UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from to

Commission File Number: 0-25790

PCM, INC.
(Exact name of registrant as specified in its charter)

Delaware	**95-4518700**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1940 E. Mariposa Avenue
El Segundo, California 90245
(Address of principal executive offices)

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

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

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

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

Large accelerated filer [ ]	Accelerated filer [X]
Non-accelerated filer [ ]	Smaller reporting company [ ]

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

As of November 4, 2016, the registrant had 11,849,983 shares of common stock outstanding.

PCM, INC.

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PCM, INC.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,940	$ 11,176
Accounts receivable, net of allowances of $1,018 and $558	377,764	341,018
Inventories	79,014	55,386
Prepaid expenses and other current assets	23,804	17,880
Deferred income taxes	3,559	4,425
Asset held for sale	5,812	5,812
Total current assets	499,893	435,697
Property and equipment, net	55,101	56,774
Goodwill	81,434	80,552
Intangible assets, net	16,571	20,807
Deferred income taxes	805	939
Other assets	4,744	5,404
Total assets	$ 658,548	$ 600,173
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 280,864	$ 201,524
Accrued expenses and other current liabilities	67,172	51,580
Deferred revenue	16,043	11,455
Line of credit	121,689	162,439
Notes payable — current	3,975	12,912
Note payable related to asset held for sale	4,651	4,799
Current liabilities of discontinued operations	149	153
Total current liabilities	494,543	444,862
Notes payable	27,325	21,454
Other long-term liabilities	10,175	20,289
Deferred income taxes	4,123	4,053
Total liabilities	536,166	490,658
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value; 5,000,000 shares authorized; none issued and outstanding	—	—
Common stock, $0.001 par value; 30,000,000 shares authorized; 16,311,374 and 16,007,613 shares issued; 11,813,009 and 11,914,946 shares outstanding	16	16
Additional paid-in capital	126,081	122,932
Treasury stock, at cost: 4,498,365 and 4,092,667 shares	(26,934)	(23,326)
Accumulated other comprehensive loss	(322)	(765)
Retained earnings	23,541	10,658
Total stockholders' equity	122,382	109,515
Total liabilities and stockholders' equity	$ 658,548	$ 600,173

See Notes to the Condensed Consolidated Financial Statements.

PCM, INC.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
Net sales	$ 584,937	$ 404,933	$ 1,663,960	$ 1,179,763
Cost of goods sold	502,282	344,790	1,427,999	1,018,549
Gross profit	82,655	60,143	235,961	161,214
Selling, general and administrative expenses	71,955	59,187	210,377	164,615
Operating profit (loss)	10,700	956	25,584	(3,401)
Interest expense, net	1,598	1,018	4,533	2,661
Income (loss) from continuing operations before income taxes	9,102	(62)	21,051	(6,062)
Income tax expense (benefit)	3,781	421	8,168	(2,230)
Income (loss) from continuing operations	5,321	(483)	12,883	(3,832)
Loss from discontinued operations, net of taxes	—	(302)	—	(259)
Net income (loss)	$ 5,321	$ (785)	$ 12,883	$ (4,091)
Basic and Diluted Earnings (Loss) Per Common Share				
Basic EPS:				
Income (loss) from continuing operations	$ 0.45	$ (0.04)	$ 1.09	$ (0.32)
Loss from discontinued operations, net of taxes	—	(0.03)	—	(0.02)
Net income (loss)	$ 0.45	$ (0.07)	$ 1.09	$ (0.34)
Diluted EPS:				
Income (loss) from continuing operations	$ 0.43	$ (0.04)	$ 1.04	$ (0.32)
Loss from discontinued operations, net of taxes	—	(0.03)	—	(0.02)
Net income (loss)	$ 0.43	$ (0.07)	$ 1.04	$ (0.34)
Weighted average number of common shares outstanding:				
Basic	11,722	11,976	11,807	12,101
Diluted	12,503	11,976	12,398	12,101

See Notes to the Condensed Consolidated Financial Statements.

PCM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(unaudited, in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income (loss)	$ 5,321	$ (785)	$ 12,883	$ (4,091)
Comprehensive income (loss):				
Foreign currency translation adjustments	(221)	(624)	443	(1,323)
Total other comprehensive income (loss)	(221)	(624)	443	(1,323)
Comprehensive income (loss)	$ 5,100	$ (1,409)	$ 13,326	$ (5,414)

See Notes to the Condensed Consolidated Financial Statements.

PCM, INC.

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

	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Cash Flows From Operating Activities		
Net income (loss)	$ 12,883	$ (4,091)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	11,922	9,085
Write-off of software work in process	—	3,327
Provision for deferred income taxes	1,034	(365)
Excess tax benefit related to stock option exercises	(392)	(207)
Non-cash stock-based compensation	1,457	1,220
Change in operating assets and liabilities:		
Accounts receivable	(36,824)	(99,627)
Inventories	(23,699)	8,154
Prepaid expenses and other current assets	(5,807)	(7,401)
Other assets	1,225	1,211
Accounts payable	90,517	67,602
Accrued expenses and other current liabilities	16,215	9,668
Deferred revenue	4,588	5,119
Total adjustments	60,236	(2,214)
Net cash provided by (used in) operating activities	73,119	(6,305)
Cash Flows From Investing Activities		
Acquisition of assets of En Pointe	—	(17,295)
Acquisition of assets of Systemax	(400)	—
Acquisition of Acrodex	(93)	—
Purchases of property and equipment	(5,057)	(19,666)
Net cash used in investing activities	(5,550)	(36,961)
Cash Flows From Financing Activities		
Net borrowings (payments) under line of credit	(40,750)	30,055
Borrowings under notes payable	525	17,695
Payments under notes payable	(3,739)	(3,451)
Change in book overdraft	(11,180)	12,721
Payments of obligations under capital leases	(1,832)	(1,803)
Payments of earn-out liability	(9,820)	(5,443)
Net proceeds from stock issued under stock option plans	1,662	596
Payments for deferred financing costs	(655)	(653)
Common shares repurchased and held in treasury	(3,608)	(5,555)
Excess tax benefit related to stock option exercises	392	207
Net cash provided by (used in) financing activities	(69,005)	44,369
Effect of foreign currency on cash flow	200	(1,044)
Net change in cash and cash equivalents	(1,236)	59
Cash and cash equivalents at beginning of the period	11,176	8,892
Cash and cash equivalents at end of the period	$ 9,940	$ 8,951
Supplemental Cash Flow Information		
Interest paid	$ 3,925	$ 2,557
Income taxes paid (refund), net	3,497	(2,922)
Supplemental Non-Cash Investing and Financing Activities		
Earn-out liability	$ —	$ 32,500
Financed purchase of property and equipment	795	1,035

See Notes to the Condensed Consolidated Financial Statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation and Description of Company

PCM, Inc. is a leading multi-vendor provider of technology products, services and solutions offered through our dedicated sales force, field and internal service teams, direct marketing channels and state of the art owned and operated data centers. Since our founding in 1987, we have served our customers by offering products and services from vendors such as Adobe, Apple, Cisco, Dell, Hewlett Packard Enterprise, HP Inc., Lenovo, Microsoft, Oracle, Samsung, Symantec and VMware. We add additional value by incorporating products and services into comprehensive solutions. Our sales and marketing efforts allow our vendor partners to reach multiple customer segments including small, medium and enterprise businesses, state, local and federal governments and educational institutions.

We have prepared the unaudited condensed consolidated financial statements included herein pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and in conformity with accounting principles generally accepted in the United States of America, or GAAP, which requires us to make estimates and assumptions that affect amounts reported herein. We base our estimates and assumptions on historical experience and on various other factors that we believe to be reasonable under the circumstances. Due to the inherent uncertainty involved in making estimates, our actual results reported in future periods may be affected by changes in those estimates. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations for interim financial reporting. In the opinion of management, all adjustments, consisting only of normal recurring items which are necessary for a fair presentation, have been included. The results for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the full year. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC.

We sell primarily to customers in the United States and Canada, and maintain offices in the United States and Canada, as well as in Manila, Philippines. During the three months ended September 30, 2016, we generated approximately 79% of our revenue in our Commercial segment, 15% of our revenue in our Public Sector segment and 6% of our revenue in our Canada segment. During the nine months ended September 30, 2016, we generated approximately 77% of our revenue in our Commercial segment, 16 % of our revenue in our Public Sector segment and 7% of our revenue in our Canada segment.

Our Commercial segment sells complex products, services and solutions to commercial businesses in the United States, using multiple sales channels, including a field relationship-based selling model, an outbound phone based sales force, a field services organization and online extranets.

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

Our Canada segment consists of sales made to customers in the Canadian market beginning as of the respective dates of our acquisition of Acrodex and certain assets of Systemax in October and December 2015, respectively.

In February 2016, we transitioned out nearly the entire management overhead of our MacMall business, thinned out its cost structure and brought it under the management and supervision of our Commercial segment. Also, in connection with our acquisitions of Acrodex and certain assets of Systemax’s North American Technology Group in the fourth quarter of 2015 and our resulting entrance into selling products, services and solutions in the Canadian market, we formed a new operating segment called Canada. This segment includes our operations related to these Canadian market activities, beginning as of the respective dates of these acquisitions. As a result, beginning in 2016, we have the following three operating segments: Commercial, Public Sector and Canada.

We discontinued the operation of all four of our retail stores, located in Huntington Beach, Santa Monica and Torrance, California and Chicago, Illinois, and our OnSale and eCost businesses in 2014. We reflected the results of these operations, which were historically reported as a part of our MacMall segment, as discontinued operations for all periods presented herein in our Consolidated Balance Sheets and Consolidated Statements of Operations.

