hardware, software and accessories and consumer electronics products. Expansion into new product 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 product 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 categories include our ability to:

- establish or increase awareness of our new brands and product 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 our new product categories are targeted;
- successfully market our new product offerings to existing customers;
- maintain or improve our gross margins and fulfillment costs;
- attract and retain vendors to provide our expanded line of products 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 will be periodically testing our internal control procedures. We may from time to time identify deficiencies which we may not be able to remediate. 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.

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 commercial and public sector sales. During the most recent economic downturn in the U.S. and elsewhere, commercial and public sector entities generally reduced, often substantially, their rate of information technology spending. 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 hinder our growth.

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 if we give third parties or our employees improper access to our customers' personal information or credit card information, we could be subject to liability. This liability could include claims for unauthorized purchases with credit card information, identify 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 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, proposed legislation in the U.S. and existing laws in other countries require companies to establish procedures to notify users of privacy and security policies, obtain consent from users for collection and use of personal information, and provide users with the ability to access, correct and delete personal information stored by companies. These data protection regulations and enforcement efforts may restrict our ability to collect or transfer demographic and personal information from users, which could be costly or harm our marketing efforts. Further, any violation of domestic or foreign or domestic 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 e-commerce may discourage customers from purchasing goods from us.

In order for the e-commerce 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 e-commerce. 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 and disrupt our operations.

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 and Irvine, California, 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. 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 Federal Express 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 computer retail stores and resellers, including superstores such as Best Buy and CompUSA, 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 only 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, has increased in recent years in part because of the growing use and acceptance of the Internet by end-users. Continued growth of our Internet sales is dependent on potential customers using the Internet in addition to traditional means of commerce to purchase products. Widespread use of the Internet could decline as a result of disruptions, computer viruses or other damage to Internet servers or users' computers. If consumer use of the Internet to purchase products decline in any significant way, our business, financial condition and results of operations could be adversely affected.

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

Weak general economic conditions, along with uncertainties in political conditions 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 political conditions.

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

In June 2003, we established a Canadian call center serving the U.S. market. One of the benefits we receive from having our Canadian call center is that we can claim Canadian government labor credits on eligible compensation paid to qualifying employees at the call center. The term of the government program that provides for these labor credits is currently scheduled to terminate at the end of 2007. During the period through 2007, we expect to annually claim labor credits of up to 35% of eligible compensation paid to our qualifying employees under the program. The success of our Canadian call center is dependent, in part, on our receipt of the government labor credits we expect to receive. While management believes the amounts claimed are collectible, if we do not receive these expected labor credits, or a sufficient portion of them, then the costs of operating our Canadian call center may exceed the benefits it provides us and our operating results would likely suffer. In addition, while we are currently reviewing alternative programs in an effort to partially replace in the future the labor credits we receive under the existing program, there can be no assurance that we will be able to identify or qualify for an acceptable alternative program or that any such program will replace in the future the amount of labor credits we receive under the current program.

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 the third quarter of 2005, we opened an office in the Philippines in connection with our cost reduction initiatives, 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. For example, a national state of emergency was temporarily in effect in the Philippines in early 2006 as a result of political unrest. We could be subject to similar risks and uncertainties, particularly if and to the extent we increase or establish new offshore operations, in the Philippines or elsewhere in the future.

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 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.

We are subject to risks associated with the evolution of, and consolidation within, our industry.

The personal computer industry has undergone significant change in the past several years. In addition, many new, cost-effective channels of distribution have developed in the industry, such as the Internet, computer superstores, consumer electronic and office supply superstores, national direct marketers and mass merchants. Many computer resellers are consolidating operations and acquiring or merging with other resellers and/or direct marketers to achieve economies of scale and increased efficiency. The current industry reconfiguration and the trend towards consolidation could cause the industry to become even more competitive, further increase pricing pressures and make it more difficult for 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 personal computer market has slowed. If the growth rate of the personal computer market were to further decrease, our business, financial condition and operating results could be materially adversely affected.

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

Our ability to analyze data derived from our management information systems, including our telephone system, to increase product promotions, manage inventory and accounts receivable collections, to purchase, sell and ship products efficiently and on a timely basis and to maintain cost-efficient operations, is dependent upon the quality and utilization of the information generated by our management information systems. We regularly upgrade our management information system hardware and software 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. We currently operate our management information systems using an HP3000 Enterprise System. HP has indicated that it will support this system until December 2008, by which time we expect that we will need to seek third party support for our HP3000 Enterprise System or upgrade to other management information systems hardware and software. In addition to the costs associated with such upgrades, the transition to and implementation of new or upgraded hardware or software systems can result in system delays or failures which could impair 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 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.

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, 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 e-commerce 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 market conditions or other economic factors unrelated to our performance.

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, 2006 were as follows:

Description	Sq. Ft.	Location
Corporate Headquarters, Sales Office and Retail Showroom	157,325	Torrance, CA
Distribution Center and Retail Showroom	212,000	Memphis, TN
Irvine Sales Office and Warehouse/Distribution Center	60,072	Irvine, CA
Canadian Office	45,128	Montreal, Quebec (Canada)
Wisconsin Sales Office	35,503	Menomonee Falls, WI
Philippine Office	19,740	Mandaluyong City, Philippines
Retail Showroom	9,750	Santa Monica, CA

We lease each of our principal facilities, except for the Santa Monica, CA retail showroom, which we own. Our distribution center includes shipping, receiving, warehousing and administrative space. Our Core business segment uses all the properties described above. Our OnSale.com business segment uses the properties located at Torrance, California, Memphis, Tennessee and Mandaluyong City, Philippines. In addition to the properties listed above, we lease sales offices in various cities in the United States.

ITEM 3. LEGAL PROCEEDINGS

Material pending legal proceedings to the business, to which we became or were a party during the year ended December 31, 2006 or subsequent thereto, but before the filing of this report, are summarized below:

On February 3, 2006, a purported class action lawsuit entitled *Nicole Atkins, et al. v. PC Mall, Inc., et al.* was filed in the Superior Court of California, Los Angeles County. The matter was thereafter submitted to arbitration. The potential class consisted of all of the current and former outbound business account executives who worked for our PC Mall Sales subsidiary in California from February 3, 2002 through January 31, 2007. The lawsuit alleged that we improperly classified class members as “exempt” employees in violation of California’s wage and hour laws, that we failed to provide correctly itemized wage statements, and that we failed to provide employees with meal and rest breaks. It asserted that these practices violated various provisions of the California Labor Code and constituted unfair business practices. The Complaint sought unpaid overtime, statutory penalties, interest, attorneys’ fees, punitive damages, restitution and injunctive relief.

On January 31, 2007, we entered into a memorandum of understanding (the “MOU”) to settle the class action lawsuit. Under the MOU, we agreed to pay an aggregate of $1.5 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 plaintiffs’ 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 have 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. While the settlement is subject to court or arbitrator approval, the MOU provides that it is intended to be binding and enforceable upon each of the parties. If the settlement is approved by the court or arbitrator, there will be a resulting judgment that dismisses the case with prejudice against all class members who do not opt out of the settlement. As a result of the settlement, we recorded a charge of $1.7 million, which includes the settlement amount and other costs related to the lawsuit, for the year ended December 31, 2006.

We are not currently a party to any other material legal proceedings. From time to time, we receive claims of and become subject to consumer protection, employment, intellectual property and other commercial 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. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 2006.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK, 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 Stock Market.

On April 11, 2005, we completed the spin-off of our 80.2% owned subsidiary, eCOST.com when we distributed approximately 1.2071 shares of eCOST.com common stock as a special dividend on each outstanding share of our common stock to our stockholders of record on March 28, 2005. As a result, the high and low sales prices of our common stock for all periods presented through April 11, 2005 reflects an adjustment relating to this special dividend.

	Price Range of Common Stock	
	High	Low
Year Ended December 31, 2006		
First Quarter	$ 6.95	$ 5.50
Second Quarter	7.36	5.66
Third Quarter	7.65	5.87
Fourth Quarter	11.29	6.80
Year Ended December 31, 2005		
First Quarter	$ 9.07	$ 4.63
Second Quarter	6.26	3.62
Third Quarter	5.99	3.96
Fourth Quarter	6.18	4.54

As of the close of business on March 8, 2007, there were approximately 37 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.

We did not sell any equity securities during the fourth quarter of 2006 that were not registered under the Securities Act. We did not repurchase any securities during the fourth quarter of 2006.

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 2007 Annual Meeting of Stockholders.

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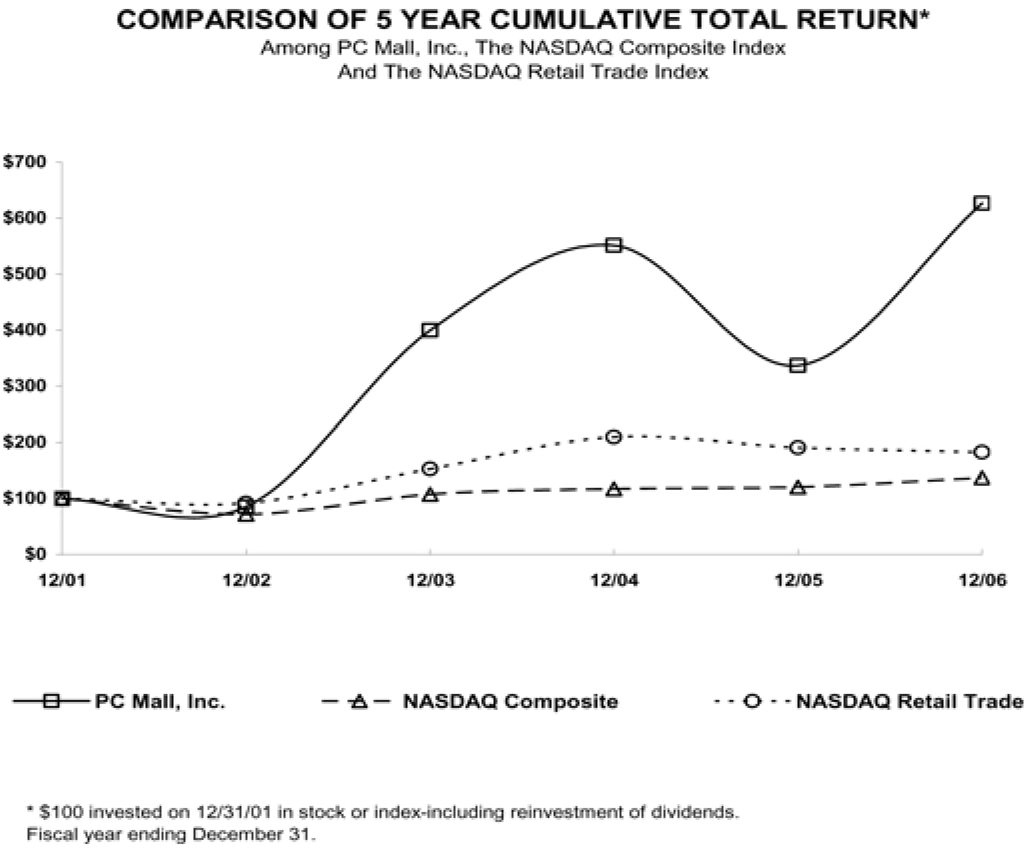
Notwithstanding anything to the contrary set forth in any of the Company's filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, that might incorporate future filings, including this Annual Report on Form 10-K, in whole or in part, the Stock Performance 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—U.S. Companies 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, 2001. The stock price performance shown in this graph is neither necessarily indicative of nor intended to suggest future stock price performance. On April 11, 2005, we spun-off to our shareholders all of the shares of common stock of eCOST.com that we had owned. For each share of PC Mall common stock owned, our stockholders received approximately 1.2071 shares of eCOST.com common stock. For purposes of the graph below, it is assumed that each share of eCOST.com common stock received in the distribution was immediately sold for its market value and the proceeds reinvested in additional shares of PC Mall common stock. The value of PC Mall common stock in periods subsequent to the eCOST.com spin-off therefore includes the value of the spin-off shares but not the separate performance of those securities since the date of the spin-off.



	Measurement Period (fiscal years covered)					
	12/01	12/02	12/03	12/04	12/05	12/06
PC Mall, Inc.	$ 100.00	$ 84.98	$ 399.75	$ 551.23	$ 336.43	$ 626.51
NASDAQ Composite	100.00	71.97	107.18	117.07	120.50	137.02
NASDA Retail Trade	100.00	91.74	152.61	209.80	190.93	182.65

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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, 2006, 2005 and 2004 and the selected consolidated balance sheet data as of December 31, 2006 and 2005 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, 2003 and 2002 along with the consolidated balance sheet data as of December 31, 2004, 2003 and 2002 presented below were derived from our audited consolidated financial statements which are not included herein.

The selected consolidated statements of operations data and the selected consolidated balance sheet data reflect our former subsidiary, eCOST.com, which we spun-off in April 2005, as a discontinued operation for 2005 and prior periods presented below.

	Years Ended December 31,				
	2006	2005	2004	2003(1)	2002(2)
	(in thousands, except per share data)				
Consolidated Statements of Operations Data:					
Net sales	$1,005,820	$997,232	$978,320	$865,545	$774,621
Cost of goods sold	881,902	878,665	852,073	750,817	686,577
Gross profit	123,918	118,567	126,247	114,728	88,044
Selling, general and administrative expenses	113,500	118,555	121,706	109,452	81,689
Operating profit	10,418	12	4,541	5,276	6,355
Interest expense, net	3,940	3,058	2,044	1,325	983
Income (loss) from continuing operations before income taxes	6,478	(3,046)	2,497	3,951	5,372
Income tax expense (benefit)	2,522	(1,114)	1,019	1,392	(3,594)
Income (loss) from continuing operations	3,956	(1,932)	1,478	2,559	8,966
Income (loss) from discontinued operation, net of taxes	—	(1,781)	(465)	484	(2,017)
Income (loss) before cumulative effect of accounting change	3,956	(3,713)	1,013	3,043	6,949
Cumulative effect of accounting change, net of taxes	—	—	—	—	(6,801)
Net income (loss)	$ 3,956	$ (3,713)	$ 1,013	$ 3,043	$ 148
Basic and Diluted Earnings (Loss) Per Common Share					
Basic earnings (loss) per share:					
Income (loss) from continuing operations	$ 0.33	$ (0.17)	$ 0.13	$ 0.24	$ 0.84
Income (loss) from discontinued operation, net of taxes	—	(0.15)	(0.04)	0.05	(0.19)
Cumulative effect of accounting change, net of taxes	—	—	—	—	(0.64)
Net income (loss)	$ 0.33	$ (0.32)	$ 0.09	$ 0.29	$ 0.01
Diluted earnings (loss) per share:					
Income (loss) from continuing operations	$ 0.31	$ (0.17)	$ 0.12	$ 0.22	$ 0.80
Income (loss) from discontinued operation, net of taxes	—	(0.15)	(0.04)	0.04	(0.18)
Cumulative effect of accounting change, net of taxes	—	—	—	—	(0.61)
Net income (loss)	$ 0.31	$ (0.32)	$ 0.08	$ 0.26	$ 0.01

(1) In 2003, we adopted EITF 02-16, whereby we reclassified certain vendor consideration in the amount of $20.0 million from "Selling, general and administrative expenses" to "Cost of goods sold." See Note 2 of the Notes to the Consolidated Financial Statements.