2. New Accounting Standards

In August 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments," which aims to eliminate the diversity in practice related to classification of eight types of cash flows. ASU 2016-15 is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We are currently evaluating the effects that the adoption of ASU 2016-15 will have on our consolidated financial statements.

In March, 2016, the FASB issued ASU No. 2016-09, "Compensation – Stock Compensation (Topic 718) - Improvements to Employee Share-Based Accounting," which simplifies several aspects of accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory state tax withholding requirements, as wells as classification in statement of cash flows. ASU 2016-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is permitted as of the beginning of an interim or annual reporting period. We are currently evaluating the effects that the adoption of ASU 2016-09 will have on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-08, "Revenue from Contracts with Customers (Topic 606) – Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," which amends the principal-versus-agent implementation guidance and illustration in the Board's revenue standard (ASC 606). In April 2016, the FASB issued ASU No. 2016-10, "Revenue from Contracts with Customers (Topic 606) – Identifying Performance Obligations and Licensing," including updates which are intended to reduce the cost and complexity of applying guidance on identifying promised goods and services under ASC 606. In May 2016, the FASB issued ASU No. 2016-12, "Revenue from Contracts with Customers (Topic 606) – Narrow-Scope Improvements and Practical Expedients," which clarifies certain narrow aspects of Topic 606 such as assessing the collectability criterion, presentation of sales taxes and other similar taxes collected from customers, noncash consideration, contract modifications at transition, completed contracts at transition, and technical correction. ASUs 2016-08, 2016-10 and 2016-12 have the same effective date as the new revenue standard, as amended by a one-year deferral and early adoption provision in ASU 2015-14. See discussion of ASU 2015-14 below. We are required to adopt ASU 2016-08 using the same transition method as elected for ASU 2015-14. We are currently evaluating the effects that the adoption of these ASUs will have on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" which requires lessees to recognize right-of-use assets and lease liability, initially measured at present value of the lease payments, on its balance sheet for leases with terms longer than 12 months and classified as either financing or operating leases. ASU 2016-02 requires a modified retrospective transition approach for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, and provides certain practical expedients that companies may elect. ASU 2016-02 is effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are currently evaluating the effects that the adoption of ASU 2016-02 will have on our consolidated financial statements.

In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date," which defers the effective date of ASU 2014-09, "Revenues from Contracts with Customers (Topic 606)," for all entities for one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods with that reporting period. Retrospective or modified retrospective application of the accounting standard is required. We are evaluating the impact of the standard on our consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, "Consolidation," which amends the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. ASU 2015-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. We adopted ASU 2015-02 effective January 1, 2016 and it did not have an effect on our consolidated financial statements.

In January 2015, the FASB issued ASU 2015-01, "Income Statement - Extraordinary and Unusual Items," with the objective of simplifying income statement presentation requirements by eliminating the concept of extraordinary items from GAAP, but retaining current presentation and disclosure requirements for an event or transaction that is of an unusual nature or of a type that indicates infrequency of occurrence. ASU 2015-01 is effective prospectively for fiscal years and interim periods within those fiscal years, beginning after December 15, 2015. We adopted ASU 2015-01 effective January 1, 2016 and it did not have an effect on our consolidated financial statements.

There have been no other material changes or additions to the recently issued accounting standards as previously reported in Note 2 to our Consolidated Financial Statements in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2015 that materially affected or may materially affect our financial statements.

3. Acquisitions

Systemax

On December 1, 2015, we completed the acquisition of certain Business to Business (B2B) assets of Systemax's North American Technology Group (NATG) for $14 million in cash. As of September 30, 2016, there has been no change from December 31, 2015 on the preliminary accounting for the Systemax asset acquisition and the related purchase price allocation. We continue to obtain information relative to the fair values of certain assets acquired and certain liabilities assumed in the transaction. We expect to finalize the final fair value determination and purchase price allocation for the Systemax asset acquisition as soon as practicable but within a year of the closing of the acquisition.

In January 2016, we exercised an option in our purchase agreement and paid $0.4 million related to our purchase of additional customer list information, which was recorded as an increase to goodwill associated with the Systemax assets acquisition.

Acrodex

On October 26, 2015, PCM Sales Canada, Inc., a wholly-owned subsidiary of PCM, Inc., completed the acquisition of all the outstanding common stock of Acrodex, Inc. ("Acrodex") for a total purchase price of approximately C$16.7 million (or $13.6 million, net of cash acquired). In March 2016 and June 2016, we paid an additional $0.2 million and $0.1 million, respectively, related to adjustments to the net asset value as defined in the agreement, which was recorded as an increase to goodwill resulting from the Acrodex acquisition. As of September 30, 2016, we have finalized the final fair value determination and purchase price allocation for the Acrodex acquisition, and there has been no other change from December 31, 2015 on the preliminary accounting for the Acrodex acquisition and the related purchase price allocation.

En Pointe

As part of our acquisition of certain assets of En Pointe in April 2015, we agreed to pay certain contingent earn-out consideration, including 22.5% of the future adjusted gross profit of the business and 10% of certain service revenues over the three years following the closing of the acquisition. As of September 30, 2016 and December 31, 2015, we have estimated that the fair value of contingent consideration to be paid throughout the earn-out period ending March 31, 2018 to be approximately $38.6 million, reflecting no change to the fair value of this contingent consideration during the nine months ended September 30, 2016.

During the three and nine months ended September 30, 2016, we made $3.9 and $9.8 million, respectively, of earn-out payments to the sellers of En Pointe. As of September 30, 2016, we had $13.2 million and $6.6 million of accrued earn-out liability included in "Accrued expenses and other current liabilities" and "Other long-term liabilities," respectively, on our Condensed Consolidated Balance Sheets. As of December 31, 2015, we had $13.2 million and $16.5 million of accrued earn-out liability included in "Accrued expenses and other current liabilities" and "Other long-term liabilities," respectively, on our Condensed Consolidated Balance Sheets.
Following the completion of the acquisition on April 1, 2015, we fully integrated the operations of En Pointe into various areas of our business by the end of the second quarter of 2015 and it became impracticable to compute En Pointe's operating profit included in our results of operations for periods thereafter.

The following table sets forth our results of operations on a pro forma basis as though the En Pointe acquisition had been completed as of the beginning of the period presented (in thousands, except per share amounts):

	Nine Months Ended September 30, 2015
Net sales	$ 1,297,790
Operating loss	(2,450)
Loss from continuing operations	(3,281)
Net loss	(3,540)
Basic and Diluted Loss Per Common Share	
Basic	$ (0.29)
Diluted	(0.29)
Weighted average number of common shares outstanding:	
Basic	12,101
Diluted	12,101

4. Property and Equipment

In September 2015, we listed our real property located in Irvine, California (the "Irvine Property") for sale. The Irvine Property includes approximately 60,000 square feet of office and warehouse space and land. Under a broker agreement, the Irvine Property was available for immediate sale in its present condition. As of September 30, 2016, we classified $5.8 million related to the Irvine Property, stated at lower of cost or fair value, as "Property held for sale" and $4.7 million related to the mortgage on the Irvine Property as "Note payable related to asset held for sale" on our Condensed Consolidated Balance Sheet.

On April 27, 2016, we entered into an agreement with Spigen, Inc. (the "Buyer") to sell the Irvine Property for approximately $13.2 million. The parties agreed to a 60-day escrow period. On June 23, 2016, we received notice of escrow cancellation from the Buyer effective immediately. As a result of the cancellation, the Buyer forfeited a non-refundable deposit of $300,000, which was released to us as liquidated damages in accordance with the agreement and we recorded it as part of "Selling, general and administrative expenses" on our Condensed Consolidated Statements of Operations for the nine months ended September 30, 2016. The Irvine Property is available for sale.

5. Goodwill and Intangible Assets

Goodwill

The change in the carrying amounts of goodwill was as follows by segment (in thousands):

	Commercial	Public Sector	Canada	Total
Balance at December 31, 2015	$ 69,335	$ 8,322	$ 2,895	$ 80,552
Goodwill related to Acrodex acquisition	—	—	329	329
Goodwill related to Systemax asset acquisition	400	—	—	400
Foreign currency translation	—	—	153	153
Balance at September 30, 2016	$ 69,735	$ 8,322	$ 3,377	$ 81,434

Intangible Assets

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

	Weighted Average Estimated Useful Lives (years)	At September 30, 2016			At December 31, 2015		
		Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Patent, trademarks, trade names & URLs	4	$ 7,705(1)	$ 1,590	$ 6,115	$ 7,675(1)	$ 585	$ 7,090
Customer relationships	15	13,425	4,519	8,906	13,299	1,587	11,712
Non-compete agreements	4	2,366	816	1,550	2,354	349	2,005
Total intangible assets		$ 23,496	$ 6,925	$ 16,571	$ 23,328	$ 2,521	$ 20,807

(1) Includes $2.9 million of trademarks with indefinite useful lives that are not amortized.

Amortization expense for intangible assets was approximately $1.4 million and $0.4 million for the three months ended September 30, 2016 and 2015 and $4.4 million and $0.9 million for the nine months ended September 30, 2016 and 2015. Estimated amortization expense for intangible assets in each of the next five years and thereafter is as follows as of September 30, 2016: $1.4 million in the remainder of 2016, $4.1 million in 2017, $3.0 million in 2018, $1.8 million in 2019 and $3.3 million thereafter.

6. Discontinued Operations

During 2014, we discontinued the operation of all four of our retail stores, located in Huntington Beach, Santa Monica and Torrance, California and Chicago, Illinois, and our OnSale and eCost businesses. We reflected the results of these operations, which were historically reported as a part of our MacMall segment, as discontinued operations for all periods presented herein. The revenues, operating and non-operating results of the discontinued operations are reflected in a single line item entitled "Loss from discontinued operations, net of taxes" on our Condensed Consolidated Statements of Operations, and the related liabilities are presented in our Condensed Consolidated Balance Sheets in a line item entitled "Current liabilities of discontinued operations" for all periods presented herein.

The carrying amounts of major classes of liabilities that have been included in such balance sheet line item, as described above, in our Condensed Consolidated Balance Sheets were as follows (in thousands):

	September 30, 2016	December 31, 2015
Accounts payable	$ 114	$ 117
Accrued expenses and other current liabilities	35	36
Current liabilities of discontinued operations	$ 149	$ 153

The operating results of our discontinued operations reported in "Loss from discontinued operations, net of taxes" in our Condensed Consolidated Statements of Operations were as follows (in thousands):

	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
Net sales	$ 3	$ (4)
Loss before income taxes	$ (488)	$ (410)
Income tax benefit	(186)	(151)
Loss from discontinued operations, net of taxes	$ (302)	$ (259)

7. Debt

The following table sets forth our outstanding debt as of the periods presented (in thousands):

	September 30, 2016	December 31, 2015
Revolving credit facility, LIBOR plus 1.50%, maturing in March 2019	$ 121,689(1)	$ 162,439(1)
Note payable, LIBOR plus 1.50%, maturing in March 2019	8,682	9,848
Note payable, LIBOR plus 1.50%, maturing in March 2019	1,457	1,653
Note payable, greater of 2% or LIBOR plus 2.15%, maturing in April 2022	4,651(2)	4,799(2)
Note payable, LIBOR plus 2.25%, maturing in January 2022	4,194	4,365
Notes payable, 4.12%, 4.33% and 4.60%, maturing in March 2017	1,044	2,569
Note payable, LIBOR plus 2.25%, maturing in January 2020	7,184	7,416
Note payable, Prime plus 0.375% or LIBOR plus 2.375%, maturing in November 2017	8,213	8,515
Other note payable, maturing in August 2018	526	—
Total	157,640	201,604
Less: Total current debt	130,315	180,150
Total non-current debt	$ 27,325	$ 21,454

(1) The outstanding balance on our revolving credit facility, which matures in March 2019, has been included as part of current debt to match the presentation on our Condensed Consolidated Balance Sheet.

(2) This note payable, related to the Irvine Property, has been presented on our Condensed Consolidated Balance Sheet as "Note payable related to asset held for sale" and is included as current debt. See Note 4 above for more information regarding the Irvine Property.

The following table sets forth the maturities of our outstanding debt balance as of September 30, 2016 (in thousands):

	Remainder of 2016	2017	2018	2019	2020	Thereafter	Total
Total long-term debt obligations	$ 1,433	$ 15,768	$ 2,529	$ 8,534	$ 1,968	$ 5,719	$ 35,951
Revolving credit facility	—	121,689	—	—	—	—	121,689
Total	$ 1,433	$ 137,457	$ 2,529	$ 8,534	$ 1,968	$ 5,719	$ 157,640

Line of Credit and Related Notes

We maintain a credit facility, which functions as a working capital line of credit with a borrowing base of inventory and accounts receivable, including certain credit card receivables, and a portion of the value of certain real estate. On January 19, 2016, we entered into a Fourth Amended and Restated Loan and Security Agreement (the "Fourth Amended Loan Agreement") with certain lenders and Wells Fargo Capital Finance, LLC as administrative and collateral agent (the "Lenders"). On July 7, 2016, we entered into a First Amendment to the Fourth Amended Loan Agreement (the "First Amendment") with the Lenders.

The terms of our credit facility provide for (i) a Maximum Credit, as defined in the credit facility, of $290,000,000; (ii) a sub-line of up to C$40,000,000 as the Canadian Maximum Credit ((i) and (ii) collectively the "Revolving Line"); (iii) a Maturity Date of March 19, 2019; (iv) interest on outstanding balance under the Canadian Maximum Credit based on the Canadian Base Rate (calculated as the greater of CDOR plus one percentage point and the "prime rate" for Canadian Dollar commercial loans, as further defined in the Fourth Amended Loan Agreement) or at the election of the Borrowers, based on the CDOR Rate, plus a margin, depending on average excess availability under the Revolving Line, ranging from 1.50% to 1.75%; and (v) interest on outstanding balance under the Maximum Credit based on the Eurodollar Rate plus a margin, depending on average excess availability under the revolving line, ranging from 1.50% to 1.75%. The credit facility also includes a monthly unused line fee of 0.25% per year on the amount, if any, by which the Maximum Credit, then in effect, exceeds the average daily principal balance of outstanding borrowings during the immediately preceding month.

The credit facility is collateralized by substantially all of our assets. In addition to the security interest required by the credit facility, certain of our vendors have security interests in some of our assets related to their products. The credit facility has as its single financial covenant a minimum fixed charge coverage ratio (FCCR) requirement in the event an FCCR triggering event has occurred. An FCCR triggering event is comprised of maintaining certain specified daily and average excess availability thresholds. In the event the FCCR covenant applies, the fixed charge coverage ratio is 1.0 to 1.0 calculated on a trailing four-quarter basis as of the end of the last quarter immediately preceding such FCCR triggering event date. At September 30, 2016, we were in compliance with our financial covenant under the credit facility.

Loan availability under the line of credit fluctuates daily and is affected by many factors, including eligible assets on-hand, opportunistic purchases of inventory and availability and our utilization of early-pay discounts. At September 30, 2016, we had $125.2 million available to borrow for working capital advances under the line of credit.

In connection with, and as part of, our revolving credit facility, we maintain two sub-lines under our revolving credit facility secured by the two parcels of real property we own in Santa Monica, California, each with a limit of $9.8 million and $1.7 million, as provided by the Fourth Amended Loan Agreement. The $9.8 million sub-line has a monthly principal amortization of $129,583 and the $1.7 million sub-line has a monthly principal amortization of $21,750, both bearing interest at the same rate as our revolving credit facility.

Also on July 7, 2016, we entered into a Credit Agreement with Castle Pines Capital LLC ("Castle Pines"), which provides for a credit facility ("Channel Finance Facility") to finance the purchase of inventory from a list of approved vendors. The aggregate availability under the Channel Finance Facility is variable and discretionary, but has initially been set at $35 million. Each advance under the Channel Finance Facility will be made directly to an approved vendor and must be repaid on the earlier of (i) the payment due date as set by Castle Pines or (ii) the date (if any) when the inventory is lost, stolen or damaged. No interest accrues on advances paid on or prior to payment due date. The Channel Finance Facility is secured by a lien on certain of our assets, subject to an intercreditor arrangement with the Lenders. The Channel Finance Facility has an initial term of one year, but shall be automatically renewed for one year periods from year to year thereafter unless terminated earlier by either party within reasonable notice periods.

Other Notes Payable

In March 2015, we completed the purchase of real property in Irvine, California for approximately $5.8 million and financed $4.9 million with a long-term note. The loan agreement provides for a seven year term and a 25 year straight-line, monthly principal repayment amortization period that began on May 1, 2015 with a balloon payment at maturity in April 2022. The loan is secured by the real property and contains financial covenants substantially similar to those of our existing asset-based credit facility. In September 2015, we listed the Irvine Property for sale. See Note 4 above for more information.

In January 2015, we completed the purchase of certain real property in Lewis Center, Ohio for approximately $6.6 million and financed $4.575 million with a long-term note. The $4.575 million term note provides for a seven year term and a 25 year straight-line, monthly principal repayment amortization period that began in February 2015 with a balloon payment at maturity in January 2022. The loan is secured by the real property and contains financial covenants substantially similar to those of our existing asset-based credit facility.

Throughout 2014, we entered into three financing arrangements with a bank to finance the costs of equipment, software and professional services related to our ERP upgrade. The total amount financed was $5.6 million, with a quarterly repayment schedule maturing in March 2017.

In December 2012, we completed the purchase of 7.9 acres of land for approximately $1.1 million and have incurred additional costs of $12.2 million through December 31, 2014 towards the construction of a new cloud data center that we opened in June 2014. In July 2013, we entered into a loan agreement for up to $7.725 million to finance the build out of the new data center. The loan agreement provides for a five year term and a 25 year straight-line, monthly principal repayment amortization period with a balloon payment at maturity in January 2020. The loan is secured by the real property and contains financial covenants substantially similar to those of our existing asset-based credit facility.

In June 2011, we entered into a credit agreement to finance a total of $10.1 million of the acquisition and improvement costs for the real property we purchased in March 2011 in El Segundo, California. The credit agreement provides for a five year term and a 25 year straight-line, monthly principal repayment amortization period with a balloon payment at maturity in September 2016. In August 2016, we entered into an amendment with the lender extending the term of the loan to November 30, 2017. The loan is secured by the real property and contains financial covenants substantially similar to those of our existing asset-based credit facility.

At September 30, 2016, the effective weighted average annual interest rate on our outstanding amounts under the credit facility, term note and variable interest rate notes payable was 2.16%.

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

8. Income Taxes

We determine our interim income tax provision by applying our effective income tax rate expected to be applicable for the full fiscal year to pre-tax income (loss) for the interim periods.