(2) The consolidated statement of operations data for 2002 includes i) the operating results of ClubMac and Wareforce, which we acquired in April 2002 and July 2002, ii) the $6.8 million cumulative effect of accounting change related to the adoption of SFAS 142 and iii) the income tax benefit of $3.6 million relating primarily to the reversal of the deferred tax asset valuation allowance.

	December 31, 2006	2005	2004	2003	2002
			(in thousands)		
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 5,836	$ 6,289	$ 6,473	$ 6,675	$ 10,510
Working capital[(1)]	43,386	35,621	53,849	28,222	22,848
Total assets	203,567	205,242	231,858	191,470	149,360
Short-term debt	500	500	500	1,000	291
Line of credit	32,477	53,517	49,027	26,202	17,497
Long-term debt, excluding current portion	1,750	2,250	2,750	250	—
Total stockholders' equity	60,824	52,968	70,911	49,893	45,109

(1) Included in 2004 and prior years are the accounts of the discontinued operations of eCOST.com. The increase in 2004 working capital compared to prior years is primarily due to the $16.7 million of net proceeds received by eCOST.com from the completion of its IPO in September 2004. The decrease in 2005 from 2004 reflects the completion of the spin-off of eCOST.com in April 2005.

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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

We are a rapid response direct marketer of computer hardware, software, peripherals, electronics, and other consumer products and services. Our headquarters is located in Torrance, California. We offer products and services to businesses, government and educational institutions, as well as individual consumers, through dedicated outbound and inbound telemarketing account executives, the Internet, direct marketing techniques, direct response catalogs, a direct sales force and three retail showrooms, two of which are located in Southern California and one located in Tennessee. We offer a broad selection of products through our distinctive full-color catalogs under the PC Mall, MacMall, and PC Mall Gov brands, our websites pcmall.com, macmall.com, pcmallgov.com, gmri.com, wareforce.com and onsale.com, and other promotional materials.

For a detailed discussion of our business, see Item 1 of Part I of this report, which includes general corporate information as well as information on our strategy, marketing and sales, products and merchandising, purchasing and inventory, distribution, employees and several other areas of importance.

We operate in two reportable segments: 1) a rapid response supplier of technology solutions for businesses, government and educational institutions, as well as consumers, collectively referred to as "Core business" and 2) an online retailer of computer and consumer electronic products under the OnSale.com brand. We allocate our resources to and evaluate the performance of our segments based on operating income. Corporate expenses are included in our measure of segment operating income for management reporting purposes.

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 receivables 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.

We plan to continue to focus our efforts on investing in the training and retention of, and tools provided to, our outbound sales force. This strategy is expected to result in increased expenses associated with the tools and training necessary to achieve those goals, which could have an impact on our profitability in the near term.

A substantial portion of our business is dependent on sales of Apple and Apple-related products, HP products, and products purchased from other vendors including Adobe, IBM, Ingram Micro, Lenovo, Microsoft, Sony, Sun Microsystems and Tech Data. Products manufactured by HP represented 20.7%, 21.4% and 21.5% of our net sales in 2006, 2005 and 2004. Products manufactured by Apple represented 23.3%, 20.8% and 20.6% of our net sales in 2006, 2005 and 2004.

Strategic Developments

On September 7, 2006, our wholly-owned subsidiary, PC Mall Gov, acquired the products business of GMRI for approximately $3.4 million in cash, including transaction costs. The business includes assets of GMRI's former products business, which include the GMRI trade names, contracts and the related employees, among other items. We are currently reviewing whether certain contingent liabilities existed at the time of the acquisition. We estimate that such contingent liabilities, if any, could result in an increase to the purchase price by approximately $0.1 million to $0.8 million and could increase the amount allocated to goodwill. Based on a preliminary purchase price allocation, as of December 31, 2006, we recorded $2.1 million of goodwill in our Core business segment and $1.3 million of intangible assets and furniture and equipment based on their estimated fair values at the date of acquisition. These allocations are subject to further review. Any material adjustment to these allocations could have a material adverse effect on our results of operations in the future. Beginning with September 8, 2006, the results of the acquired products business of GMRI have been included in the public sector results of the Core business segment.

During the third quarter of 2005, we opened an office in the Philippines, an effort to reduce certain of our administrative, back-office and call-center labor costs. The opening of the Philippines office has also allowed us to devote additional resources towards enhancing our marketing content on the Internet, and other customer acquisition and retention activities, in an effort to increase sales in a cost-effective manner.

OTHER ITEMS AFFECTING RESULTS OF OPERATIONS

On April 11, 2005, we completed the spin-off of our 80.2% owned subsidiary eCOST.com when we distributed approximately 1.2071 shares of eCOST.com common stock as a special dividend on each outstanding share of our common stock to our stockholders of record on March 28, 2005. As a result of the spin-off, eCOST.com, which was a segment of our company, is presented as a discontinued operation for the prior periods presented herein.

Frank F. Khulusi, our President, Chief Executive Officer and Chairman of the Board of Directors, became a greater than 10% stockholder of eCOST.com in April 2005 as a result of the spin-off of eCOST.com to our stockholders. As a result of his direct and indirect beneficial interests in eCOST.com and us, eCOST.com became our related party. Thomas A. Maloof, one of our directors, served as a director of eCOST.com until his resignation from the eCOST.com board in April 2005. In February 2006, Mr. Khulusi became a less than 10% stockholder of eCOST.com.

In April and May 2005, subsequent to the completion of the spin-off of eCOST.com and in connection with its transition from us, our wholly-owned subsidiary AF Services entered into a product sales agreement and a consignment and product sales agreement with eCOST.com, providing for the sale by AF Services of inventory items to eCOST.com generally at AF Services' cost. The consignment and product sales agreement terminated in August 2005 and the product sales agreement, which was extended for an additional month, terminated in September 2005. During the period from April 12, 2005 (subsequent to the completion of the eCOST.com spin-off) and the termination of these agreements, we had net sales to eCOST.com of $31.6 million, of which $10.6 million and $30.2 million related to the three and nine months ended September 30, 2005. We do not expect to make significant product sales to eCOST.com in the future.

In September 2004, in connection with the initial public offering of eCOST.com, we and eCOST.com entered into a Master Separation and Distribution Agreement and certain other agreements providing for the separation and the distribution of eCOST.com business, the provision by us of certain interim services to eCOST.com, and addressing employee benefit arrangements, tax and other matters. The Administrative Services Agreement, under which we provided certain transitional administrative services to eCOST.com, terminated on September 1, 2005 in accordance with the terms of the agreement. We continued to provide certain information technology services to eCOST.com under the Information Technology Systems Usage and Services Agreement. On March 1, 2006, eCOST.com notified us that it has elected to terminate this agreement effective June 30, 2006 in accordance with its termination rights under the agreement. Accordingly, this agreement terminated on June 30, 2006. For a more detailed discussion of the Master Separation and Distribution Agreement and certain other agreements providing for the separation and distribution, you can refer to the information under the heading "Certain Relationships and Related Transactions" in Part III, Item 13 of Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2005, filed with the SEC on May 1, 2006 and to Note 16 of the Notes to the Consolidated Financial Statements in Part I, Item 1 of this report.

For more information on the discontinued operation of eCOST.com, see Note 3 of the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report.

In June 2002, we formed Onsale, Inc. as a wholly-owned subsidiary. We acquired the URL and software that operated the original OnSale.com website for approximately $0.4 million through bankruptcy proceedings of Egghead in December 2002. In October 2003, we formally launched OnSale.com and we began product sales in the fourth quarter of 2004. OnSale.com is focused on selling computer and consumer electronic products, primarily on the Internet.

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 report.

Revenue Recognition. We adhere to the revised guidelines and principles of sales recognition described in Staff Accounting Bulletin No. 104, "Revenue Recognition" ("SAB 104"), issued by the staff of the SEC as a revision to Staff Accounting Bulletin No. 101, "Revenue Recognition" ("SAB 101"). Under SAB 104, 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 collectibility 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 adjust 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 products and extended warranties that we sell (for which we are not the primary obligor) are recognized on a net basis in accordance with SAB 104 and 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.

Sales are reported net of estimated returns and allowances, discounts, mail-in rebate redemptions and credit card chargebacks. If 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.

Advertising Costs and Vendor Consideration. We account for advertising costs in accordance with Statement of Position ("SOP") No. 93-7, "Reporting on Advertising Costs." We produce and circulate direct response catalogs at various dates throughout the year. The costs of developing, producing and circulating each direct response catalog are deferred and amortized to advertising expense based on the life of the catalog, which is approximately eight weeks. Other non-catalog advertising expenditures are expensed in the period incurred. Advertising expenditures are included in "Selling, general and administrative expenses" in our Consolidated Statements of Operations. Deferred advertising costs are included in "Prepaid expenses and other current assets" in our Consolidated Balance Sheets.

As we circulate catalogs throughout the year, we receive market development funds and other vendor consideration from vendors included in each catalog. These funds are deferred and recognized based on sales generated over the life of the catalog. We also receive other non-catalog related vendor consideration from our vendors in the form of cooperative marketing allowances, volume incentive rebate programs and other programs to support our marketing of their products. Most of our vendor consideration is recorded as an offset to cost of sales in accordance with EITF 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" ("EITF 02-16") since such funds are not a reimbursement of specific, incremental, identifiable costs incurred by us in selling the vendors' products. Deferred vendor consideration is included in "Accrued expenses and other current liabilities" in our Consolidated Balance Sheets.

Stock-Based Compensation. On January 1, 2006, we adopted the provisions of Financial Accounting Standards Board, or FASB, Statement No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), using the modified prospective transition method. SFAS 123R 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. SFAS 123R eliminates the ability to account for share-based compensation transactions using the intrinsic value method as prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," or APB 25, as we formerly did, and generally requires that such transactions be accounted for using a fair value based method and recognized as expenses in our Consolidated Statements of Operations. The provisions of SFAS 123R apply to new stock option grants subsequent to December 31, 2005 and unvested stock options outstanding as of January 1, 2006.

The modified prospective application method requires that compensation expense be recorded for all unvested stock options outstanding at the beginning of the first quarter of adopting SFAS 123R, based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," and for new share-based payment awards granted subsequent to our adoption of SFAS 123R, based on the grant date fair value estimated in accordance with SFAS 123R, both adjusted for estimated forfeitures. We estimate the grant date fair value of each stock option grant awarded pursuant to SFAS 123R 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 granted, we applied the simplified method set out in SEC Staff Accounting Bulletin No. 107, "Share-Based Payment," which was issued in March 2005. We computed our expected volatility using a frequency of weekly historical prices of our common stock for a period equal to the expected term of the options. 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. In the first quarter of 2006, we estimated 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. Under the modified prospective application method, our prior period financial statements were not restated to retrospectively apply SFAS 123R. 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.

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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,		
	2006	2005	2004
Net sales	$ 1,005,820	$ 997,232	$ 978,320
Cost of goods sold	881,902	878,665	852,073
Gross profit	123,918	118,567	126,247
Selling, general and administrative expenses	113,500	118,555	121,706
Operating profit	10,418	12	4,541
Interest expense, net	3,940	3,058	2,044
Income (loss) from continuing operations before income taxes	6,478	(3,046)	2,497
Income tax expense (benefit)	2,522	(1,114)	1,019
Income (loss) from continuing operations	3,956	(1,932)	1,478
Income (loss) from discontinued operation, net of taxes	—	(1,781)	(465)
Net income (loss)	$ 3,956	$ (3,713)	$ 1,013

	As a Percentage of Net Sales For Years Ended December 31,		
	2006	2005	2004
Net sales	100%	100%	100%
Cost of goods sold	87.7	88.1	87.1
Gross profit	12.3	11.9	12.9
Selling, general and administrative expenses	11.3	11.9	12.4
Operating profit	1.0	0.0	0.5
Interest expense, net	0.4	0.3	0.2
Income (loss) from continuing operations before income taxes	0.6	(0.3)	0.3
Income tax expense (benefit)	0.2	(0.1)	0.1
Income (loss) from continuing operations	0.4	(0.2)	0.2
Income (loss) from discontinued operation, net of taxes	—	(0.2)	(0.0)
Net income (loss)	0.4%	(0.4)%	0.2%

Selected Other Operating Data

	Years Ended December 31,		
	2006	2005	2004
Number of catalogs distributed (in thousands)	18,208	24,509	29,915
Commercial and public sector sales percentage	78.8%	74.3%	71.1%
Consumer sales percentage (includes OnSale.com)	21.2%	25.7%	28.9%
Commercial and public sector account executives (at end of period)	574	559	628

Year Ended December 31, 2006 Compared to the Year Ended December 31, 2005

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

	Years Ended December 31,		Change	
	2006	2005	$	%
Core business	$ 993,860	$ 987,324	$6,536	0.7%
OnSale.com	11,960	9,908	2,052	20.7%
Total net sales	$ 1,005,820	$ 997,232	$8,588	0.9%

Total net sales in 2006 increased by $8.6 million, or 0.9%, compared to total net sales in 2005. This increase was attributable to the increase in Core business net sales of $6.5 million and the increase in OnSale.com net sales of $2.1 million.

Core business net sales in 2006 increased by $6.5 million, or 0.7%, compared to 2005. Core business net sales in 2005 included $31.6 million of net sales to eCOST.com under a product sales agreement entered into in April 2005 and a consignment and product sales agreement entered into in May 2005, as discussed above. These sales were generally made to eCOST.com at our cost during the post-spin transition period. Each of these agreements terminated in the third quarter of 2005. Accordingly, no sales were made to eCOST.com during 2006 and we do not expect to make significant product sales to eCOST.com in the future. Without the effect of the net sales to eCOST.com, in 2006, Core business net sales increased by $38.1 million, or 4%, compared to 2005.

We are presenting certain consolidated non-GAAP financial measures, which exclude the sales to eCOST.com, discussed above. We believe the exclusion of such sales from the prior year results allows a more meaningful comparison of our financial results to both management and investors that is indicative of our consolidated operating results across reporting periods because such sales resulted solely as a result of our transition of eCOST.com, and are not expected to reoccur.

The increase in Core business net sales of $38.1 million in 2006 compared to 2005 discussed above was due primarily to growth in our commercial net sales of $64.4 million, or 10.1%, to $700.5 million, which resulted from improved productivity of our commercial account executives, including sales to a single customer of approximately $43.1 million in 2006. Also contributing to the increase in Core business net sales was the increase in public sector net sales of $10.8 million, or 13.3%, to $92.5 million. The increase in public sector net sales resulted primarily from sales generated by the products business we acquired from GMRI on September 7, 2006, partially offset by competitive pricing pressures in the marketplace continuing from the second half of 2005 and softness in sales under existing contracts.

These increases in Core business net sales were offset in part by a decrease in consumer net sales of $37.4 million, or 15.7%, to $200.2 million, which resulted primarily from the impact of Apple’s transition to Intel processors during the first eight months of 2006. Apple completed its transition to Intel processors in August 2006, and our sales of Apple products improved as a result. Further, we decreased advertising expenditures by 24% supporting the consumer market to optimize the return on such expenditures. We may periodically adjust our advertising expenditure levels in the future in order to optimize the returns on such expenditures.

OnSale.com net sales in 2006 were $12.0 million compared with $9.9 million in 2005, an increase of $2.1 million, or 20.7%, primarily due to increased marketing efforts to promote the OnSale.com brand in the first quarter of 2006.

Total sales of products manufactured by each of Apple and HP represented 23% and 21% of total net sales in 2006 compared to 21% of total net sales for each of Apple and HP in 2005.

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,				Change	
	2006		2005			
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	$	Margin
Core business	$ 122,402	12.3%	$ 117,708	11.9%	$4,694	0.4%
OnSale.com	1,516	12.7%	859	8.7%	657	4.0%
Total gross profit and gross profit margin	$ 123,918	12.3%	$ 118,567	11.9%	$5,351	0.4%

Total gross profit in 2006 increased by $5.4 million, or 4.5%, compared to total gross profit in 2005. Total gross profit margin in 2006 increased by 0.4% compared to 2005. The increase in total gross profit and total gross profit margin resulted primarily from an increase in the Core business segment, which gross profit increased by $4.7 million, or 4.0%, and which gross profit margin increased by 0.4% compared to prior year's gross profit and gross profit margin.

The $4.7 million increase in Core business gross profit in 2006 was primarily the result of a $3.6 million increase in consideration received from vendors, gross profit generated by the products business acquired from GMRI and a reduction in required inventory reserves of $1.2 million resulting from improved management of inventory and product returns. These increases in Core business gross profit were partially offset by decreases in gross profit resulting from competitive pricing pressures. The increase in Core business gross profit margin of 0.4% in 2006 compared to the same period in the prior year was primarily due to a 35 basis point increase in vendor consideration and a 38 basis point increase related to the sales in the prior year to eCOST.com generally at our cost, partially offset by a 41 basis points decrease in margin relating to sales to a single customer of approximately $43.1 million of low margin products in 2006 discussed above, and a change in the mix of products in our consumer business. Other factors which may cause our gross profit margin to vary in future periods include the continuation of key vendor support programs, including price protections, rebates and return policies, our product mix, product acquisition and shipping costs, competition and other factors.

Gross profit for OnSale.com for 2006 was $1.5 million, representing 12.7% of its net sales for the current year, compared to gross profit of $0.9 million in 2005, representing 8.7% of its net sales. The increase in OnSale.com's gross profit in 2006 was due to the increase in its net sales and an increase in its vendor consideration of $0.6 million. The increase in OnSale.com's gross profit margin of 4.0% was due to the significant vendor consideration received in 2006 as a percentage of OnSale.com's net sales.

Selling, General and Administrative Expenses. The following table presents our selling, general and administrative ("SG&A") expenses, by segment, for the periods presented (in thousands):

	Years Ended December 31,						
	2006		2005		Change		
	SG&A	SG&A as a % of Sales	SG&A	SG&A as a % of Sales	$	%	SG&A as a % of Sales
Core business	$ 110,467	11.1%	$ 115,255	11.7%	$(4,788)	(4.2)%	(0.6)%
OnSale.com	3,033	25.4%	3,300	33.3%	(267)	(8.1)%	(7.9)%
Total SG&A expenses	$ 113,500	11.3%	$ 118,555	11.9%	$(5,055)	(4.3)%	(0.6)%

Total SG&A expenses decreased by $5.1 million, or 4.3%, in 2006 compared with 2005. As a percent of net sales, total SG&A expenses decreased to 11.3% in 2006 from 11.9% in 2005. The decrease in total SG&A expenses in 2006 was primarily due to the $4.8 million decrease in Core business SG&A expenses compared to 2005.

The $4.8 million decrease in Core business SG&A in 2006 resulted in part from a decline in personnel costs of $5.5 million principally due to labor cost savings realized from our offshoring initiative in the Philippines. The personnel cost decline was partially offset by $1.5 million of non-cash stock-based compensation expense in 2006 resulting from our prospective adoption of SFAS 123R, as well as $1.6 million of additional personnel costs supporting our acquired GMRI business. Further, the decrease in Core business SG&A expenses includes a $3.8 million decrease in advertising costs, a decline of $1.7 million of credit card related fees and a decline of $1.4 million of audit and audit-related fees. These decreases in Core business SG&A expenses were partially offset by a $1.7 million lawsuit settlement charge in 2006, a $1.0 million reduction in administrative and fulfillment service fees we charged eCOST.com compared to the same period in the prior year and approximately $0.9 million of other SG&A expenses related to the products business acquired from GMRI discussed above.

As a percent of net sales, SG&A expenses for Core business decreased to 11.1% in 2006 compared with 11.7% in 2005, a decrease of 0.6%. Excluding net sales to eCOST.com of $31.6 million in 2005 as discussed above, SG&A expenses as a percent of net sales for Core business decreased by 1.0% to 11.1% in 2006 compared with non-GAAP SG&A expenses as a percent of net sales of 12.1% in the prior year. The 1.0% decrease in non-GAAP Core business SG&A expenses as a percent of net sales was primarily due to a 66 basis point decline in personnel costs, a 44 basis point decline in advertising expenditures, a 21 basis point decline in credit card related fees and a 14 basis point decline in audit and audit-related fees. These declines in SG&A as a percent of net sales were partially offset by a 17 basis point increase in SG&A expenses as a percent of net sales related to the lawsuit settlement charge in 2006, a 15 basis point increase related to the non-cash stock-based compensation expense recognized in 2006 and a 11 basis point increase due to a reduction in administrative and fulfillment service fees we charged eCOST.com, as discussed above. The $31.6 million of net sales to eCOST.com had a negative impact of 40 basis points on SG&A expenses as a percent of net sales in 2005.

OnSale.com SG&A expenses in 2006 were $3.0 million, representing a decrease of $0.3 million from 2005. The decrease of $0.3 million in OnSale.com's SG&A expenses was primarily due to a $0.6 million decrease in personnel costs and a $0.3 million decrease in depreciation expense, partially offset by a $0.6 million increase in advertising expenditures related to our increased marketing efforts to promote the OnSale.com brand. OnSale.com SG&A expenses as a percent of net sales declined to 25.4% in 2006 compared to 33.3% in 2005 primarily as a result of increased sales.

Net Interest Expense. Total net interest expense in 2006 increased to $3.9 million compared with $3.1 million in 2005. The increase in interest expense resulted from increased daily average borrowings on our credit facility as well as increases in our borrowing rate.

Income Tax Expense (Benefit). We recorded an income tax expense of $2.5 million in 2006 compared to an income tax benefit of $1.1 million in 2005. Our effective tax rates for 2006 and 2005 were 39% and 37%. The increase in the effective income tax expense rate in 2006 was primarily due to the effect of non-deductible expenses as a percentage of pre-tax income in 2006 compared to the effect of a decrease in the effective tax rate in 2005 resulting from the effect of non-deductible expenses as a percentage of pre-tax loss in 2005.

Loss from Discontinued Operation. Loss from discontinued operation, net of taxes, which represents the results of operation of eCOST.com, was $1.8 million in 2005. We completed the eCOST.com spin-off in April 2005 and accordingly, we recognized no income (loss) from the discontinued operation of eCOST.com in 2006.

Year Ended December 31, 2005 Compared to the Year Ended December 31, 2004

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

	Years Ended December 31,		Change	
	2005	2004	$	%
Core business	$ 987,324	$ 977,626	$ 9,698	1%
OnSale.com	9,908	694	9,214	NMF(1)
Total net sales	$ 997,232	$ 978,320	$18,912	2%

(1) Not meaningful.

Total net sales in 2005 increased by $18.9 million, or 2%, compared to total net sales in 2004. This increase was attributable to the increase in Core business net sales of $9.7 million and the increase in OnSale.com net sales of $9.2 million.

Core business net sales in 2005 increased by $9.7 million, or 1%, compared to 2004, due primarily to growth in our commercial net sales of $33.0 million, or 5%, to $636.1 million compared to 2004, resulting from improved productivity of our commercial account executives. Also contributing to the increase in Core business net sales was the $31.6 million in net sales to eCOST.com under a product sales agreement entered into in April 2005 and a consignment and product sales agreement entered into in May 2005. These sales were generally made to eCOST.com at our cost. The consignment and product sales agreement terminated in August 2005 and the product sales agreement terminated in September 2005. We do not expect to make significant product sales to eCOST.com in the future. These increases within Core business net sales were partially offset by a decrease in public sector net sales of $10.8 million, or 12%, to $81.7 million which resulted primarily from competitive pricing pressures in the marketplace predominantly in the second half of 2005 and our decision not to pursue certain unprofitable transactions in such a competitive environment. Further, consumer net sales declined $44.4 million, or 16%, to $237.6 million resulting primarily from a 25% decrease in advertising expenditures supporting the consumer market. Beginning in the second half of 2005, we reduced our advertising expenditures and attempted to optimize the return on such expenditures.

OnSale.com net sales in 2005 were $9.9 million compared with $0.7 million in 2004 primarily due to our increased marketing efforts to promote the OnSale.com brand to the online marketplace beginning in late third quarter of 2005. OnSale.com's net sales in 2004 were insignificant as it was in its first year of operations, and therefore we believe it provides no meaningful comparison to 2005.

Total sales of products manufactured by each of HP and Apple represented 21% of total net sales in 2005 compared to 22% and 21% of total net sales in 2004.

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,					
	2005		2004		Change	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	$	Margin
Core business	$ 117,776	11.9%	$ 126,201	12.9%	$(8,425)	(1.0)%
OnSale.com	791	8.0%	46	6.6%	745	1.4%
Total gross profit and gross profit margin	$ 118,567	11.9%	$ 126,247	12.9%	$(7,680)	(1.0)%

Total gross profit in 2005 decreased by $7.7 million, or 6%, compared to the total gross profit in 2004. Total gross profit margin in 2005 decreased by 1.0% compared to 2004. The decrease in total gross profit and total gross profit margin resulted primarily from a decrease in the Core business segment, which gross profit decreased by $8.4 million, or 7%, and which gross profit margin decreased by 1.0% compared to prior year's gross profit and gross profit margin. The decrease in Core business gross profit was partially offset by the increase in OnSale.com gross profit, which increased by $0.7 million in 2005 compared to 2004.

The $8.4 million decrease in Core business gross profit in 2005 was primarily the result of the decline in public sector and consumer net sales and a more aggressive pricing strategy, including an increase in consumer promotions. The decrease in Core business gross profit margin of 1.0% in 2005 resulted primarily from a 38 basis point dilutive impact of products sold to eCOST.com at cost under certain spin-off transition agreements, a 51 basis point decline in gross profit margin related to our competitive pricing strategy, and a 14 basis point gross profit margin decline due to our shift in customer mix towards lower margin commercial customers.

Gross profit for OnSale.com for 2005 was approximately $0.8 million, representing 8.0% of its net sales for the current year. OnSale.com's gross profit and gross profit margin in 2004 are not meaningful as OnSale.com did not begin product sales until the fourth quarter of 2004, and therefore we believe it provides no meaningful comparison to 2005.

Selling, General and Administrative Expenses. The following table presents our selling, general and administrative ("SG&A") expenses, by segment, for the periods presented (in thousands):

	Years Ended December 31,						
	2005		2004		Change		
	SG&A	SG&A as a % of Sales	SG&A	SG&A as a % of Sales	$	%	SG&A as a % of Sales
Core business	$ 115,255	11.7%	$ 120,251	12.3%	$(4,996)	(4)%	(0.6)%
OnSale.com	3,300	33.3%	1,455	NMF	1,845	127%	NMF
Total SG&A expenses	$ 118,555	11.9%	$ 121,706	12.4%	$(3,151)	(3)%	(0.5)%

Total SG&A expenses decreased by $3.2 million, or 3%, in 2005 compared with 2004. As a percent of sales, total SG&A expenses decreased to 11.9% in 2005 from 12.4% in 2004. The decrease in total SG&A expenses in 2005 was due to the $5.0 million decrease in Core business SG&A expenses, partially offset by a $1.8 million increase in OnSale.com SG&A expenses, compared to 2004.

The $5.0 million decrease in Core business SG&A expenses in 2005 was primarily due to a $4.0 million strategic decrease in advertising expenditures in 2005 primarily relating to our consumer business, a $1.1 million decline in personnel costs due primarily to back-office labor cost savings, a $0.8 million decrease in credit card related fees in 2005 due to a shift in our customer mix away from credit card sales, a $0.4 million decrease in Sarbanes-Oxley-related expenses, a $0.3 million decease in non-cash stock-based compensation expenses and the $0.5 million charge in 2004 related to the write-down of certain software costs. These declines were offset by a $2.0 million reduction in administrative and fulfillment service fees received from eCOST.com in 2005 compared to the same period in the prior year as a result of the spin-off of eCOST.com. As a percent of sales, SG&A expenses for Core business decreased to 11.7% in 2005 compared with 12.3% in the prior year. The decline in SG&A as a percent of net sales was primarily due to the 38 basis point dilutive impact of net sales to eCOST.com on SG&A as a percent of net sales and the 38 basis point impact of the decline in advertising expenditures, partially offset by a 20 basis point increase in SG&A as a percent of net sales from the reduction in service charges to eCOST.com.

For OnSale.com, SG&A expenses in 2005 were $3.3 million, an increase of $1.8 million from 2004 primarily due to a $0.5 million increase in personnel costs, a $0.6 million increase in advertising expenditures and a $0.3 million increase in fulfillment expenses. OnSale.com SG&A as a percent of net sales was 33.3% in 2005. We believe OnSale.com's SG&A as a percent of net sales in 2004 was not meaningful as it was in its first year of operations.

Net Interest Expense. Total net interest expense in 2005 increased to $3.1 million compared with $2.0 million in 2004. The increase in interest expense resulted from increased daily average borrowings on our credit facility as well as increases in our borrowing rate.

Income Tax (Benefit) Expense. We recorded an income tax benefit of $1.1 million in 2005 compared to an income tax expense of $1.0 million in 2004. Our effective tax rates for 2005 and 2004 were 37% and 41%. The decrease in the effective tax benefit rate in 2005 was primarily due to the effect of non-deductible expenses as a percentage of pre-tax loss in 2005 compared to the increase in the effective tax rate in 2004 resulting from the effect of non-deductible expenses as a percentage of pre-tax income in 2004.

Loss from Discontinued Operation. Loss from discontinued operation, net of taxes, which represents the results of operation of eCOST.com, was $1.8 million in 2005 and $0.5 million in 2004. The $1.3 million increase in loss from discontinued operations, net of taxes, in 2005 was due to an increase in operating losses from eCOST.com in the current year compared to the prior year.