Accounting for Uncertainty in Income Taxes

At September 30, 2016 and December 31, 2015, we had unrecognized tax benefits of $0.5 million and $0.4 million, respectively, related to research credits. For the three and six months ended September 30, 2016 and 2015, we did not recognize any interest or penalties for uncertain tax positions, nor were there any interest or penalties accrued at September 30, 2016 and December 31, 2015. We do not anticipate any significant increases or decreases in our unrecognized tax benefits within the next twelve months.

We are subject to U.S. and foreign income tax examinations for years subsequent to 2012, and state income tax examinations for years following 2010. However, to the extent allowable by law, the tax authorities may have a right to examine prior periods when net operating losses or tax credits were generated and carried forward for subsequent utilization, and make adjustments up to the amount of the net operating losses or credit carryforwards.

9. Stockholders' Equity

We have a board approved discretionary stock repurchase program under which shares may be repurchased from time to time at prevailing market prices, through open market or unsolicited negotiated transactions, depending on market conditions. In April 2015, our Board of Directors approved a $10 million increase to our discretionary stock repurchase program, which was originally adopted in October 2008 with an initial authorized maximum of $10 million and amended in September 2012 to add an additional $10 million. Under the program, the shares may be repurchased from time to time at prevailing market prices, through open market or unsolicited negotiated transactions, depending on market conditions. We expect that the repurchase of our common stock under the program will be financed with existing working capital and amounts available under our existing credit facility. The repurchased shares are held as treasury stock. No limit was placed on the duration of the repurchase program. There is no guarantee as to the exact number of shares that we will repurchase. Subject to applicable securities laws, repurchases may be made at such times and in such amounts as our management deems appropriate. The program can also be discontinued at any time management feels additional purchases are not warranted.

We did not repurchase any shares of our common stock under this program during the three months ended September 30, 2016. We repurchased a total of 405,698 shares of our common stock under this program during the nine months ended September 30, 2016 for a total cost of approximately $3.5 million. From the inception of the program in October 2008 through September 30, 2016, we have repurchased an aggregate of 4,081,687 shares of our common stock for a total cost of $25.9 million. At September 30, 2016, we had $4.1 million available in stock repurchases under the program, subject to any limitations that may apply from time to time under our existing credit facility.

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.

10. Earnings (Loss) Per Share

Basic earnings (loss) per share ("EPS") 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. For the three and nine months ended September 30, 2016, approximately 2,000 and 516,000 common shares, respectively, have been excluded from the calculation of diluted EPS because the effect of their inclusion would have been antidilutive. For the three and nine months ended September 30, 2015, since we reported a loss from continuing operations, all potential shares totaling 499,000 and 572,000, respectively, were excluded from the computation of diluted EPS as their inclusion would have been antidilutive. For the three and nine months ended September 30, 2015, had we reported income from continuing operations, approximately 477,000 and 445,000 common shares, respectively, would have been excluded from the calculation of diluted EPS because the effect of their inclusion would have been antidilutive.

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

	Amount ($)	Shares	Per Share Amounts ($)
Three Months Ended September 30, 2016:			
Basic EPS			
Income from continuing operations	$ 5,321	11,722	$ 0.45
Effect of dilutive securities			
Dilutive effect of stock options	—	781	
Diluted EPS			
Adjusted income from continuing operations	$ 5,321	12,503	$ 0.43
Three Months Ended September 30, 2015:			
Basic EPS			
Loss from continuing operations	$ (483)	11,976	$ (0.04)
Effect of dilutive securities			
Dilutive effect of stock options	—	—	
Diluted EPS			
Adjusted loss from continuing operations	$ (483)	11,976	$ (0.04)
Nine Months Ended September 30, 2016:			
Basic EPS			
Income from continuing operations	$ 12,883	11,807	$ 1.09
Effect of dilutive securities			
Dilutive effect of stock options	—	591	
Diluted EPS			
Adjusted income from continuing operations	$ 12,883	12,398	$ 1.04
Nine Months Ended September 30, 2015:			
Basic EPS			
Loss from continuing operations	$ (3,832)	12,101	$ (0.32)
Effect of dilutive securities			
Dilutive effect of stock options	—	—	
Diluted EPS			
Adjusted loss from continuing operations	$ (3,832)	12,101	$ (0.32)

11. Segment Information

In February 2016, we transitioned out nearly the entire management overhead of our MacMall business, thinned out its cost structure and brought it under the management and supervision of our Commercial segment. Also, in connection with our acquisitions of Acrodex and certain assets of Systemax's North American Technology Group in the fourth quarter of 2015 and our resulting entrance into selling products, services and solutions in the Canadian market, we formed a new operating segment called Canada. This segment includes our operations related to these Canadian market activities, beginning as of the respective dates of these acquisitions. The transition described above and our acquisitions in 2015 resulted in changes to the internal reporting package reviewed by the Chief Operating Decision Maker ("CODM"), and beginning in 2016, we have the following three operating segments: Commercial, Public Sector and Canada. All prior periods have been retrospectively recast to conform to the current presentation.

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

	Commercial	Public Sector	Canada	Corporate & Other	Consolidated
Three Months Ended September 30, 2016					
Net sales	$ 459,558	$ 89,688	$ 35,724	$ (33)	$ 584,937
Gross profit	66,362	10,271	6,055	(33)	82,655
Depreciation and amortization expense(1)	1,630	287	326	1,632	3,875
Operating profit (loss)	20,779	4,779	780	(15,638)	10,700
Three Months Ended September 30, 2015					
Net sales	$ 336,372	$ 68,572	$ —	$ (11)	$ 404,933
Gross profit	51,464	8,664	—	15	60,143
Depreciation and amortization expense(1)	942	111	—	2,117	3,170
Operating profit (loss)	16,301	3,772	—	(19,117)	956
Nine Months Ended September 30, 2016					
Net sales	$ 1,288,985	$ 261,131	$ 113,890	$ (46)	$ 1,663,960
Gross profit	192,209	25,947	17,852	(47)	235,961
Depreciation and amortization expense(1)	4,873	863	994	5,192	11,922
Operating profit (loss)	59,494	10,501	3,283	(47,694)	25,584
Nine Months Ended September 30, 2015					
Net sales	$ 968,942	$ 210,843	$ —	$ (22)	$ 1,179,763
Gross profit	139,886	21,317	—	11	161,214
Depreciation and amortization expense(1)	2,527	219	—	6,339	9,085
Operating profit (loss)	41,880	9,152	—	(54,433)	(3,401)

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

As of September 30, 2016 and December 31, 2015, we had total consolidated assets of $658.5 million and $600.2 million, respectively. Our management does not have available to them and does not use total assets measured at the segment level in allocating resources. Therefore, such information relating to segment assets is not provided herein.

12. Commitments and Contingencies

Total rent expense under our operating leases, net of sublease income, was $1.4 million and $0.9 million in the three month periods ended September 30, 2016 and 2015, respectively, and $4.4 million and $2.9 million in the nine month periods ended September 30, 2016 and 2015, respectively. Some of our leases contain renewal options and escalation clauses, and require us to pay taxes, insurance and maintenance costs.

Legal Proceedings

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

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

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

BUSINESS OVERVIEW

PCM, Inc. is a leading multi-vendor provider of technology products, services and solutions offered through our dedicated sales force, field and internal service teams, direct marketing channels and state of the art owned and operated data centers. Since our founding in 1987, we have served our customers by offering products and services from vendors such as Adobe, Apple, Cisco, Dell, Hewlett Packard Enterprise, HP Inc., Lenovo, Microsoft, Oracle, Samsung, Symantec and VMware. We add additional value by incorporating products and services into comprehensive solutions. Our sales and marketing efforts allow our vendor partners to reach multiple customer segments including small, medium and enterprise businesses, state, local and federal governments and educational institutions.

We sell primarily to customers in the United States and Canada, and maintain offices in the United States and Canada, as well as in Manila, Philippines. In the three months ended September 30, 2016, we generated approximately 79% of our revenue in our Commercial segment, 15% of our revenue in our Public Sector segment and 6% of our revenue in our Canada segment. In the nine months ended September 30, 2016, we generated approximately 77% of our revenue in our Commercial segment, 16% of our revenue in our Public Sector segment and 7% of our revenue in our Canada segment.

Our Commercial segment sells complex products, services and solutions to commercial businesses in the United States, using multiple sales channels, including a field relationship-based selling model, an outbound phone based sales force, a field services organization and online extranets.

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

Our Canada segment consists of sales made to customers in the Canadian market beginning as of the respective dates of our acquisition of Acrodex and certain assets of Systemax in October and December 2015, respectively.

We experience variability in our net sales and operating results on a quarterly basis as a result of many factors. We experience some seasonal trends in our sales of technology products, services and solutions to businesses, government and educational institutions. For example, the timing of capital budget authorizations for our commercial customers can affect when these companies can procure IT products and services. The fiscal year-ends of U.S. Public Sector customers vary for those in the federal government space and those in the state and local government and educational institution ("SLED") space. We generally see an increase in our second quarter sales related to customers in the U.S. SLED sector and in our third quarter sales related to customers in the federal government space as these customers close out their budgets for their fiscal year. Further, our Canadian business may see seasonal increases in the first quarter due to Canadian SLED budgets being closed out in the first quarter. We may also experience variability in our gross profit and gross profit margin as a result of changes in the various vendor programs we participate in and its effect on the amount of vendor consideration we receive from a particular vendor, which may be impacted by a number of events outside of our control. As such, the results of interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the full year.