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, possible sales growth and possible acquisitions and new business ventures. 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. We believe that our current working capital, including our existing cash balance, together with our future cash flows from operations and available borrowing capacity under our line of credit, will be adequate to support our current operating plans for at least the next twelve months. Our efforts to focus on commercial and public sector sales could result in an increase in our accounts receivable as these customers are generally provided longer payment terms than consumers. In addition, we expect to continue to focus our efforts on increasing the productivity of our sales force and reducing our infrastructure costs, as well as increasing our offshore operations, in an effort to reduce our costs.

In the future, if we need additional funds, such as for acquisitions or expansion, to fund a significant downturn in our sales or an increase in our operating expenses, or to take advantage of opportunities or favorable market conditions, we may seek additional financing from public or private debt or equity financings; however, there can be no assurance that such financing will be available at acceptable terms, if at all. To the extent any such financings involve the issuance of equity securities, existing stockholders could experience dilution.

In June 2003, we established a Canadian call center serving the U.S. market. One of the benefits we receive from having our Canadian call center is that we can claim Canadian government labor credits on eligible compensation paid to qualifying employees at the call center. The term of the government program that provides for these labor credits is currently scheduled to terminate at the end of 2007. During the period through 2007, we expect to annually claim labor credits of up to 35% of eligible compensation paid to our qualifying employees under the program. The success of our Canadian call center is dependent, in part, on our receipt of the government labor credits we expect to receive. While management believes the amounts claimed are collectible, if we do not receive these expected labor credits, or a sufficient portion of them, then the costs of operating our Canadian call center may exceed the benefits it provides us and our operating results would likely suffer. In addition, while we are currently reviewing alternative programs in an effort to partially replace in the future the labor credits we receive under the existing program, there can be no assurance that we will be able to identify or qualify for an acceptable alternative program or that any such program will replace in the future the amount of labor credits we receive under the current program. In July 2006, we received the expected $2.4 million of payment from the Canadian government related to our 2004 claim. As of December 31, 2006, we had an accrued receivable of $6.2 million related to these labor credits recorded in "Prepaid expenses and other current assets" on our Consolidated Balance Sheets and we expect to receive full payment under our labor credit claim.

At December 31, 2006 and 2005, we had cash and cash equivalents of $5.8 million and $6.3 million. Our working capital increased by $7.8 million to $43.4 million at December 31, 2006 from working capital of $35.6 million at December 31, 2005, primarily due to a decrease in the outstanding balance on our line of credit.

Cash Flows from Operating Activities. Net cash provided by operating activities in 2006 was $31.5 million, compared to net cash used in operating activities from continuing operations of $5.6 million in 2005 and $6.5 million in 2004. The $31.5 million of net cash provided by operating activities in 2006 resulted primarily from the $15.8 million increase in accounts payable related to the increase in our sales during the current year and the increase in sales resulting from the acquisition of the products business from GMRI in 2006, the $13.2 million decrease in inventory reflecting our efforts to optimize our inventory levels and the $4.0 million of income from our operations, partially offset by the $11.2 million increase in accounts receivable as of December 31, 2006 compared for December 31, 2005 due to increased open account sales.

The $5.6 million net cash used in operating activities from continuing operations in 2005 resulted primarily from the $10.6 million increase in accounts receivable as of December 31, 2005 compared to December 31, 2004 principally due to the increase in our commercial sales and the decrease in accounts payable of $8.7 million relating to declines in strategic inventory purchases from the prior year, partially offset by a decrease in inventory of $14.4 million primarily relating to the reduction of inventory formerly used to support the business of eCOST.com, which we spun-off in April 2005.

Net cash used in operating activities from continuing operations of $6.5 million in 2004 resulted primarily from the $20.7 million increase in accounts receivable as of December 31, 2004 compared to December 31, 2003 reflecting the increased sales to commercial customers, partially offset by the increase in accounts payable of $5.2 million resulting from an increased level of strategic inventory purchases at the end of 2004 compared to the prior year, the $3.0 million increase in accrued expenses and other current liabilities primarily relating to a $1.2 million increase in accrued third-party freight charges and a $0.7 million increase in accrued liabilities in our Canadian office, primarily due to the increase in its headcount, and the $1.5 million of income from continuing operations.

Cash Flows from Investing Activities. Net cash used in investing activities was $6.6 million in 2006, compared to net cash used in investing activities from continuing operations of $3.1 million in 2005 and $3.8 million in 2004. The $6.6 million of net cash used in investing activities in 2006 was primarily due to $3.4 million used to acquire the products business from GMRI in September 2006 and capital expenditures of $3.3 million during the year. The $3.1 million and $3.8 million net cash used in investing activities in 2005 and 2004 resulted primarily from the $3.2 million of capital expenditures in each of those years. The $3.3 million of capital expenditures in 2006 related to expenditures to support the continued expansion of our Philippines office, as well as the creation of enhanced electronic tools for our account executives and sales support staff, and purchases of equipment to replace or improve our servers and personal computers. The $3.2 million of capital expenditures in each of the years 2005 and 2004 related to expenditures to replace or improve our servers and personal computers, as well as the creation of enhanced electronic tools for our account executives and sales support staff. Also included in 2004 net cash used in investing activities from continuing operations was a $0.6 million earnout provision paid in 2004 relating to additional purchase price consideration for the acquisition of Pacific Business Systems, Inc. completed in 2002.

Cash Flows from Financing Activities. Net cash used in financing activities was $25.3 million in 2006, compared to net cash provided by financing activities from continuing operations of $8.4 million in 2005 and $9.9 million in 2004. The $25.3 million of net cash used in financing activities in 2006 was due to the $21.0 million repayment on our line of credit and $4.7 million decrease in book overdraft, which decrease was due to the timing of outstanding payments to vendors relative to the prior year. The $8.4 million of net cash provided by financing activities in 2005 resulted primarily from the $4.5 million net increase in our borrowings under our line of credit in order to finance the increase in accounts receivable and the $4.3 million increase in our book overdraft. The $9.9 million net cash provided by financing activities in 2004 resulted primarily from the $22.8 million net increase in our borrowings under our line of credit, which was used to finance the $20.7 million increase in accounts receivable as of December 31, 2004 compared to December 31, 2004, as well as the $2.0 million net increase in note payable primarily due to an aggressive program to obtain early-pay discounts, and the $2.3 million of proceeds resulting from stock issued related to exercise of stock options. These increases in cash provided by financing activities in 2004 were partially offset by the $17.1 million decrease in book overdraft, which decrease was due to the timing of outstanding payments to vendors relative to the prior year.

Line of Credit and Note Payable. We maintain an asset-based revolving credit facility from a lending unit of a large commercial bank that commenced in March 2001. In March 2003, the credit facility was amended to extend the term by an additional three years to expire in March 2007, and contained improved terms. In September 2005, the credit facility was amended to, among other things, increase the total line of credit from $75.0 million to $100.0 million and the maturity date of the facility was extended from March 2007 to March 2008.

The credit facility functions as a working capital line of credit with a borrowing base of inventory and accounts receivable, including certain credit card receivables, and bears interest at the prime rate or an option to select the London

Interbank Offered Rate ("LIBOR") plus a spread of 2.0% or 2.50%, depending on certain earnings targets and also includes a commitment fee of 0.25% annually on the unused portion of the line up to $60 million, unless the outstanding borrowings under the credit facility exceed $75.0 million, at which time the unused line fees will be assessed on the unused portion of the facility up to $80.0 million. At December 31, 2006, our effected weighted average interest rate was 7.91% and we had $32.5 million of net working capital advances outstanding under the line of credit. At December 31, 2006, we had $29.7 million available to borrow for working capital advances under the line of credit. The credit facility is secured by substantially all of our assets. In addition to the security interest required by the credit facility, certain of our vendors have security interest in some of our assets related to their products. The credit facility has as its single financial covenant a minimum tangible net worth requirement, which we were in compliance with at December 31, 2006. 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 early-pay discounts.

In connection with and as part of the credit facility, we entered into a term note, with a borrowing base of $3.5 million and which matures in September 2011. As of December 31, 2006, we had borrowed $3.5 million under the term note, payable in equal monthly principal installments, plus interest at the prime rate with a LIBOR option. At December 31, 2006, we had $2.25 million outstanding under the term note, at an effective interest rate of 8.25%. Our term note matures as follows: $500,000 annually in each of the years 2007 through 2010 and $250,000 thereafter.

For a detailed discussion of our line of credit and note payable, see Note 8 of the Notes to the Consolidated Financial Statements in Item 8, Part II of this report.

As part of our growth strategy, we may, in the future, acquire other companies in the same or complementary lines of business, and pursue other business ventures. Any launch of a new business venture or any acquisition and the ensuing integration of the operations of the acquired company would place additional demands on our management, 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 not paid cash dividends on our capital stock and we do not currently anticipate paying dividends in the future. We intend to retain our 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, 2006 (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 Item 8, Part II of this report.

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Contractual obligations					
Long-term debt obligation (a) (Note 8)	$ 2,250	$ 500	$ 1,000	$ 750	$ —
Purchase obligations (b) (Note 10)	3,729	3,617	112	—	—
Operating lease obligations (Note 10)	7,679	3,810	3,774	95	—
Total contractual obligations	$ 13,658	$ 7,927	$ 4,886	$ 845	$ —

	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Other commercial commitment					
Line of credit (a) (Note 8)	$ 32,477	$ 32,477	$ —	$ —	$ —

(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 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).

Off-Balance Sheet Arrangements

As of December 31, 2006, we did not have any off-balance sheet arrangements.

Contingencies

For a discussion of contingencies, see Part II, Item 8, Note 10 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 16 of the Notes to the Consolidated Financial Statements of this report.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115 ("SFAS 159"), which permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the fair value option). Unrealized gains and losses on items for which the fair value option has been elected are to be recognized in earnings at each subsequent reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We believe that the adoption of SFAS 159 will not have a significant impact on our consolidated financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 ("SAB 108"), which establishes a dual approach that requires the quantification of financial statement errors on a single quantification framework to be used by all public companies. Under SAB 108, financial statement errors will be quantified based on the effects of the error on each of a company's financial statements and the related disclosures. This dual approach requires that errors be quantified under both the iron-curtain method, which focuses primarily on the effect of correcting the period-end balance sheet, and the roll-over method, which focuses primarily on the impact of an error on the income statement. SAB 108 is effective for fiscal years ending after November 15, 2006. The adoption of SAB 108 for our fiscal year ended December 31, 2006 did not have a significant impact on our consolidated financial statements.

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements" ("SFAS 157"), which clarifies the definition of fair value, establishes a framework for measuring fair value and expands the disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We believe that the adoption of SFAS 157 will not have a significant impact on our consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 also 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. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption of FIN 48. The cumulative effect of applying the provisions of FIN 48 should be reported as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that fiscal year. We believe that the adoption of FIN 48 will not have a significant impact on our consolidated financial statements.

In June 2006, the FASB ratified 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)" ("EITF 06-03"). EITF 06-03 provides that any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer may include, but is not limited to, sales, use, value added, and some excise taxes. EITF 06-03 also provides that the presentation of such taxes on either a gross (included in revenues and costs) or a net (excluded from revenues) basis is an accounting policy decision that a company should make and disclose in its financial statements, and disclose any such taxes that are reported on a gross basis, if material, for each period for which an income statement is presented. EITF 06-03 is effective for financial statements for interim and annual reporting periods beginning after December 15, 2006. We believe that the adoption of EITF 06-03 will not have a significant impact on our consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections ("SFAS 154"). SFAS 154 replaces APB No. 20, "Accounting Changes" ("APB 20") and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements," and changes the requirements for the accounting for and reporting of a change in accounting principle. Under APB 20, a change in accounting principle was recognized as a cumulative effect of accounting change in the income statement of the period of the change. SFAS 154 generally requires retrospective application to prior periods' financial statements of voluntary changes in accounting principles. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We adopted SFAS 154 on January 1, 2006. The adoption of SFAS 154 did not have a significant impact on our consolidated financial statements.

On January 1, 2006, we adopted SFAS 123R using the modified prospective application method. SFAS 123R requires that we measure compensation cost for all unvested stock-based payment awards outstanding as of December 31, 2005 and new stock-based payment awards granted to employees and non-employee directors subsequent to the adoption of SFAS 123R based on estimated fair values as determined on their grant dates, adjusted for estimated forfeitures, and recognize compensation expense over the requisite service period (the vesting period). For the year ended December 31, 2006, we recognized stock-based compensation expense of $1.5 million in "Selling, general and administrative expenses" in our Consolidated Statements of Operations, using the straight-line attribution method, and a related deferred income tax benefit of $0.6 million. Results for prior periods have not been restated pursuant to the modified prospective application method of SFAS 123R.

Prior to our adoption of SFAS 123R on January 1, 2006, we accounted for options granted to employees using the intrinsic value method under APB 25, as allowed under SFAS 123. See Note 2 of the Notes to the Consolidated Financial Statements in Part II, Item 8 for the pro forma disclosure of our results of operations and loss per share as if the fair value based method had been applied to the periods prior to our adoption of SFAS 123R and the respective weighted average assumptions used in those periods.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our financial instruments include cash and long-term debt. At December 31, 2006, the carrying values of our financial instruments approximated their fair values based on current market prices and rates.

We have exposure to the risks of fluctuating interest rates on our line of credit and note payable. The variable interest rate on our line of credit and note payable is tied to the prime rate or LIBOR, at our discretion. At December 31, 2006, we had $32.5 million outstanding under our line of credit and $2.25 million outstanding under our note payable. As of December 31, 2006, the hypothetical impact of a one percentage point increase in interest rate related to the outstanding borrowing under our line of credit would be to increase annual interest expense by $0.3 million.

It is our policy not to enter into derivative financial instruments, and we do not have any significant foreign currency exposure. Therefore, as of December 31, 2006, we did not have significant overall currency exposure.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Financial Statements and Supplementary Data

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 Stockholders of PC Mall, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, shareholders' equity and cash flows present fairly, in all material respects, the financial position of PC Mall, Inc. and its subsidiaries (the "Company") at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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.

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for share-based compensation in 2006.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP

Los Angeles, California
March 2, 2007

PC MALL, INC.

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

	At December 31, 2006	At December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,836	$ 6,289
Accounts receivable, net of allowances of $4,630 and $4,774	114,184	102,981
Inventories, net	51,268	64,448
Prepaid expenses and other current assets	8,497	8,330
Deferred income taxes	4,594	3,597
Total current assets	184,379	185,645
Property and equipment, net	8,055	8,416
Deferred income taxes	6,248	8,821
Goodwill	3,525	1,405
Intangible assets, net	931	449
Other assets	429	506
Total assets	$ 203,567	$ 205,242
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 75,837	$ 64,728
Accrued expenses and other current liabilities	20,215	20,839
Deferred revenue	11,964	10,440
Line of credit	32,477	53,517
Note payable – current	500	500
Total current liabilities	140,993	150,024
Note payable	1,750	2,250
Total liabilities	142,743	152,274
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, $0.001 par value; 5,000,000 shares authorized; none issued and outstanding	—	—
Common stock, $0.001 par value; 30,000,000 shares authorized; 12,648,720 and 12,015,641 shares issued; and 12,354,520 and 11,721,441 shares outstanding, respectively	13	12
Additional paid-in capital	87,465	83,533
Treasury stock, at cost: 294,200 shares	(1,015)	(1,015)
Accumulated other comprehensive income	241	274
Accumulated deficit	(25,880)	(29,836)
Total stockholders' equity	60,824	52,968
Total liabilities and stockholders' equity	$ 203,567	$ 205,242

See Notes to the Consolidated Financial Statements.

PC MALL, INC.

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

	Years Ended December 31,		
	2006	2005	2004
Net sales	$ 1,005,820	$ 997,232	$ 978,320
Cost of goods sold	881,902	878,665	852,073
Gross profit	123,918	118,567	126,247
Selling, general and administrative expenses	113,500	118,555	121,706
Operating profit	10,418	12	4,541
Interest expense, net	3,940	3,058	2,044
Income (loss) from continuing operations before income taxes	6,478	(3,046)	2,497
Income tax expense (benefit)	2,522	(1,114)	1,019
Income (loss) from continuing operations	3,956	(1,932)	1,478
Loss from discontinued operation, net of taxes	—	(1,781)	(465)
Net income (loss)	$ 3,956	$ (3,713)	$ 1,013
Basic and Diluted Earnings (Loss) Per Common Share			
Basic earnings (loss) per share:			
Income (loss) from continuing operations	$ 0.33	$ (0.17)	$ 0.13
Loss from discontinued operation, net of taxes	—	(0.15)	(0.04)
Net income (loss)	$ 0.33	$ (0.32)	$ 0.09
Diluted earnings (loss) per share:			
Income (loss) from continuing operations	$ 0.31	$ (0.17)	$ 0.12
Loss from discontinued operation, net of taxes	—	(0.15)	(0.04)
Net income (loss)	$ 0.31	$ (0.32)	$ 0.08
Weighted average number of common shares outstanding:			
Basic	12,052	11,652	11,119
Diluted	12,908	11,652	12,145

See Notes to the Consolidated Financial Statements.

PC MALL, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Common Stock		Additional Paid-in	Deferred Stock-Based	Treasury	Accumulated Other Comprehensive	Accumulated	
	Outstanding	Amount	Capital	Compensation	Stock	Income	Deficit	Total
Balance at December 31, 2003	10,871	$ 11	$ 78,032	$ —	$ (1,015)	$ 1	$ (27,136)	$ 49,893
Stock option exercises, including related income tax benefit	686	1	6,091	—	—	—	—	6,092
Compensatory stock option grant	—	—	2,000	(2,000)	—	—	—	—
Amortization of deferred stock-based compensation	—	—	—	667	—	—	—	667
Non-cash stock-based compensation	—	—	839	—	—	—	—	839
Capital contributed by minority stockholders of subsidiary, net	—	—	16,739	—	—	—	—	16,739
Minority interest in IPO proceeds	—	—	(4,529)	—	—	—	—	(4,529)
Subtotal								69,701
Net income	—	—	—	—	—	—	1,013	1,013
Translation adjustments	—	—	—	—	—	197	—	197
Comprehensive income	—	—	—	—	—	—	—	1,210
Balance at December 31, 2004	11,557	12	99,172	(1,333)	(1,015)	198	(26,123)	70,911
Stock option exercises, including related income tax benefit	164	—	611	—	—	—	—	611
Amortization of deferred stock-based compensation	—	—	—	125	—	—	—	125
Spin-off of eCOST.com	—	—	(16,250)	1,208	—	—	—	(15,042)
Subtotal								56,605
Net loss	—	—	—	—	—	—	(3,713)	(3,713)
Translation adjustments	—	—	—	—	—	76	—	76
Comprehensive loss	—	—	—	—	—	—	—	(3,637)
Balance at December 31, 2005	11,721	12	83,533	—	(1,015)	274	(29,836)	52,968
Stock option exercises	633	1	913	—	—	—	—	914
Stock-based compensation expense	—	—	1,532	—	—	—	—	1,532
Vested stock option and warrant issued to non-employees	—	—	814	—	—	—	—	814
eCOST NOLs allocated to PC Mall	—	—	673	—	—	—	—	673
Subtotal								56,901
Net income	—	—	—	—	—	—	3,956	3,956
Translation adjustments	—	—	—	—	—	(33)	—	(33)
Comprehensive income	—	—	—	—	—	—	—	3,923
Balance at December 31, 2006	12,354	$ 13	$ 87,465	$ —	$ (1,015)	$ 241	$ (25,880)	$ 60,824

See Notes to the Consolidated Financial Statements.

PC MALL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended December 31, 2006	2005	2004
Cash Flows From Operating Activities			
Net income (loss)	$ 3,956	$ (3,713)	$ 1,013
Loss from discontinued operations, net of taxes	—	1,781	465
Income (loss) from continuing operations	3,956	(1,932)	1,478
Adjustments to reconcile income (loss) from continuing operations to net cash provided by (used in) operating activities:			
Depreciation and amortization	4,417	4,043	4,222
Provision (benefit) for deferred income taxes	2,249	(1,432)	(2,887)
Tax benefit related to stock option exercises	—	281	3,835
Non-cash stock-based compensation	1,532	105	415
Gain on sale of fixed assets	(13)	(60)	—
Loss on impairment of capitalized software	—	—	560
Change in operating assets and liabilities:			
Accounts receivable	(11,203)	(10,588)	(20,736)
Inventories	13,180	14,409	486
Prepaid expenses and other current assets	(167)	(2,104)	(2,368)
Other assets	78	56	(94)
Accounts payable	15,806	(8,684)	5,225
Accrued expenses and other current liabilities	190	122	3,059
Deferred revenue	1,524	178	260
Total adjustments	27,593	(3,674)	(8,023)
Net cash provided by (used in) operating activities	31,549	(5,606)	(6,545)
Cash Flows From Investing Activities			
Purchases of property and equipment	(3,327)	(3,177)	(3,167)
Acquisition of GMRI's products business	(3,386)	—	—
Additional purchase price consideration for acquisition of PBS	—	—	(601)
Proceeds from sale of property and equipment	67	93	3
Net cash used in investing activities	(6,646)	(3,084)	(3,765)
Cash Flows From Financing Activities			
Net (payments) borrowings under line of credit	(21,040)	4,490	22,825
Change in book overdraft	(4,697)	4,298	(17,145)
Repayment under note payable	(500)	(500)	(1,500)
Payments for deferred financing costs	—	(188)	(25)
Borrowings under note payable	—	—	3,500
Proceeds from stock issued under stock option plans	914	330	2,256
Net cash (used in) provided by financing activities	(25,323)	8,430	9,911
Effect of foreign currency on cash flow	(33)	76	197
Net cash used in continuing operations	(453)	(184)	(202)
Cash Flows From Discontinued Operation			
Net cash flow from operating activities	—	(5,937)	(8,741)
Net cash flow from investing activities	—	5,937	(7,272)
Net cash flow from financing activities	—	—	16,013
Net cash flows from discontinued operation	—	—	—
Net decrease in cash and cash equivalents	(453)	(184)	(202)
Cash and cash equivalents at beginning of the period	6,289	6,473	6,675
Cash and cash equivalents at end of the period	$ 5,836	$ 6,289	$ 6,473
Supplemental Cash Flow Information			
Interest paid	$ 3,479	$ 2,943	$ 1,960
Income taxes paid	153	121	504

See Notes to the Consolidated Financial Statements.

PC MALL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Company

PC Mall, Inc., together with its wholly-owned subsidiaries (collectively referred to as “we” or “us”), founded in 1987, is a rapid response direct marketer of computer hardware, software, peripheral, electronics, and other consumer products and services. We offer products and services to businesses, government and educational institutions, as well as individual consumers, through dedicated outbound and inbound telemarketing account executives, the Internet, direct marketing techniques, direct response catalogs, a direct sales force and three retail showrooms. We offer a broad selection of products through our distinctive full-color catalogs under the PC Mall, MacMall and PC Mall Gov brands, our websites pcmall.com, macmall.com, pcmallgov.com, gmri.com, wareforce.com and onsale.com, and other promotional materials.

On April 11, 2005, we completed the spin-off of our 80.2% owned subsidiary, eCOST.com, Inc. (“eCOST.com”) when we distributed approximately 1.2071 shares of eCOST.com common stock as a special dividend on each outstanding share of our common stock to our stockholders of record on March 28, 2005. As a result of the spin-off, eCOST.com, which was a segment of our company, is presented as a discontinued operation for all periods presented herein. See Note 3 below for more information on the discontinued operation of eCOST.com.

We operate in two reportable segments: (1) a rapid response supplier of technology solutions for businesses, government and educational institutions, as well as consumers, collectively referred to as “Core business” and (2) an online retailer of computer and consumer electronic products under the OnSale.com brand. We allocate our resources to and evaluate the performance of our segments based on operating income. Corporate expenses are included in our measure of segment operating income for management reporting purposes.

2. Basis of Presentation and Summary of Significant Accounting Policies

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.

Reclassifications

Certain reclassifications have been made to prior year financial statement amounts to conform to the 2006 presentation.

Revenue Recognition

We adhere to the revised guidelines and principles of sales recognition described in Staff Accounting Bulletin No. 104, “Revenue Recognition” (“SAB 104”), issued by the staff of the Securities and Exchange Commission (the “SEC”) as a revision to Staff Accounting Bulletin No. 101, “Revenue Recognition” (“SAB 101”). Under SAB 104, 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 collectibility 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 adjust such amounts in the subsequent period when delivery has occurred.

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 products, extended warranties and certain other products and services that we sell (for which we are not the primary obligor) are recognized on a net basis in accordance with SAB 104 and 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.

Sales are reported net of estimated returns and allowances, discounts, mail-in rebate redemptions and credit card chargebacks. If actual sales returns, allowances, discounts, mail-in rebate redemptions and/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 and outbound and inbound shipping costs, offset by certain market development funds and other vendor 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 are considered cash equivalents. Our cash management programs result in utilizing available cash to pay down our line of credit. Checks issued but not presented for payment to the bank totaling $10.1 million and $14.8 million as of December 31, 2006 and 2005 were included in "Accounts payable" in our Consolidated Balance Sheets.

Accounts Receivable

We generate the majority of our accounts receivable through the sale of products 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 trade receivables for sales to customers on account and other receivables, which include all other types of receivables, mainly vendor receivables (in thousands):

	December 31,	
	2006	2005
Trade receivables	$ 98,974	$ 93,168
Other receivables	19,840	14,587
Total gross accounts receivable	118,814	107,755
Less: Allowance for doubtful accounts receivable	(4,630)	(4,774)
Accounts receivable, net	$ 114,184	$ 102,981

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 estimated allowances for uncollectible accounts or vendor receivables subsequently prove insufficient, additional allowances may be required.

Concentration of Credit Risk

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. We have historically incurred credit losses within management's expectations. No customer accounted for more than 10% of trade accounts receivable at December 31, 2006 and 2005.

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. At December 31, 2006 and 2005, we had reserves of $1.6 million and $2.2 million, reflecting lower of cost or market pricing and potential excess and obsolete inventory for demonstration purposes. As discussed under "Revenue Recognition" above, we do not record revenue and related cost of goods sold until delivery has occurred. As such, inventories include goods-in-transit to customers at December 31, 2006 and 2005.

Advertising Costs and Vendor Consideration

We account for advertising costs in accordance with Statement of Position ("SOP") No. 93-7, "Reporting on Advertising Costs." We produce and circulate direct response catalogs at various dates throughout the year. The costs of developing, producing and circulating each direct response catalog are deferred and amortized to advertising expense based on the life of the catalog, which is approximately eight weeks. Other non-catalog advertising expenditures are expensed in the period incurred. Total net advertising expenditures, which are included in "Selling, general and administrative expenses" in our Consolidated Statements of Operations, were $12.4 million in 2006, compared to $15.6 million in 2005 and $19.0 million in 2004. Deferred advertising costs, which are included in "Prepaid expenses and other current assets" in our Consolidated Balance Sheets, were $0.5 million and $1.1 million at December 31, 2006 and 2005.

As we circulate catalogs throughout the year, we receive market development funds and other vendor consideration from vendors included in each catalog. These funds are deferred and recognized based on sales generated over the life of the catalog. We also receive other non-catalog related vendor consideration from our vendors in the form of cooperative marketing allowances, volume incentive rebate programs and other programs to support our marketing of their products. Most of our vendor consideration is recorded as an offset to cost of sales in accordance with EITF 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" ("EITF 02-16") since such funds are not a reimbursement of specific, incremental, identifiable costs incurred by us in selling the vendors' products. Deferred vendor consideration is included in "Accrued expenses and other current liabilities" in our Consolidated Balance Sheets.

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 SOP 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use."

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 $2.1 million and $2.0 million of unamortized internally developed software at December 31, 2006 and 2005. In December 2004, we recorded a charge of approximately $0.6 million to "Selling, general and administrative expenses" on our Consolidated Statements of Operations relating to an impairment of previously capitalized internally developed software.

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 & Intangible Assets

Goodwill is carried at historical costs, 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 during the fourth quarter of each year, using the present value of expected future cash flows and other techniques for determining fair value. Under 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, including consideration of our market capitalization. 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 the annual impairment test, such loss will be recorded as a pre-tax charge to our operating income.

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 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 9 for more detailed information.

Stock-Based Compensation

On January 1, 2006, we adopted the provisions of Financial Accounting Standards Board ("FASB") Statement No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R") using the modified prospective transition method. SFAS 123R 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. SFAS 123R eliminates the ability to account for share-based compensation transactions using the intrinsic value method as prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), as we formerly did, and generally requires that such transactions be accounted for using a fair value based method and recognized as expenses in our Consolidated Statements of Operations. The provisions of SFAS 123R apply to new stock option grants subsequent to December 31, 2005 and unvested stock options outstanding as of January 1, 2006.

The modified prospective application method requires that compensation expense be recorded for all unvested stock options outstanding at the beginning of the first quarter of adopting SFAS 123R, based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" ("SFAS 148") and for new share-based payment awards granted subsequent to our adoption of SFAS 123R, based on the grant date fair value estimated in accordance with SFAS 123R, both adjusted for estimated forfeitures. SFAS 123R requires forfeitures to be estimated at the time of grant, and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Under the modified prospective application method, our prior period financial statements were not restated to retrospectively apply SFAS 123R. In addition, under SFAS 123R, we elected to use the Black-Scholes option pricing model to value options we grant, which is consistent with our valuation model previously used for options in pro forma footnote disclosures required under SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), as amended by SFAS 148. See Note 4 for a further discussion of the impact of the adoption of SFAS 123R.