A substantial portion of our business is dependent on sales of Cisco, HP Inc., Microsoft and products purchased from other vendors including Apple, Dell, Hewlett Packard Enterprise, Ingram Micro, Lenovo, and Tech Data. Our top sales of products by manufacturer as a percent of our gross billed sales were as follows for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Microsoft	13%	14%	16%	15%
Cisco	11	11	10	11
HP Inc.	9	13	10	13

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

General economic conditions have an effect on our business and results of operations across all of our segments. If economic growth in the U.S., Canada and other countries' economies slows or declines, government, consumer and business spending rates could be significantly reduced. These developments could also increase the risk of uncollectible accounts receivable from our customers. The economic climate in the U.S., Canada and elsewhere could have an impact on the rate of information technology spending of our current and potential customers, which would impact our business and results of operations. These factors affect sales of our products, sales cycles, adoption rates of new technologies and level of price competition. We continue to focus our efforts on cost controls, competitive pricing strategies, and driving higher margin service and solution sales. We also continue to make selective investments in our sales force personnel, service and solutions capabilities and IT infrastructure and tools in an effort to meet vendor program requirements and to position us for enhanced productivity and future growth.

In February 2016, we transitioned out nearly the entire management overhead of our MacMall business, thinned out its cost structure and brought it under the management and supervision of our Commercial segment. Also, in connection with our acquisitions of Acrodex and certain assets of Systemax's North American Technology Group in the fourth quarter of 2015 and our resulting entrance into selling products, services and solutions in the Canadian market, we formed a new operating segment called Canada. This segment includes our operations related to these Canadian market activities, beginning as of the respective dates of these acquisitions. As a result, beginning in 2016, we have the following three operating segments: Commercial, Public Sector and Canada.

We discontinued the operation of all four of our retail stores, located in Huntington Beach, Santa Monica and Torrance, California and Chicago, Illinois, and our OnSale and eCost businesses in 2014. We reflected the results of these operations, which were historically reported as a part of our MacMall segment, as discontinued operations for all periods presented herein in our Consolidated Balance Sheets and Consolidated Statements of Operations.

STRATEGIC DEVELOPMENTS

Real Estate Transactions

In March 2015, we completed the purchase of real property in Irvine, California (the "Irvine Property") for approximately $5.8 million and financed $4.9 million with a long-term note. The real property includes approximately 60,000 square feet of office and warehouse space and land. Certain of our subsidiaries were tenants of the building, which are continuing to use the office and warehouse space. In September 2015, we listed the Irvine Property for sale in its present condition under a broker agreement. On April 27, 2016, we entered into an agreement with Spigen, Inc. (the "Buyer") to sell the Irvine Property for approximately $13.2 million. The parties agreed to a 60-day escrow period. On June 23, 2016, we received notice of escrow cancellation from the Buyer effective immediately. As a result of the cancellation, the Buyer forfeited a non-refundable deposit of $300,000, which was released to us as liquidated damages in accordance with the agreement and we recorded it as part of "Selling, general and administrative expenses" on our Condensed Consolidated Statements of Operations for the nine months ended September 30, 2016. The Irvine Property is available for sale.

In January 2015, we completed the purchase of certain real property in Lewis Center, Ohio for approximately $6.6 million and financed $4.575 million with a long-term note. The real property includes approximately 12.4 acres of land together with a building for office and warehouse space of approximately 144,000 square feet. Certain of our subsidiaries were tenants of the building, which are continuing to use the office and warehouse space.

For more information on the financing arrangements of the real estate transactions discussed above, see Note 7 of the Notes to the Condensed Consolidated Financial Statements in Part I, Item 1 of this report.

ERP Upgrades

During the three months ended June 30, 2015, after consideration of the tools acquired in the En Pointe acquisition, we wrote off approximately $3.3 million of work-in-process software related to a CRM system, which we abandoned in favor or En Pointe's production CRM system, and included the charge as part of "Selling, general and administrative expenses" on our Condensed Consolidated Statements of Operations for the nine months ended September 30, 2015.

In October 2015, our management determined, and our Board of Directors approved such determination, to adopt the SAP platform acquired with the En Pointe transaction across all of our business units. We anticipate the SAP implementation to be incrementally adopted by portions of our business throughout the remainder of 2016 and 2017 with a total expected capitalized cost of under $5 million.

Common Stock Repurchase Program

In April 2015, our Board of Directors approved a $10 million increase to our discretionary stock repurchase program, which was originally adopted in October 2008 with an initial authorized maximum of $10 million and amended in September 2012 to add an additional $10 million. Under the program, the shares may be repurchased from time to time at prevailing market prices, through open market or unsolicited negotiated transactions, depending on market conditions. We expect that the repurchase of our common stock under the program will be financed with existing working capital and amounts available under our existing credit facility. The repurchased shares are held as treasury stock. No limit was placed on the duration of the repurchase program. There is no guarantee as to the exact number of shares that we will repurchase. Subject to applicable securities laws, repurchases may be made at such times and in such amounts as our management deems appropriate. The program can also be discontinued at any time management feels additional purchases are not warranted.

We did not repurchase any shares of our common stock under this program during the three months ended September 30, 2016. We repurchased a total of 405,698 shares of our common stock under this program during the nine months ended September 30, 2016 for a total cost of approximately $3.5 million. From the inception of the program in October 2008 through September 30, 2016, we have repurchased an aggregate of 4,081,687 shares of our common stock for a total cost of $25.9 million. At September 30, 2016, we had $4.1 million available in stock repurchases under the program, subject to any limitations that may apply from time to time under our existing credit facility.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Management considers an accounting estimate to be critical if:

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

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

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

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

We also sell certain products for which we act as an agent in accordance with ASC 605-45. Products in this category include the sale of third-party services, warranties, software assurance ("SA") or subscriptions. SA is an "insurance" or "maintenance" product that allows customers to upgrade, at no additional cost, to the latest technology if new applications are introduced during the period that the SA is in effect. These sales do not meet the criteria for gross sales recognition, and thus are recognized on a net basis at the time of sale. Under net sales recognition, the cost paid to the vendor or third-party service provider is recorded as a reduction to sales, resulting in net sales being equal to the gross profit on the transaction.

Some of our larger customers are offered the opportunity by certain of our vendors to purchase software licenses and SA under enterprise agreements ("EAs"). Under EAs, customers are considered to be compliant with applicable license requirements for the ensuing year, regardless of changes to their employee base. Customers are charged an annual true-up fee for changes in the number of users over the year. With most EAs, our vendors will transfer the license and invoice the customer directly, paying us an agency fee or commission on these sales. We record these fees as a component of net sales as earned and there is no corresponding cost of sales amount. In certain instances, we invoice the customer directly under an EA and account for the individual items sold based on the nature of the item. Our vendors typically dictate how the EA will be sold to the customer.

When a customer order contains multiple deliverables such as hardware, software and services which are delivered at varying times, we determine whether the delivered items can be considered separate units of accounting as prescribed under ASC 605-25, *Revenue Recognition, Multiple-Element Arrangement*. For arrangements with multiple units of accounting, arrangement consideration is allocated among the units of accounting, where separable, based on their relative selling price. Relative selling price is determined based on vendor-specific objective evidence, if it exists. Otherwise, third-party evidence of selling price is used, when it is available, and in circumstances when neither vendor-specific objective evidence nor third-party evidence of selling price is available, management's best estimate of selling price is used.

Revenue from professional services is either recognized as incurred for services billed at an hourly rate or recognized using the proportional performance method for services provided at a fixed fee. Revenue for data center services, including internet connectivity, web hosting, server co-location and managed services, is recognized over the period the service is performed.

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

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

Goodwill and Intangible Assets. Goodwill and indefinite-lived intangible assets are carried at historical cost, subject to write-down, as needed, based upon an impairment analysis that we perform annually, or sooner if an event occurs or circumstances change that would more likely than not result in an impairment loss. We perform our annual impairment test for goodwill and indefinite-lived intangible assets as of October 1 of each year.

Goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. Events that may create an impairment include, but are not limited to, significant and sustained decline in our stock price or market capitalization, significant underperformance of operating units and significant changes in market conditions. Changes in estimates of future cash flows or changes in market values could result in a write-down of our goodwill in a future period. If an impairment loss results from any impairment analysis as described above, such loss will be recorded as a pre-tax charge to our operating income. Goodwill is allocated to various reporting units, which are generally an operating segment or one level below the operating segment. At October 1, 2015, our goodwill resided in our Abreon, Commercial without Abreon, and Public Sector reporting units.

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

We performed our annual impairment analysis of goodwill and indefinite-lived intangible assets for possible impairment as of October 1, 2015. Our annual impairment analysis excluded goodwill associated with acquisitions made during the fourth quarter of 2015, as their purchase price allocations were completed subsequent to the analysis date, and their operations have not had sufficient operating time to suggest any triggering event would have occurred. Our management, with the assistance of an independent third-party valuation firm, determined the fair values of our reporting units and their underlying assets, and compared them to their respective carrying values. Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in each business combination. The carrying value of goodwill was allocated to our reporting units pursuant to ASC 350. As a result of our annual impairment analysis as of October 1, 2015, we have determined that no impairment of goodwill and other indefinite-lived intangible assets existed. We are currently performing our annual impairment test as of October 1, 2016.