Prior to adopting SFAS 123R, we accounted for share-based compensation awards using the intrinsic value method as prescribed by APB 25. As required by SFAS 148, the following table presents the effect on "Income (loss) from continuing operations" of recognizing stock-based compensation cost as if the fair value based method had been applied to all outstanding and unvested stock options as of the period presented (in thousands, except per share amounts):

	December 31, 2005	December 31, 2004
Income (loss) from continuing operations (as reported)	$ (1,932)	$ 1,478
Less stock compensation expense, net of taxes, determined under the fair value based method	(1,966)	(1,735)
Add stock compensation expense, net of taxes, included in reported income (loss) from continuing operations	—	—
Loss from continuing operations (pro forma)	$ (3,898)	$ (257)
Basic and diluted earnings (loss) from continuing operations per common share:		
Basic – as reported	$ (0.17)	$ 0.13
Basic – pro forma	(0.33)	(0.02)
Diluted – as reported	(0.17)	0.12
Diluted – pro forma	(0.33)	(0.02)

The following table presents the effect on "Net income (loss)" of recognizing stock-based compensation cost as if the fair value based method had been applied to all outstanding and unvested stock options as of the periods presented (in thousands, except per share amounts):

	December 31, 2005	December 31, 2004
Net income (loss) (as reported)	$ (3,713)	$ 1,013
Less stock compensation expense, net of taxes, determined under the fair value based method	(1,966)	(2,617)
Add stock compensation expense, net of taxes, included in reported net income (loss)	—	913
Net income (loss) (pro forma)	$ (5,679)	$ (691)
Basic and diluted earnings (loss) per common share:		
Basic – as reported	$ (0.32)	$ 0.09
Basic – pro forma	(0.49)	(0.06)
Diluted – as reported	(0.32)	0.08
Diluted – pro forma	(0.49)	(0.06)

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

	2005	2004
Risk free interest rates	3.88%	3.62%
Expected dividend yield	None	None
Expected lives	5 yrs.	6 yrs.
Expected volatility	99%	110%
Weighted average grant date fair value	$ 3.52	$ 13.52

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 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 directly in other comprehensive income (loss), a separate component of stockholders' equity on our Consolidated Balance Sheets. All transaction gains or losses are recorded in the Consolidated Statements of Operations. These gains or losses were not material in any of the years presented in our consolidated financial statements.

Recent Accounting Pronouncements

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115 ("SFAS 159"), which permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the fair value option). Unrealized gains and losses on items for which the fair value option has been elected are to be recognized in earnings at each subsequent reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We believe that the adoption of SFAS 159 will not have a significant impact on our consolidated financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 ("SAB 108"), which establishes a dual approach that requires the quantification of financial statement errors on a single quantification framework to be used by all public companies. Under SAB 108, financial statement errors will be quantified based on the effects of the error on each of a company's financial statements and the related disclosures. This dual approach requires that errors be quantified under both the iron-curtain method, which focuses primarily on the effect of correcting the period-end balance sheet, and the roll-over method, which focuses primarily on the impact of an error on the income statement. SAB 108 is effective for fiscal years ending after November 15, 2006. The adoption of SAB 108 for our fiscal year ended December 31, 2006 did not have a significant impact on our consolidated financial statements.

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements" ("SFAS 157"), which clarifies the definition of fair value, establishes a framework for measuring fair value and expands the disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We believe that the adoption of SFAS 157 will not have a significant impact on our consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 also 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. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption of FIN 48. The cumulative effect of applying the provisions of FIN 48 should be reported as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that fiscal year. We believe that the adoption of FIN 48 will not have a significant impact on our consolidated financial statements.

In June 2006, the FASB ratified 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)" ("EITF 06-03"). EITF 06-03 provides that any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer may include, but is not limited to, sales, use, value added, and some excise taxes. EITF 06-03 also provides that the presentation of such taxes on either a gross (included in revenues and costs) or a net (excluded from revenues) basis is an accounting policy decision that a company should make and disclose in its financial statements, and disclose any such taxes that are reported on a gross basis, if material, for each period for which an income statement is presented. EITF 06-03 is effective for financial statements for interim and annual reporting periods beginning after December 15, 2006. We believe that the adoption of EITF 06-03 will not have a significant impact on our consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections ("SFAS 154"). SFAS 154 replaces APB No. 20, "Accounting Changes" ("APB 20") and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements," and changes the requirements for the accounting for and reporting of a change in accounting principle. Under APB 20, a change in accounting principle was recognized as a cumulative effect of accounting change in the income statement of the period of the change. SFAS 154 generally requires retrospective application to prior periods' financial statements of voluntary changes in accounting principles. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We adopted SFAS 154 on January 1, 2006. The adoption of SFAS 154 did not have a significant impact on our consolidated financial statements.

3. Discontinued Operation

On September 1, 2004, eCOST.com completed the sale of 3,465,000 shares of its common stock for an aggregate consideration of $20.1 million, less underwriting discounts and commissions of $1.4 million (the "IPO"). eCOST.com incurred approximately $2.0 million of offering expenses in connection with the offering. In connection with the IPO, eCOST.com paid a dividend of $2.5 million to us through a non-cash settlement of the capital contribution due from us outstanding at the completion of the IPO. Following the IPO, we owned 80.2% of the outstanding common stock of eCOST.com.

At the date of the IPO, we recorded a minority interest liability of $4.5 million representing the 19.8% interest in eCOST.com's stockholders' equity immediately following the IPO. The liability was offset by a corresponding reduction of additional paid-in-capital. Further, this liability was reduced by the 19.8% portion of eCOST.com's net loss between the completion of the IPO date and the end of the fourth quarter of 2004, totaling $0.2 million.

On April 11, 2005, we completed the spin-off of eCOST.com by distributing our 80.2% ownership interest in eCOST.com to our stockholders. We distributed approximately 1.2071 shares of eCOST.com common stock as a special dividend on each outstanding share of our common stock to our stockholders of record on March 28, 2005. As a result, we distributed to our stockholders an aggregate of 14,000,000 shares of eCOST.com common stock, which had an aggregate market value of approximately $90.3 million based on the last sale price for eCOST.com common stock on the Nasdaq Stock Market on April 11, 2005.

The financial results of eCOST.com, which were historically reported as an operating segment, have been excluded from our results from continuing operations for 2005 and 2004 presented herein and have been presented as a discontinued operation. eCOST.com's revenues, operating and non-operating results for all periods prior to April 12, 2005 are reflected in a single line item entitled "Income (loss) from discontinued operation, net of taxes" on our Consolidated Statements of Operations. Cash flows resulting from the discontinued operations of eCOST.com have been presented separately from cash flows resulting from our continuing operations.

The operating results of the discontinued operation of eCOST.com reported in "Loss from discontinued operation, net of taxes" in our Consolidated Statements of Operations through April 11, 2005, the completion date of the spin-off, were as follows (in thousands):

	December 31,	
	2005	2004
Net sales	$ 59,781	$ 178,933
Loss before income taxes	$ (3,252)	$ (1,149)
Income tax benefit	(1,005)	(452)
Minority interest	466	232
Loss from discontinued operation, net of taxes	$ (1,781)	$ (465)

We entered into a Tax Allocation and Indemnification Agreement with eCOST.com, which governs the respective rights, responsibilities and obligations of eCOST.com and us after eCOST.com's IPO with respect to tax liabilities and benefits, tax attributes, tax contests and other matters regarding income taxes, non-income taxes and related tax returns. In general, under the Tax Allocation and Indemnification Agreement, among others, we are responsible for any U.S. federal, state or local income taxes that are determined on a consolidated, combined or unitary basis on a return that includes us (and/or one or more of our subsidiaries), on the one hand, and eCOST.com (and/or one or more of its subsidiaries), on the other hand. However, in the event that eCOST.com or one of its subsidiaries are included in such a return for a period, or portion thereof, beginning after the date of eCOST.com's IPO, eCOST.com is responsible for its portion of the income tax liability in respect of the period as if eCOST.com and its subsidiaries had filed a separate tax return that included only eCOST.com and its subsidiaries for that period, or portion thereof.

As a result of eCOST.com being included in our consolidated federal income tax return until completion of its spin-off from us, losses incurred by eCOST.com prior to its spin-off are reduced by any of our profits for 2005. Any remaining unused operating loss allocable to eCOST.com under federal tax law was carried forward to eCOST.com's separate federal income tax returns and was available to offset eCOST.com's operating profits earned as a stand-alone company beginning in 2006. Under the Tax Allocation and Indemnification Agreement, eCOST.com is not allocated any remaining unused operating loss under state or local law unless required under applicable state or local law.

4. 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.

As of December 31, 2006, a total of 1,517,041 shares of authorized and unissued shares were available for future grants. All options granted through December 31, 2006 have been Nonstatutory Stock Options. We satisfy stock option exercises with newly issued shares.

1995 Director Stock Option Plan

We adopted the Directors' Non-Qualified Stock Option Plan (the "Director Plan") in 1995. However, in May 2000, our Board of Directors and stockholders voted to terminate the Director Plan such that no further grants would be made

thereunder, and further provided that non-employee directors are persons eligible to receive future options and other stock-based awards under the 1994 Plan, as discussed above. As of December 31, 2006, there were 5,000 options outstanding under the Director Plan.

Impact of the Adoption of SFAS 123R

On January 1, 2006, we adopted SFAS 123R using the modified prospective application method. SFAS 123R requires that we measure compensation cost for all unvested stock-based payment awards outstanding as of December 31, 2005 and new stock-based payment awards granted to employees and non-employee directors subsequent to the adoption of SFAS 123R based on estimated fair values as determined on their grant dates, adjusted for estimated forfeitures, and recognize compensation expense over the requisite service period (the vesting period). For the year ended December 31, 2006, we recognized stock-based compensation expense of $1.5 million in "Selling, general and administrative expenses" in our Consolidated Statements of Operations, using the straight-line attribution method, and a related deferred income tax benefit of $0.6 million. Results for prior periods have not been restated pursuant to the modified prospective application method of SFAS 123R.

Prior to our adoption of SFAS 123R on January 1, 2006, we accounted for options granted to employees using the intrinsic value method under APB 25, as allowed under SFAS 123. See Note 2 for the pro forma disclosure of our results of operations and loss per share as if the fair value based method had been applied to the periods prior to our adoption of SFAS 123R and the respective weighted average assumptions used in those periods.

Valuation Assumptions

We estimated the grant date fair value of each stock option grant awarded during the year ended December 31, 2006 pursuant to SFAS 123R 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, 2006, we applied the simplified method set out in

SEC Staff Accounting Bulletin No. 107, "Share-Based Payment," which was issued in March 2005. We computed our expected volatility using a frequency of weekly historical prices of our common stock for a period equal to the expected term of the options, which we determined to be six years. 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. In 2006, we estimated 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.

The following table presents the weighted average assumptions we used for the current period:

	Year Ended December 31, 2006
Risk free interest rate	4.75%
Expected volatility	95%
Expected term	6 years
Expected dividend yield	None

Stock-Based Payment Award Activity

The following table summarizes our stock option activity during the year ended December 31, 2006, and stock options outstanding and exercisable at December 31, 2006 for the above plans:

	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2005	2,627,608	$ 3.27		
Granted	46,000	5.98		
Exercised	(633,079)	1.44		
Forfeited	(88,344)	5.16		
Expired/cancelled	(13,155)	3.31		
Outstanding at December 31, 2006	1,939,030	$ 3.84	6.50	$ 12,991
Exercisable at December 31, 2006	1,450,686	$ 3.37	5.92	$ 10,399

The aggregate intrinsic value is calculated based on the difference between the exercise price of the underlying awards and the closing price of our common stock on December 31, 2006, which was $10.54.

	Years Ended December 31,		
	2006	2005	2004
Weighted average grant-date fair value of options granted during the period	$ 4.70	$ 3.52	$ 13.52
Total intrinsic value of options exercised during the period (in thousands)	3,472	736	10,247
Total fair value of shares vested during the period (in thousands)	1,565	3,121	3,006

Effective April 11, 2005, as a result of the spin-off of eCOST.com and the related special stock dividend, the exercise price of all options under the above plans was reduced by the pro rata effect of the reduction in our stock price.

As of December 31, 2006, there was $1.6 million of unrecognized compensation cost related to unvested outstanding stock options. We expect to recognize this cost over a weighted average period of 1.7 years.

5. Acquisition

On September 7, 2006, PC Mall Gov, Inc. ("PC Mall Gov"), our wholly-owned subsidiary, acquired the products business from Government Micro Resources, Inc. ("GMRI") for approximately $3.4 million in cash, including transaction costs. The business includes assets of GMRI's former products business, which include the GMRI trade names, contracts and the related employees, among other items. We are currently reviewing whether certain contingent liabilities existed at the time of the acquisition. We estimate that such contingent liabilities, if any, could result in an increase to the purchase price by approximately $0.1 million to $0.8 million and could increase the amount allocated to goodwill.

Based on a preliminary purchase price allocation, which is subject to further review, we recorded $2.1 million of goodwill at the Core business segment and $1.3 million of intangible assets and furniture and equipment based on their estimated fair values at the date of acquisition as follows (in thousands):

	At December 31, 2006
Goodwill	$ 2,120
Intangible assets:	
Product backlog	581
Maintenance contracts	143
Tradenames	240
Software licenses	218
Non-compete agreements	20
Total intangible assets	1,202
Furniture and equipment	64
Total assets acquired	$ 3,386

We recorded approximately $0.6 million of amortization and depreciation expense during the year ended December 31, 2006 related to the estimated $1.3 million of intangible assets and furniture and equipment acquired in the GMRI transaction. For additional information on intangible assets and goodwill, see Note 7.

Beginning with September 8, 2006, the results of the acquired products business of GMRI have been included in our Core business segment results.

6. Property and Equipment

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

	At December 31,	
	2006	2005
Computers, software, machinery and equipment	$ 29,352	$ 27,031
Leasehold improvements	4,867	4,057
Furniture and fixtures	3,529	3,484
Building and improvements	1,725	1,725
Land	912	912
Software development in progress	848	749
Subtotal	41,233	37,958
Less: Accumulated depreciation and amortization	(33,178)	(29,542)
Property and equipment, net	$ 8,055	$ 8,416

Depreciation and amortization expense for property and equipment for the years ended December 31, 2006, 2005 and 2004 totaled $3.7 million, $3.8 million and $3.9 million.

7. Goodwill and Intangible Assets

Goodwill

The change in the carrying amounts of goodwill, all of which is held at the Core business segment, was as follows (in thousands):

	Goodwill
Balance at December 31, 2004	$ 1,405
Activity	—
Balance at December 31, 2005	1,405
Addition	2,120
Balance at December 31, 2006	$ 3,525

We performed our annual impairment test for goodwill in the fourth quarter of 2006 and 2005. The estimated fair value of our Core business segment exceeded its net carrying value, and as such, we determined that no impairment of goodwill existed as of December 31, 2006 and 2005.

Intangible Assets

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

	Weighted Average Estimated Useful Lives (years)	At December 31, 2006			At December 31, 2005		
		Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Patent, trademark & URLs	7	$ 922	$ 504	$ 418	$ 682	$ 453	$ 229
Customer relationship	5	555	499	55	555	388	167
Product backlog	Various (1)	581	422	160	—	—	—
Software licenses	3	218	24	194	—	—	—
Maintenance contracts	Various (1)	143	84	59	—	—	—
Non-compete agreements	5	118	80	38	98	61	37
Other	5	32	25	7	35	19	16
Total intangible assets		$ 2,569	$ 1,638	$ 931	$ 1,370	$ 921	$ 449

(1) Amortization of these intangible assets, which relate to customer orders, are based on actual shipments of goods or performance of service.

Amortization expense for intangible assets was $0.7 million, $0.3 million and $0.4 million for the years ended December 31, 2006, 2005 and 2004.

Estimated amortization expense for intangible assets, excluding intangible assets based on customer orders, in each of the next five years and thereafter is as follows: $0.2 million in 2007; $0.1 million in 2008; $0.1 million in 2009; $0.1 million in 2010; $0.1 million in 2011 and $0.1 million thereafter.

8. Line of Credit and Note Payable

We maintain an asset-based revolving credit facility from a lending unit of a large commercial bank that commenced in March 2001. In March 2003, the credit facility was amended to extend the term by an additional three years to expire in March 2007, and contained improved terms. In September 2005, the credit facility was amended to, among other things, increase the total line of credit from $75.0 million to $100.0 million and the maturity date of the facility was extended from March 2007 to March 2008. The agreement is substantially the same as our previous agreement, but has the following additional material provision changes: credit card receivables are included in the borrowing base up to $7.5 million; receivables of up to $5.0 million from our former subsidiary, eCOST.com, are included in the borrowing base; and the unused line fee provisions were amended to provide that the existing unused line fee of 0.25% per annum will be assessed on the unused portion of the credit facility up to $60.0 million, unless the outstanding borrowings under the credit facility exceed $75.0 million, at which time the unused line fees will be assessed on the unused portion of the facility up to $80.0 million. The amended agreement also included a line increase fee of $62,500, a syndication fee of $25,000 and an extension fee of $100,000, which we deferred (included in “Other assets” in our Consolidated Balance Sheets) and began amortizing over the remaining modified term of the agreement beginning in the third quarter of 2005.

The credit facility functions as a working capital line of credit with a borrowing base of inventory and accounts receivable, including certain credit card receivables, and bears interest at the prime rate or an option to select the London Interbank Offered Rate (“LIBOR”) plus a spread of 2.0% or 2.50%, depending on certain earnings targets. At December 31, 2006, our effective weighted average interest rate was 7.91% and we had $32.5 million of net working capital advances outstanding under the line of credit. At December 31, 2006, we had $29.7 million available to borrow for working capital advances under the line of credit. The credit facility is secured by substantially all of our assets. In addition to the security interest required by the credit facility, certain of our vendors have security interest in some of our assets related to their products. The credit facility has as its single financial covenant a minimum tangible net worth requirement, which we were in compliance with at December 31, 2006.

In February 2005, we terminated a flooring credit facility, which functioned in lieu of a vendor trade payable for inventory purchases and did not bear interest if paid within terms specific to each vendor. We did not draw any substantial amounts on the flooring credit facility during 2005 and 2004.

In connection with and as a part of the line of credit, we entered into a term note. In May 2004, we amended the term note to increase the borrowing base from $2.0 million to $3.5 million and extend the maturity date from March 2005 to September 2011. As of December 31, 2006, we had borrowed $3.5 million under the term note, payable in equal monthly principal installments, plus interest at the prime rate with a LIBOR option. At December 31, 2006, we had $2.25 million outstanding under the term note, at an effective interest rate of 8.25%. Our term note matures as follows: $500,000 annually in each of the years 2007 through 2010 and $250,000 thereafter.

9. Income Taxes

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

	2006	2005	2004
Current			
Federal	$ 130	$ —	$ —
State and local	143	37	71
Total – Current	273	37	71
Deferred			
Federal	2,027	(1,019)	898
State and local	210	(171)	26
Foreign	12	39	24
Total – Deferred	2,249	(1,151)	948
Total income tax expense (benefit)	$ 2,522	$ (1,114)	$ 1,019

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

	2006	2005	2004
Expected taxes at federal statutory tax rate	34.0%	34.0%	34.0%
State income taxes, net of federal income tax benefit	4.6	4.8	2.7
Non-deductible business expenses	1.5	(3.1)	3.9
Other	(1.2)	0.9	0.2
Total	38.9%	36.6%	40.8%

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

	2006	2005
Accounts receivable	$ 1,715	$ 1,834
Inventories	682	751
Property and equipment	1,281	1,026
Amortization	2,242	2,411
Accrued expenses and reserves	2,347	999
Tax credits and loss carryforwards	2,825	5,446
Other	(48)	(49)
Subtotal	11,044	12,418
Valuation allowance	(202)	—
Total	$ 10,842	$ 12,418

As of December 31, 2006, we recorded a valuation allowance of $0.2 million for certain state net operation loss carryforwards, which we believe it is more likely than not that the related deferred tax assets will not be realized. We had no valuation allowance for deferred tax assets as of December 31, 2005.

The exercise of stock options in 2005 resulted in a tax benefit that has been reflected as a reduction of taxes payable, an increase to deferred tax assets and an increase to additional paid-in capital. The benefit recorded to additional paid-in capital was $0.3 million for the year ended December 31, 2005. There was no benefit recorded to additional paid-in capital for the tax benefit related to the exercises of stock options during year ended December 31, 2006 due to our company being subject to alternative minimum taxes.

At December 31, 2006, we had state net operating loss carryforwards of $17.6 million, which begin to expire at the end of 2012, and federal net operating loss carryforwards of $8.9 million, which begin to expire at the end of 2019. At December 31, 2006, we had federal and state minimum tax credit carryforwards of approximately $175,000 and $11,000 which do not expire. In addition, at December 31, 2006, we had $0.7 million of unrecorded deferred tax assets for which a benefit will be recorded in additional paid-in-capital when realized upon future reduction of income tax payable.

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, with the exception of certain state net operating loss carryforwards as noted above. 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.

10. 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). As of December 31, 2006, minimum payments over the terms of applicable contracts were payable as follows (in thousands):

	2007	2008	2009	2010	2011	Thereafter	Total
Operating leases	$ 3,810	$ 2,205	$ 1,569	$ 95	$ —	$ —	$ 7,679
Other commitments	3,617	70	42	—	—	—	3,729
Total minimum payments	$ 7,427	$ 2,275	$ 1,611	$ 95	$ —	$ —	$ 11,408

For the years ended December 31, 2006, 2005 and 2004, total rent expense, net of sublease income, totaled $4.4 million, $4.0 million and $3.9 million. Some of the leases contain renewal options and escalation clauses, and require us to pay taxes, insurance and maintenance costs.

Legal Proceedings

On February 3, 2006, a purported class action lawsuit entitled *Nicole Atkins, et al. v. PC Mall, Inc., et al.* was filed in the Superior Court of California, Los Angeles County. The matter was thereafter submitted to arbitration before JAMS. The potential class consisted of all of the current and former outbound business account executives who worked for our PC Mall Sales subsidiary in California from February 3, 2002 through January 31, 2007. The lawsuit alleged that we improperly classified class members as “exempt” employees in violation of California’s wage and hour laws, that we failed to provide correctly itemized wage statements, and that we failed to provide employees with meal and rest breaks. It asserted that these practices violated various provisions of the California Labor Code and constituted unfair business practices. The Complaint sought unpaid overtime, statutory penalties, interest, attorneys’ fees, punitive damages, restitution and injunctive relief.

On January 31, 2007, we entered into a memorandum of understanding (the “MOU”) to settle the class action lawsuit. Under the MOU, we agreed to pay an aggregate of $1.5 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 plaintiffs’ 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 have 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. While the settlement is subject to court or arbitrator approval, the MOU provides that it is intended to be binding and enforceable upon each of the parties. If the settlement is approved by the court or arbitrator, there will be a resulting judgment that dismisses the case with prejudice against all class members who do not opt out of the settlement.

As a result of the settlement discussed above, we recorded a charge of $1.7 million, which includes the settlement amount and other costs related to the lawsuit, in "Selling, general and administrative expenses" on our Consolidated Statements of Operations for the year ended December 31, 2006.

We are not currently a party to any other material legal proceedings. From time to time, we receive claims of and become subject to consumer protection, employment, intellectual property and other commercial 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.

11. Stockholders' Equity

In July 1996, we announced a plan to repurchase up to 1,000,000 shares of our common stock. The shares may be repurchased from time to time at prevailing market prices, through open market or negotiated transactions, depending upon market conditions. No limit was placed on the duration of the repurchase program. There is no guarantee as to the exact number of shares that 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 determines additional purchases are not warranted. We will finance the repurchase plan with existing working capital. As of December 31, 2006, we have repurchased a cumulative total of 294,200 shares, which includes 254,200 shares repurchased under the program. We have not repurchased any shares of our common stock during 2006, 2005 or 2004.

12. Earnings (Loss) Per Common Share

Basic earnings (loss) per share ("EPS") excludes dilution and is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the reported periods. Diluted EPS reflects the potential dilution that could occur 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 644,000, 1,250,823 and 38,773 for the years ended December 31, 2006, 2005 and 2004 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):

	Income (Loss)	Shares	Per Share Amounts
Year Ended December 31, 2006:			
Basic EPS			
Income from continuing operations	$ 3,956	12,052	$ 0.33
Effect of dilutive securities			
Dilutive effect of stock options and warrants	—	856	
Diluted EPS			
Adjusted loss from continuing operations	$ 3,956	12,908	$ 0.31
Year Ended December 31, 2005:			
Basic EPS			
Loss from continuing operations	$ (1,932)	11,652	$ (0.17)
Effect of dilutive securities			
Dilutive effect of stock options and warrants	—	—	
Diluted EPS			
Adjusted loss from continuing operations	$ (1,932)	11,652	$ (0.17)
Year Ended December 31, 2004:			
Basic EPS			
Income from continuing operations	$ 1,478	11,119	$ 0.13
Effect of dilutive securities			
Dilutive effect of stock options and warrants	—	1,026	
Diluted EPS			
Adjusted income from continuing operations	$ 1,478	12,145	$ 0.12

13. 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. We made a 25% matching contribution for amounts that did not exceed 4% of the participants' annual compensation until March 31, 2004, at which time we terminated the matching provision. During 2004, we incurred approximately $42,000 of expenses related to the 401(k) matching component of this plan.

Stock Warrants and Options Issued to Non-employees

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, of which approximately $0.1 million related to 2005 and $0.3 million related to 2004. The options were still outstanding at December 31, 2006.

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, of which approximately $0.1 million related to 2004. The warrant was still outstanding at December 31, 2006.

14. Comprehensive Income (Loss)

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

	Year Ended December 31,		
	2006	2005	2004
Net income (loss)	$ 3,956	$ (3,713)	$ 1,013
Other comprehensive income (loss):			
Foreign currency translation adjustments	(33)	76	197
Total comprehensive income (loss)	$ 3,923	$ (3,637)	$ 1,210

15. Segment Information

We operate in two reportable segments: (1) a rapid response supplier of technology solutions for businesses, government and educational institutions, as well as consumers, collectively referred to as "Core business" and (2) an online retailer of computer and consumer electronic products under the OnSale.com brand. We allocate our resources to and evaluate the performance of our segments based on operating income. Corporate expenses are included in our measure of segment operating profit (loss) for management reporting purposes.

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

	Core business	OnSale.com	Consolidated
Year Ended December 31, 2006			
Net sales	$ 993,860	$ 11,960	$ 1,005,820
Gross profit	122,402	1,516	123,918
Operating profit (loss)	11,935	(1,517)	10,418
Year Ended December 31, 2005			
Net sales	$ 987,324	$ 9,908	$ 997,232
Gross profit	117,708	859	118,567
Operating profit (loss)	2,453	(2,441)	12
Year Ended December 31, 2004			
Net sales	$ 977,585	$ 735	$ 978,320
Gross profit	126,196	51	126,247
Operating profit (loss)	5,946	(1,405)	4,541

As of December 31, 2006 and 2005, we had total consolidated assets of $204.8 million and $205.2 million. Our management does not have available to them and does not use 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, 2006, 2005 and 2004, 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 net sales in the years ended December 31, 2006, 2005 and 2004.

Our property and equipment are located in the following countries (in thousands):

	At December 31,	
Location:	2006	2005
United States	$ 6,247	$ 7,189
Philippines	1,319	395
Canada	489	832
Property and equipment, net	$ 8,055	$ 8,416

16. Related-Party Transactions

Frank F. Khulusi, our President, Chief Executive Officer and Chairman of the Board of Directors, became a greater than 10% stockholder of eCOST.com in April 2005 as a result of the spin-off of eCOST.com to our stockholders. As a result of his direct and indirect beneficial interests in eCOST.com and us, eCOST.com became our related party.

In April and May 2005, subsequent to the completion of the spin-off of eCOST.com and in connection with its transition from us, AF Services, LLC (formerly AF Services, Inc.) (“AF Services”) entered into a product sales agreement and a consignment and product sales agreement with eCOST.com, providing for the sale by AF Services of inventory items to eCOST.com generally at AF Services’ cost. The consignment and product sales agreement terminated in August 2005 and the product sales agreement, which was extended for an additional month, terminated in September 2005. For the period between April 12, 2005 and December 31, 2005, we had net sales to eCOST.com of $31.6 million.

We also entered into certain other agreements with eCOST.com in conjunction with eCOST.com’s IPO as follows:

Master Separation and Distribution Agreement

The Master Separation and Distribution Agreement contains the key provisions relating to the separation of the eCOST.com business from our other businesses, the general terms and conditions and corporate transactions required to effect eCOST.com’s IPO and the distribution and the general intent of the parties as to how these matters would be undertaken and completed. The Master Separation and Distribution Agreement may be terminated by the mutual consent of eCOST.com and us.

Tax Allocation and Indemnification Agreement

The Tax Allocation and Indemnification Agreement governs the respective rights, responsibilities and obligations of us and eCOST.com after eCOST.com's IPO with respect to tax liabilities and benefits, tax attributes, tax contests and other matters regarding income taxes, non-income taxes and related tax returns. See further discussion of this agreement in Note 3 and in Note 9.

Administrative Services Agreement

Under the Administrative Services Agreement with eCOST.com, as amended in March 2005 to reduce the scope of the services covered by the agreement and the monthly service charge to $19,000, we provided eCOST.com with certain general and administrative services, including but not limited to, the following:

- payroll administration;
- tax return preparation;
- human resources administration;
- product information management;
- catalog advertising production services; and
- accounting and finance services necessary for the preparation of eCOST.com financial statement for the periods through the date of the distribution.

The Administrative Services Agreement terminated on September 1, 2005 in accordance with the terms of the agreement.