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

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

In conjunction with our annual assessment of goodwill, our valuation techniques did not indicate any impairment as of October 1, 2015. All reporting units with goodwill passed the first step of the goodwill evaluation, with the fair values of our Abreon, Commercial without Abreon and Public Sector reporting units exceeding their respective carrying values by 83%, 14% and 58% and, accordingly, we were not required to perform the second step of the goodwill evaluation. We had $7.2 million, $50.4 million and $7.1 million of goodwill as of October 1, 2015 residing in our Abreon, Commercial without Abreon and Public Sector reporting units, respectively. In applying the market and income approaches to determining fair value of our reporting units, we rely on a number of significant assumptions and estimates including revenue growth rates and operating margins, discount rates and future market conditions, among others. Our estimates are based upon assumptions we believe to be reasonable, but which by nature are uncertain and unpredictable. Changes in one or more of these significant estimates or assumptions could affect the results of these impairment reviews.

As part of our annual review for impairment, we assessed the total fair values of the reporting units and compared total fair value to our market capitalization at October 1, 2015, including the implied control premium, to determine if the fair values are reasonable compared to external market indicators. When comparing our market capitalization to the discounted cash flow models for each reporting unit summed together, the implied control premium was approximately 28% as of October 1, 2015. We believe several factors are contributing to our low market capitalization, including the lack of trading volume in our stock and the recent significant investments made in various parts of our business and their effects on analyst earnings models.

Given continuing economic uncertainties and related risks to our business, there can be no assurance that our estimates and assumptions made for purposes of our goodwill and indefinite-lived intangible assets impairment testing as of October 1, 2015 will prove to be accurate predictions of the future. We may be required to record additional goodwill impairment charges in future periods, whether in connection with our next annual impairment testing as of October 1, 2016 or prior to that, if any change constitutes a triggering event outside of the quarter from when the annual goodwill and indefinite-lived intangible assets impairment test is performed. It is not possible at this time to determine if any such future impairment charge would result or, if it does, whether such charge would be material.

We amortize other intangible assets with definite lives generally on a straight-line basis over their estimated useful lives, or in the case of customer relationships, based on a relative percentage of annual discounted cash flows expected to be delivered by the asset over its estimated useful life.

RESULTS OF OPERATIONS

Consolidated Statements of Operations Data

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net sales	$ 584,937	$ 404,933	$ 1,663,960	$ 1,179,763
Cost of goods sold	502,282	344,790	1,427,999	1,018,549
Gross profit	82,655	60,143	235,961	161,214
Selling, general and administrative expenses	71,955	59,187	210,377	164,615
Operating profit (loss)	10,700	956	25,584	(3,401)
Interest expense, net	1,598	1,018	4,533	2,661
Income (loss) from continuing operations before income taxes	9,102	(62)	21,051	(6,062)
Income tax expense (benefit)	3,781	421	8,168	(2,230)
Income (loss) from continuing operations	5,321	(483)	12,883	(3,832)
Loss from discontinued operations, net of taxes	—	(302)	—	(259)
Net income (loss)	$ 5,321	$ (785)	$ 12,883	$ (4,091)
Basic and Diluted Earnings (Loss) Per Common Share				
Basic EPS:				
Income (loss) from continuing operations	$ 0.45	$ (0.04)	$ 1.09	$ (0.32)
Loss from discontinued operations, net of taxes	—	(0.03)	—	(0.02)
Net income (loss)	$ 0.45	$ (0.07)	$ 1.09	$ (0.34)
Diluted EPS:				
Income (loss) from continuing operations	$ 0.43	$ (0.04)	$ 1.04	$ (0.32)
Loss from discontinued operations, net of taxes	—	(0.03)	—	(0.02)
Net income (loss)	$ 0.43	$ (0.07)	$ 1.04	$ (0.34)
Weighted average number of common shares outstanding:				
Basic	11,722	11,976	11,807	12,101
Diluted	12,503	11,976	12,398	12,101

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	85.9	85.1	85.8	86.3
Gross profit	14.1	14.9	14.2	13.7
Selling, general and administrative expenses	12.3	14.6	12.6	14.0
Operating profit (loss)	1.8	0.3	1.6	(0.3)
Interest expense, net	0.3	0.3	0.3	0.2
Income (loss) from continuing operations before income taxes	1.5	0.0	1.3	(0.5)
Income tax expense (benefit)	0.6	0.1	0.5	(0.2)
Income (loss) from continuing operations	0.9	(0.1)	0.8	(0.3)
Loss from discontinued operations, net of taxes	—	(0.1)	—	(0.0)
Net income (loss)	0.9%	(0.2)%	0.8%	(0.3)%

Three Months Ended September 30, 2016 Compared to the Three Months Ended September 30, 2015

Net Sales

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

	Three Months Ended September 30,					
	2016		2015			
	Net Sales	Percentage of Total Net Sales	Net Sales	Percentage of Total Net Sales	Dollar Change	Percent Change
Commercial	$ 459,558	79%	$ 336,372	83%	$ 123,186	37%
Public Sector	89,688	15	68,572	17	21,116	31
Canada(2)	35,724	6	—	—	35,724	NM(1)
Corporate & Other	(33)	—	(11)	—	(22)	NM(1)
Consolidated	$ 584,937	100%	$ 404,933	100%	$ 180,004	44%

(1) Not meaningful.
(2) Our Canada segment was formed in the first quarter of 2016 as a result of our Acrodex and Systemax asset acquisitions in the fourth quarter of 2015.

Consolidated net sales were $584.9 million in the three months ended September 30, 2016 compared to $404.9 million in the three months ended September 30, 2015, an increase of $180.0 million, or 44 %. This increase was primarily due to the addition of sales from our fourth quarter 2015 acquisitions and strong organic growth predominantly in our field sales organization, as well as growth in our SLED business within our Public Sector segment. Consolidated sales of services were $37.2 million in the three months ended September 30, 2016 compared to $31.9 million in the three months ended September 30, 2015, an increase of $5.3 million, or 17%, and represented 6% and 8% of net sales in each of the three months ended September 30, 2016 and 2015, respectively.

Commercial net sales were $459.6 million in the three months ended September 30, 2016 compared to $336.4 million in the three months ended September 30, 2015, an increase of $123.2 million or 37%. The increase in Commercial net sales was primarily due to the addition of sales from our Tiger Direct acquisition and strong organic growth predominantly in our field sales organization.

Public Sector net sales were $89.7 million in the three months ended September 30, 2016 compared to $68.6 million in the three months ended September 30, 2015, an increase of $21.1 million, or 31%. The increase in Public Sector net sales was primarily due to an increase in our SLED business due to strong organic growth and the addition of sales from our Tiger Direct acquisition, partially offset by a small decrease in our federal business.

Canada net sales were $35.7 million in the three months ended September 30, 2016, representing the sales from our Acrodex acquisition and the Canadian unit of the Tiger Direct assets acquired in December 2015.

Gross Profit and Gross Profit Margin

Consolidated gross profit was $82.7 million in the three months ended September 30, 2016 compared to $60.1 million in the three months ended September 30, 2015, an increase of $22.6 million, or 37%. Consolidated gross profit margin decreased to 14.1% in the three months ended September 30, 2016 from 14.9% in the same period last year. The increase in consolidated gross profit was primarily due to the increase in sales discussed above. The decrease in consolidated gross profit margin was primarily due to a change in sales mix, including a lower mix of sales reported on a net basis, and a 19 basis point decrease in vendor consideration as a percent of net sales.

Selling, General & Administrative Expenses

Consolidated SG&A expenses were $72.0 million in the three months ended September 30, 2016 compared to $59.2 million in the three months ended September 30, 2015, an increase of $12.8 million, or 22%. Consolidated SG&A expenses as a percentage of net sales decreased to 12.3% in the three months ended September 30, 2016 from 14.6% in the same period last year. The increase in consolidated SG&A expenses was primarily related to our fourth quarter 2015 acquisitions, including a $7.7 million increase in personnel costs primarily related to the acquisitions, a $1.0 million increase in amortization expense related to purchased intangibles and a $1.2 million increase in credit card related fees, partially offset by a $1.1 million decrease in M&A related fees.

Operating Profit (Loss)

The following table presents our operating profit (loss) and operating profit margin, by segment, for the periods presented (in thousands):

	Three Months Ended September 30,						
	2016		2015		Change in Operating Profit (Loss)		Change in Operating Profit Margin
	Operating Profit (Loss)	Operating Profit Margin(1)	Operating Profit (Loss)	Operating Profit Margin(1)	$	%	%
Commercial	$ 20,779	4.5%	$ 16,301	4.8%	$ 4,478	27%	(0.3)%
Public Sector	4,779	5.3	3,772	5.5	1,007	27	(0.2)
Canada	780	2.2	—	—	780	NM(2)	2.2
Corporate & Other	(15,638)	(2.7)(1)	(19,117)	(4.7)(1)	3,479	(18)	2.0
Consolidated	$ 10,700	1.8%	$ 956	0.2%	$ 9,744	1,019%	1.6%

(1) Operating profit margin for Corporate & Other is computed based on consolidated net sales. Operating profit margin for each of the other segments is computed based on the respective segment's net sales.
(2) Not meaningful

Consolidated operating profit was $10.7 million in the three months ended September 30, 2016 compared to $1.0 million in the three months ended September 30, 2015, an increase of $9.7 million.

Commercial operating profit was $20.8 million in the three months ended September 30, 2016 compared to $16.3 million in the three months ended September 30, 2015, an increase of $4.5 million, or 27%. The increase in Commercial operating profit was primarily due to a $14.9 million increase in Commercial gross profit, offset by increases in personnel costs related to the Tiger Direct acquisition, investments in advanced technologies and software specialists and variable compensation on increased gross profit.