Information Technology Systems Usage and Services Agreement

Under the Information Technology Systems Usage and Services Agreement**,** we provided eCOST.com with usage of telecommunications systems and hardware and software systems, information technology services and related support services, including maintaining eCOST.com's management information and reporting systems and hosting its website. As consideration for the services and the usage of the hardware and software systems, eCOST.com paid a monthly fee of $40,000 and provided reimbursement for actual telecommunications systems usage charges. The agreement had a term of two years from eCOST.com's IPO, but either party had the right to terminate the agreement earlier by providing the other party 180 days prior written notice of such termination. On March 1, 2006, eCOST.com notified us that it elected to terminate this agreement effective June 30, 2006 in accordance with its termination rights under the agreement.

Sublease Agreement

Under the Sublease Agreement, eCOST.com leased office space from us located at our corporate headquarters in Torrance, California, of approximately 11,000 square feet at $9,130 monthly base rent. In January 2006, the sublease was increased in rentable square feet to 14,300 at $11,869 monthly base rent. The sublease terminates in September 2007 pursuant to its terms; however, eCOST.com terminated this agreement effective June 30, 2006 in accordance with its termination rights under the agreement.

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PC MALL, INC.
SUPPLEMENTARY DATA

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

	2006			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter(1)
Net sales	$ 234,222	$ 234,119	$ 242,171	$ 295,308
Gross profit	29,431	28,992	31,556	33,939
Net income (loss)	(55)	395	1,908	1,708
Basic and diluted earnings (loss) per common share:				
Basic	$ (0.00)	$ 0.03	$ 0.16	$ 0.14
Diluted	(0.00)	0.03	0.15	0.13

	2005(2)			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net sales	$ 238,374	$ 253,170	$ 244,039	$ 261,649
Gross profit	26,767	28,584	29,493	33,723
Income (loss) from continuing operations	$ (2,985)	$ (553)	$ 229	$ 1,377
Loss from discontinued operation, net of taxes	(1,182)	(599)	—	—
Net income (loss)	$ (4,167)	$ (1,152)	$ 229	$ 1,377
Basic and diluted earnings (loss) per common share from continuing operations:				
Basic	$ (0.26)	$ (0.05)	$ 0.02	$ 0.12
Diluted	(0.26)	(0.05)	0.02	0.11

(1) Includes the results of GMRI, which we acquired on September 7, 2006.
(2) Reflects eCOST.com as a discontinued operation for all periods presented as a result of its spin-off in April 2005.

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, 2006.

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 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

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 2007 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 2007 Annual Meeting of Stockholders and such information is incorporated herein by reference.

A list of our executive officers is included in Part I, Item 1 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. 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 2007 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 2007 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 2007 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 2007 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:

		Page Number
(1)	Financial Statements	See Part II, Item 8, beginning on page 44
(2)	Financial Statement Schedule II – Valuation and Qualifying Accounts for the Years Ended December 31, 2006, 2005 and 2004	See Part IV, Item 15, beginning on page 70
(3)	Exhibits	See Part IV, Item 15, beginning on page 71

PC MALL, INC.

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended December 31, 2006, 2005 and 2004
(in thousands)

	Balance at Beginning of Year	Additions Charged to Operations	Deduction from Reserves	Balance at End of Year
Allowance for doubtful accounts for the years ended:				
December 31, 2006	$ 4,774	$ 4,651	$ (4,795)(a)	$ 4,630
December 31, 2005	2,846	3,851	(1,923)(a)	4,774
December 31, 2004	2,014	2,678	(1,846)(a)	2,846
Reserve for inventory for the years ended:				
December 31, 2006	$ 2,202	$ 1,245	$ (1,831)(b)	$ 1,616
December 31, 2005	2,022	1,675	(1,495)(b)	2,202
December 31, 2004	1,506	1,354	(838)(b)	2,022
Sales returns reserve for the years ended:				
December 31, 2006	$ 3,355	$ 24,469	$ (24,942)(c)	$ 2,882
December 31, 2005	3,415	28,684	(28,744)(c)	3,355
December 31, 2004	2,509	33,744	(32,838)(c)	3,415
Valuation allowance for deferred tax assets for the year ended:				
December 31, 2006	$ —	$ 202	$ —	$ 202

(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.

EXHIBIT INDEX

Exhibit Number	Description
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 (amended as of June 19, 2002) (incorporated herein by reference to Annex A to the Definitive Proxy Statement of PC Mall, Inc. (File No. 0-25790) filed with the Commission on June 24, 2002)
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*	Employment Agreement, dated January 1, 1994, between Creative Computers, Inc. and Daniel J. DeVries (incorporated herein by reference to the 1995 Form S-1)
10.4*	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)
10.7*	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)
10.9	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)
10.12*	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”))
10.14	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”))
10.15	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)
10.16	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)
10.17	Registration Rights Agreement, dated September 1, 2004, between PC Mall, Inc. and eCOST.com, Inc. (incorporated herein by reference to Exhibit 10.59 to the September 8, 2004 Form 8-K)
10.18*	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”))
10.19*	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)
10.20	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	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)
10.22*	Employment Agreement, dated March 22, 2005, between PC Mall, Inc. and Ted Sanders (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 25, 2005 (the "March 25, 2005 Form 8-K"))
10.23*	Summary of Executive Bonus Plan (incorporated herein by reference to Exhibit 10.68 to the December 31, 2004 Form 10-K)
10.24*	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 March 25, 2005 Form 8-K)
10.25	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)
10.26*	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 December 31, 2005 Form 10-K)
10.27*	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)
10.28	Amended and Restated Loan and Security Agreement, dated as of August 1, 2005, by and among PC Mall, Inc., certain subsidiaries of PC Mall, Inc., Wachovia Capital Finance Corporation (Western) and certain other financial institutions (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 8, 2005)
10.29*	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)
10.30	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)
10.31	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)
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10.33*	Summary of Director Compensation Arrangements
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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.

***

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 12, 2007

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

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Frank F. Khulusi and Theodore R. Sanders, and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution and 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.

Signature	Title	Date
/s/ FRANK F. KHULUSI Frank F. Khulusi	Chairman, Chief Executive Officer and President (Principal Executive Officer)	March 12, 2007
/s/ THEODORE R. SANDERS Theodore R. Sanders	Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	March 12, 2007
/s/ THOMAS A. MALOOF Thomas A. Maloof	Director	March 12, 2007
/s/ RONALD B. RECK Ronald B. Reck	Director	March 12, 2007
/s/ PAUL C. HEESCHEN Paul C. Heeschen	Director	March 12, 2007

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EXHIBIT INDEX

Exhibit Number	Description
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 (amended as of June 19, 2002) (incorporated herein by reference to Annex A to the Definitive Proxy Statement of PC Mall, Inc. (File No. 0-25790) filed with the Commission on June 24, 2002)
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*	Employment Agreement, dated January 1, 1994, between Creative Computers, Inc. and Daniel J. DeVries (incorporated herein by reference to the 1995 Form S-1)
10.4*	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)
10.7*	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)
10.9	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)
10.12*	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"))
10.14	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"))
10.15	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)
10.16	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)
10.17	Registration Rights Agreement, dated September 1, 2004, between PC Mall, Inc. and eCOST.com, Inc. (incorporated herein by reference to Exhibit 10.59 to the September 8, 2004 Form 8-K)
10.18*	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"))
10.19*	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)
10.20	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	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)
10.22*	Employment Agreement, dated March 22, 2005, between PC Mall, Inc. and Ted Sanders (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 25, 2005 (the "March 25, 2005 Form 8-K"))
10.23*	Summary of Executive Bonus Plan (incorporated herein by reference to Exhibit 10.68 to the December 31, 2004 Form 10-K)
10.24*	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 March 25, 2005 Form 8-K)
10.25	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)
10.26*	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 December 31, 2005 Form 10-K)
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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.

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Summary of Executive Salary and Bonus Arrangements

The table below summarizes the current annual salary and bonus arrangements we have with each of our executive officers, and provides information regarding salary and bonus amounts paid to each of our executive officers in 2006. All of the compensation arrangements we have with our executive officers, including with respect to annual salaries and bonuses, are reviewed and may be modified from time to time by the Compensation Committee of our Board of Directors. The Compensation Committee approved the annual salary and bonus arrangements noted in the table below.

We generally pay bonuses, if any, to our executive officers on a quarterly basis. Certain of our executive officers participate in the executive bonus plan that was adopted by the Compensation Committee on February 9, 2005, a description of which is filed as Exhibit 10.23 to the accompanying Annual Report on Form 10-K. In addition to the bonus arrangements noted in the table below, all of our executive officers are eligible for discretionary bonuses as determined from time to time by the Compensation Committee.

We have written employment arrangements with each of our executive officers, and a copy of each such employment arrangement is filed as an exhibit to the accompanying Annual Report on Form 10-K. The non-salary and bonus components of our compensation arrangements with our executive officers, including with respect to severance, option grants and other benefits, are described in those respective agreements.

Executive Officer	Annual Base Salary	Bonus
Frank F. Khulusi		
Chairman, President and Chief Executive Officer	2007: $800,000(1) 2006: $763,855	2007: (2) 2006: $212,426(3)
Theodore R. Sanders		
Chief Financial Officer	2007: $300,000 2006: $300,000	2007: (2) 2006: $67,083
Kristin M. Rogers		
Executive Vice President—Sales	2007: $300,000(4) 2006: $295,587	2007: (2) 2006: $79,047
Daniel J. DeVries		
Executive Vice President—Marketing	2007: $257,500 2006: $257,500	2007: (2) 2006: $ 48,145
Robert I. Newton		
General Counsel	2007: $250,000 2006: $250,000	2007: (5) 2006: $ 77,500

(1) On October 28, 2004, the Compensation Committee increased Mr. Khulusi's annual base salary from $600,000 to $800,000. In May 2005, Mr. Khulusi voluntarily elected to reduce his annual base compensation from $800,000 to $600,000. On March 1, 2006, the Compensation Committee restored the annual base salary of Mr. Khulusi back to $800,000. No other terms of Mr. Khulusi's employment arrangements were modified.
(2) Messrs. Khulusi, Sanders and DeVries and Ms. Rogers are eligible to participate in our executive bonus plan, pursuant to which a bonus pool is determined based upon the achievement of specified quantitative criteria and allocated in the discretion of the Compensation Committee.
(3) Messr. Khulusi elected to not receive his bonus relating to the quarters ended March 31, 2006 and June 30, 2006 in the amount of $13,718 and $38,228, and elected to receive only half of his $111,910 bonus relating to the quarter ended September 30, 2006 in the amount of $55,955. As such, Messr. Khulusi was not paid a total of $107,901.
(4) On January 31, 2006, the Compensation Committee increased Ms. Rogers' annual base salary from $257,500 to $300,000 effective February 1, 2006. No other terms of Ms. Rogers' employment arrangements were modified.
(5) Mr. Newton is eligible for an annual bonus of up to $50,000, as well as for discretionary bonuses as determined from time to time by the Compensation Committee.

EXHIBIT 10.33

Summary of Director Compensation Arrangements

We currently pay each director who is not employed by us or any of our affiliates (i.e., all of our directors except for our Chairman, Frank F. Khulusi) a quarterly retainer of $6,000, $2,500 for each regular board meeting attended in person or telephonically, $1,000 for each special board meeting attended in person or telephonically, $1,000 for each committee meeting attended in person, and $500 for each committee meeting attended telephonically. We also pay the chairperson of the Audit Committee of our Board of Directors an additional annual retainer of $12,500 (paid quarterly) for serving in such capacity. Directors who are employed by us or any of our affiliates are not paid any additional compensation for their service on our Board of Directors. We reimburse each of our directors for reasonable out-of-pocket expenses that they incur in connection with attending board or committee meetings. We have entered into indemnification agreements, a form of which is attached as an exhibit to the accompanying Annual Report on Form 10-K, with each of our directors.

Our directors are also eligible to participate in our 1994 Stock Incentive Plan, as amended, which is administered by our Compensation Committee under authority delegated by our Board of Directors. The terms and conditions of option grants to our non-employee directors under our 1994 Stock Incentive Plan, as amended, are determined in the discretion of our Compensation Committee, and must be consistent with the terms of the 1994 Stock Incentive Plan, as amended, which is filed as an exhibit to the accompanying Annual Report on Form 10-K.

The compensation arrangements we have with our directors are reviewed and may be modified from time to time by our Board of Directors.

EXHIBIT 21.1

PC MALL, INC.

SUBSIDIARIES OF THE REGISTRANT
As of December 31, 2006

Following are the subsidiaries of PC Mall, Inc., other than those which if considered in the aggregate as a single subsidiary would not constitute a significant subsidiary, and the state or other jurisdiction in which each subsidiary was incorporated or organized.

SUBSIDIARIES	JURISDICTION OF INCORPORATION
AF Services, LLC	Delaware
Onsale, Inc.	Delaware
OSRP, LLC	Delaware
PC Mall Canada, Inc.	Quebec
PC Mall Gov, Inc. (1)	Delaware
PC Mall Sales, Inc.	California
Wareforce Corp. (2)	Delaware

(1) On September 7, 2006, PC Mall Gov, Inc., through GMR Systems, Inc., a wholly-owned subsidiary, acquired the products business from Government Micro Resources, Inc. As a result, PC Mall Gov also conducts its business from time-to-time under the name PC Mall Gov, Inc. dba GMRI.

(2) Previously WF Acquisition Sub, Inc. Effective December 1, 2005, CCIT, Inc. merged with WF Acquisition Sub, Inc. and the name of the combined entity was changed to Wareforce Corp.

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-00848, No. 333-76851, No. 333-79337, No. 333-82257, No. 333-38860, No. 333-66068, No. 333-105620, No. 333-120708 and No. 333-133003) of PC Mall, Inc. (formerly IdeaMall, Inc. and Creative Computers, Inc.) of our report dated March 2, 2007 relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Los Angeles, California
March 12, 2007

PC MALL, INC.

CERTIFICATION

I, Frank F. Khulusi, certify that:

1. I have reviewed this Annual Report on Form 10-K of PC Mall, Inc.;

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 12, 2007

/s/ Frank F. Khulusi

Frank F. Khulusi
Chief Executive Officer

EXHIBIT 31.2

PC MALL, INC.

CERTIFICATION

I, Theodore R. Sanders, certify that:

1. I have reviewed this Annual Report on Form 10-K of PC Mall, Inc.;

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 12, 2007

/s/ Theodore R. Sanders

Theodore R. Sanders
Chief Financial Officer

EXHIBIT 32.1

PC MALL, INC.

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

In connection with the Annual Report of PC Mall, Inc. (the “Company”) on Form 10-K for the fiscal year ended December 31, 2006 as filed with the Securities and Exchange Commission (the “Report”), I, Frank F. Khulusi, Chief Executive Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods indicated.

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

March 12, 2007

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

EXHIBIT 32.2

PC MALL, INC.

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

In connection with the Annual Report of PC Mall, Inc. (the "Company") on Form 10-K for the fiscal year ended December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Theodore R. Sanders, Chief Financial Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods indicated.

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

March 12, 2007

/s/ Theodore R. Sanders
Theodore R. Sanders
Chief Financial Officer