Public Sector operating profit was $4.8 million in the three months ended September 30, 2016 compared to $3.8 million in the three months ended September 30, 2015, an increase of $1.0 million, or 27%. The increase in Public Sector operating profit was primarily due to an increase in Public Sector gross profit, partially offset by a $0.5 million increase in personnel costs and $0.2 million of amortization costs primarily resulting from the Tiger Direct acquisition.

Canada operating profit was $0.8 million in the three months ended September 30, 2016, representing the operating profit from our Acrodex acquisition and the Canadian unit of the Tiger Direct assets acquired in the fourth quarter of 2015.

Corporate & Other operating expenses include corporate related expenses such as legal, accounting, information technology, product management and certain other administrative costs that are not otherwise included in our reportable operating segments. Corporate & Other operating expenses were $15.6 million in the three months ended September 30, 2016 compared to $19.1 million in the three months ended September 30, 2015, a decrease of $3.5 million, or 18%. The decrease in our Corporate & Other operating expenses was primarily due to a $1.1 million decrease in M&A related expenses, a $0.5 million decrease in depreciation expense and a $0.4 million gain resulting from a favorably negotiated lease termination.

Net Interest Expense

Total net interest expense for the three months ended September 30, 2016 was $1.6 million compared with $1.0 million in the same period of 2015, reflecting an increase of $0.6 million, which was primarily due to the increase in our average net outstanding loan balance on our line of credit.

Income Tax Expense

We recorded an income tax expense of $3.8 million in the three months ended September 30, 2016 compared to $0.4 million in the three months ended September 30, 2015. Our effective tax rate for the three months ended September 30, 2016 was 41.5%. Our effective tax rate for the three months ended September 30, 2015 is not meaningful due to the recording of discrete tax benefits related to research credits and a cumulative adjustment to the projected annual effective tax rate, the net effect of which created a tax expense during this period which was disproportionate to the loss before income taxes.

Nine Months Ended September 30, 2016 Compared to the Nine Months Ended September 30, 2015

Net Sales

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

	Nine Months Ended September 30,					
	2016		2015			
	Net Sales	Percentage of Total Net Sales	Net Sales	Percentage of Total Net Sales	Dollar Change	Percent Change
Commercial	$ 1,288,985	77%	$ 968,942	82%	$ 320,043	33%
Public Sector	261,131	16	210,843	18	50,288	24
Canada	113,890	7	—	—	113,890	NM(1)
Corporate & Other	(46)	—	(22)	—	(24)	NM(1)
Consolidated	$ 1,663,960	100%	$ 1,179,763	100%	$ 484,197	41%

(1) Not meaningful.

Consolidated net sales were $1,664.0 million in the nine months ended September 30, 2016 compared to $1,179.8 million in the nine months ended September30, 2015, an increase of $484.2 million, or 41%, which was primarily due to the addition of sales from our 2015 acquisitions and strong organic growth predominantly in our field sales organization, as well as growth in our SLED business within the Public Sector segment. Consolidated sales of services were $103.6 million in the nine months ended September 30, 2016 compared to $89.3 million in the nine months ended September 30, 2015, an increase of $14.3 million, or 16%, and represented 6% and 8% of consolidated net sales in each of the nine months ended September 30, 2016 and 2015, respectively.

Commercial net sales were $1,289.0 million in the nine months ended September 30, 2016 compared to $968.9 million in the nine months ended September 30, 2015, an increase of $320.1 million, or 33%. The increase in Commercial net sales was primarily due to the addition of sales from our 2015 acquisitions, the investments we have made in advanced technologies and software for the benefit of the overall business and the strong organic growth predominantly in our field sales organization.

Public Sector net sales were $261.1 million in the nine months ended September 30, 2016 compared to $210.8 million in the nine months ended September 30, 2015, an increase of $50.3 million, or 24%. The increase in Public Sector net sales was primarily due to an increase in our SLED business due to a strong organic growth, the addition of sales from our 2015 acquisitions and the investments we have made in advanced technologies and software, partially offset by a decrease in our federal business.

Canada had net sales of $113.9 million in the nine months ended September 30, 2016, representing sales from our Acrodex acquisition and the Canadian unit of the Tiger Direct assets acquired in December 2015.

Gross Profit and Gross Profit Margin

Consolidated gross profit was $236.0 million in the nine months ended September 30, 2016 compared to $161.2 million in the nine months ended September 30, 2015, an increase of $74.8 million, or 46%. Consolidated gross profit margin increased to 14.2% in the nine months ended September 30, 2016 from 13.7% in the same period last year. The increase in consolidated gross profit was primarily due to the increase in sales discussed above. The increase in our consolidated gross profit margin was primarily due to an 11 basis point increase in vendor consideration as a percent of net sales, a change in sales mix, including a greater mix of sales reported on a net basis and improved selling margins.

Selling, General & Administrative Expenses

Consolidated SG&A expenses were $210.4 million in the nine months ended September 30, 2016 compared to $164.6 million in the nine months ended September 30, 2015, an increase of $45.8 million, or 28%. Consolidated SG&A expenses as a percentage of net sales decreased to 12.6% in the nine months ended September 30, 2016 from 14% in the same period last year. The increase in consolidated SG&A expenses was primarily related to our 2015 acquisitions and the investments we have made in advanced technologies and software for the benefit of the overall business, including a $23.2 million increase in personnel costs, and a $3.2 million increase in outside service costs, a $3.5 million increase in amortization expense related to purchased intangibles, a $2.6 million increase in credit card related fees, partially offset by the non-recurrence of a $3.3 million write-off of CRM software work-in-process which we abandoned in favor of En Pointe's production CRM system in the nine months ended September 30, 2015, a $1.8 million decrease in severance and restructuring costs and a $1.3 million gain resulting from a class action settlement related to an industry wide DRAM indirect antitrust litigation.

Operating Profit (Loss)

The following table presents our operating profit (loss) and operating profit margin, by segment, for the periods presented (in thousands):

	Nine Months Ended September 30, 2016 Operating Profit (Loss)	2016 Operating Profit Margin(1)	2015 Operating Profit (Loss)	2015 Operating Profit Margin(1)	Change in Operating Profit (Loss) $	Change in Operating Profit (Loss) %	Change in Operating Profit Margin %
Commercial	$ 59,494	4.6%	$ 41,880	4.3%	$ 17,614	42%	0.4%
Public Sector	10,501	4.0	9,152	4.3	1,349	15	(0.3)
Canada	3,283	2.9	—	—	3,283	NM(2)	2.9
Corporate & Other	(47,694)	(2.9)(1)	(54,433)	(4.6)(1)	6,739	12	1.7
Consolidated	$ 25,584	1.5%	$ (3,401)	(0.3)%	$ 28,985	852%	1.8%

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

(2) Not meaningful

Consolidated operating profit was $25.6 million in the nine months ended September 30, 2016 compared to a consolidated operating loss of $3.4 million in the nine months ended September 30, 2015, an increase of $29.0 million.

Commercial operating profit was $59.5 million in the nine months ended September 30, 2016 compared to $41.9 million in the nine months ended September 30, 2015, an increase of $17.6 million, or 42%. The increase in Commercial operating profit was primarily due to a $52.3 million increase in Commercial gross profit, partially offset by $8.3 million increase in personnel costs which was primarily related to the 2015 acquisitions, investments in advanced technologies and software specialists, a $2.1 million increase in amortization expense relating to purchased intangibles, a $2.0 million increase in credit card processing fees, a $1.4 million increase in outside services and a $0.9 million increase in variable fulfillment.

Public Sector operating profit was $10.5 million in the nine months ended September 30, 2016 compared to $9.2 million in the nine months ended September 30, 2015, an increase of $1.3 million, or 15%. The increase in Public Sector operating profit was primarily due to a $4.6 million increase in Public Sector gross profit, partially offset by a $2.1 million increase in personnel costs and a $0.6 million increase in amortization expense relating to purchased intangibles.

Canada operating profit was $3.3 million in the nine months ended September 30, 2016, representing operating profit from our Acrodex acquisition and the Canadian unit of the Tiger Direct assets acquired in the fourth quarter of 2015.

Corporate & Other operating expenses were $47.7 million in the nine months ended September 30, 2016 compared to $54.3 million in the nine months ended September 30, 2015, a decrease of $6.7 million, or 12%. The decrease in our Corporate & Other operating expenses was primarily due to the non-recurrence of a $3.3 million write-off of CRM software costs in the nine months ended September 30, 2015, a $1.8 million decrease in severance and restructuring charges and a $1.3 million gain resulting from a class action settlement related to an industry wide DRAM indirect antitrust litigation, partially offset by a $1.7 million increase in outside services costs.

Net Interest Expense

Total net interest expense for the nine months ended September 30, 2016 was $4.5 million compared with $2.7 million in the same period of 2015, reflecting an increase of $1.8 million, which was primarily due to the increase in our average net outstanding loan balance on our line of credit.

Income Tax Expense (Benefit)

We recorded an income tax expense of $8.2 million in the nine months ended September 30, 2016 compared to an income tax benefit of $2.2 million in the nine months ended September 30, 2015. Our effective tax rates for the nine months ended September 30, 2016 and 2015 were 38.8% and 36.8%, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital. Our primary capital needs have and we expect will continue to be the funding of our existing working capital requirements, capital expenditures for which we expect to include substantial investments in our new ERP system, eCommerce platform and other upgrades of our current IT infrastructure over the next several years, possible sales growth, possible acquisitions and new business ventures, and possible repurchases of our common stock under a discretionary repurchase program, which is further discussed below. Our primary sources of financing have historically come from borrowings from financial institutions, public and private issuances of our common stock and cash flows from operations. Our continuing efforts to drive revenue growth from commercial customers could result in an increase in our accounts receivable as these customers are generally provided longer payment terms than consumers. We historically have increased our inventory levels from time to time to take advantage of strategic manufacturer promotions. We believe that our existing cash balance, together with our expected future cash flows from operations and available borrowing capacity under our line of credit, will be adequate to support our current operating plans for at least the next 12 months. However, the current uncertainty in the macroeconomic environment may limit our cash resources that could otherwise be available to fund capital investments, future strategic opportunities or growth beyond our current operating plans. We may in the future seek additional financing from public or private debt or equity financings to fund additional acquisitions or expansion, or take advantage of opportunities or favorable market conditions. 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.

There has been ongoing uncertainty in the global economic environment, which could cause disruptions in the capital and credit markets. While our revolving credit facility does not mature until March 2019, we believe problems in these areas could have a negative impact on our ability to obtain future financing if we need additional funds, such as for acquisitions or expansion, to fund a significant downturn in our sales or an increase in our operating expenses, or to take advantage of opportunities or favorable market conditions in the future. We may seek additional financing from public or private debt or equity issuances; however, there can be no assurance that such financing will be available at acceptable terms, if at all. Also, there can be no assurance that the cost or availability of future borrowings, if any, under our credit facility or in the debt markets will not be impacted by disruptions in the capital and credit markets.

In April 2015, our Board of Directors approved a $10 million increase to our discretionary stock repurchase program, which was originally adopted in October 2008 with an initial authorized maximum of $10 million and amended in September 2012 to add an additional $10 million. Under the program, the shares may be repurchased from time to time at prevailing market prices, through open market or unsolicited negotiated transactions, depending on market conditions. We expect that the repurchase of our common stock under the program will be financed with existing working capital and amounts available under our existing credit facility. The repurchased shares are held as treasury stock. No limit was placed on the duration of the repurchase program. There is no guarantee as to the exact number of shares that we will repurchase. Subject to applicable securities laws, repurchases may be made at such times and in such amounts as our management deems appropriate. The program can also be discontinued at any time management feels additional purchases are not warranted.

We did not repurchase any shares of our common stock under this program during the three months ended September 30, 2016. We repurchased a total of 405,698 shares of our common stock under this program during the nine months ended September 30, 2016 for a total cost of approximately $3.5 million. From the inception of the program in October 2008 through September 30, 2016, we have repurchased an aggregate of 4,081,687 shares of our common stock for a total cost of $25.9 million. At September 30, 2016, we had $4.1 million available in stock repurchases under the program, subject to any limitations that may apply from time to time under our existing credit facility.

We maintain a Canadian sales center serving the U.S. market, which receives the benefit of labor credits under the Investment Quebec Refundable Tax Credit for Major Employment Generating Projects (GPCE) program. In addition to other eligibility requirements under the program, which extends through fiscal year 2016, we are required to maintain a minimum of 317 eligible employees employed by our subsidiary PCM Sales Canada in the province of Quebec at all times to remain eligible to apply annually for these labor credits. As a result of this certification, we are eligible to make annual labor credit claims for eligible employees equal to 25% of eligible salaries, but not to exceed $15,000 (Canadian) per eligible employee per year, continuing through fiscal year 2016. In June 2014, the province of Quebec passed a budget that modified the annual labor credit, prospectively reducing the claim percentage from 25% to 20% of eligible salaries, and reducing the annual amount from $15,000 to $12,000 (Canadian) per eligible employee per year. As of September 30, 2016, we had a total accrued receivable of $3.7 million related to 2015 and the nine months ended September 30, 2016. We filed our 2015 claim in late 2016. We expect to receive full payment under our remaining accrued labor credits receivable.

Cash Flows from Operating Activities. Net cash provided by operating activities was $73.1 million in the nine months ended September 30, 2016 compared to net cash used in operating activities of $6.3 million in the nine months ended September 30, 2015.

The $73.1 million of net cash provided by operating activities in the nine months ended September 30, 2016 was primarily due to a $90.5 million increase in accounts payable associated with the timing of outstanding payments in the respective periods and the $16.2 million increase in accrued expenses and other current liabilities, partially offset by a $36.8 million increase in accounts receivable and a $23.7 million increase in inventory primarily related to specific inventory purchases for several customer contracts as well as opportunistic buys on certain items from a manufacturer.

The $6.3 million of net cash used in operating activities in the nine months ended September 30, 2015 was primarily due to a $99.6 million increase in accounts receivable primarily due to the build-up of En Pointe receivables since its acquisition, partially offset by a $67.6 million increase in accounts payable also primarily due to the build-up of En Pointe payables since its acquisition, a $9.7 million increase in accrued expenses and an $8.2 million decrease in inventories.

Cash Flows from Investing Activities. Net cash used in investing activities was $5.6 million in the nine months ended September 30, 2016 compared to $37.0 million in the nine months ended September 30, 2015.

The $5.6 million of net cash used in investing activities in the nine months ended September 30, 2016 was primarily related to $5.1 million of capital expenditures and $0.5 million of incremental acquisition-related investments.

The $37.0 million of net cash used in investing activities in the nine months ended September 30, 2015 was primarily related to $19.7 million of capital expenditures related to purchase of real property in Irvine, California for $5.8 million and Lewis Center, Ohio for $6.0 million, as well as expenditures relating to investments in our IT infrastructure and new ERP systems, and a $17.3 million payment related to our acquisition of En Pointe.

Cash Flows from Financing Activities. Net cash used in financing activities in the nine months ended September 30, 2016 was $69.0 million compared to net cash provided by financing activities in the nine months ended September 30, 2015 of $44.4 million.

The $69.0 million of net cash used in financing activities in the nine months ended September 30, 2016 was primarily related to $40.8 million of net payments on our line of credit, an $11.2 million decrease in book overdraft and $9.8 million of earn-out liability payments.

The $44.4 million of net cash provided by financing activities in the nine months ended September 30, 2015 was primarily related to $30.1 million of net borrowings on our line of credit, which includes the funding of the purchase price of En Pointe, $17.7 million of borrowings under notes payable to finance the building acquisitions described above, and a $12.7 million change in book overdraft, partially offset by $5.6 million of common shares repurchased under our stock repurchase plan, $5.4 million of earn-out payments to the sellers of En Pointe and $3.5 million of payments under our notes payable.

Line of Credit and Notes Payable. We maintain a credit facility, which functions as a working capital line of credit with a borrowing base of inventory and accounts receivable, including certain credit card receivables, and a portion of the value of certain real estate. On January 19, 2016, we entered into a Fourth Amended and Restated Loan and Security Agreement (the “Fourth Amended Loan Agreement”) with certain lenders and Wells Fargo Capital Finance, LLC as administrative and collateral agent (the “Lenders”). On July 7, 2016, we entered into a First Amendment to the Fourth Amended Loan Agreement (the “First Amendment”) with the Lenders.

The terms of our credit facility provide for (i) a Maximum Credit, as defined in the credit facility, of $290,000,000; (ii) a sub-line of up to C$40,000,000 as the Canadian Maximum Credit ((i) and (ii) collectively the “Revolving Line”); (iii) a Maturity Date of March 19, 2019; (iv) interest on outstanding balance under the Canadian Maximum Credit based on the Canadian Base Rate (calculated as the greater of CDOR plus one percentage point and the “prime rate” for Canadian Dollar commercial loans, as further defined in the Fourth Amended Loan Agreement) or at the election of the Borrowers, based on the CDOR Rate, plus a margin, depending on average excess availability under the Revolving Line, ranging from 1.50% to 1.75%; and (v) interest on outstanding balance under the Maximum Credit based on the Eurodollar Rate plus a margin, depending on average excess availability under the revolving line, ranging from 1.50% to 1.75%. The credit facility also includes a monthly unused line fee of 0.25% per year on the amount, if any, by which the Maximum Credit, then in effect, exceeds the average daily principal balance of outstanding borrowings during the immediately preceding month.

The credit facility is collateralized by substantially all of our assets. In addition to the security interest required by the credit facility, certain of our vendors have security interests in some of our assets related to their products. The credit facility has as its single financial covenant a minimum fixed charge coverage ratio (FCCR) requirement in the event an FCCR triggering event has occurred. An FCCR triggering event is comprised of maintaining certain specified daily and average excess availability thresholds. In the event the FCCR covenant applies, the fixed charge coverage ratio is 1.0 to 1.0 calculated on a trailing four-quarter basis as of the end of the last quarter immediately preceding such FCCR triggering event date. At September 30, 2016, we were in compliance with our financial covenant under the credit facility.

Loan availability under the line of credit fluctuates daily and is affected by many factors, including eligible assets on-hand, opportunistic purchases of inventory and availability and our utilization of early-pay discounts. At September 30, 2016, we had $125.2 million available to borrow for working capital advances under the line of credit.

In connection with, and as part of, our revolving credit facility, we maintain two sub-lines under our revolving credit facility secured by the two parcels of real property we own in Santa Monica, California, each with a limit of $9.8 million and $1.7 million, as provided by the Fourth Amended Loan Agreement. The $9.8 million sub-line has a monthly principal amortization of $129,583 and the $1.7 million sub-line has a monthly principal amortization of $21,750, both bearing interest at the same rate as our revolving credit facility.

Also on July 7, 2016, we entered into a Credit Agreement with Castle Pines Capital LLC (“Castle Pines”), which provides for a credit facility (“Channel Finance Facility”) to finance the purchase of inventory from a list of approved vendors. The aggregate availability under the Channel Finance Facility is variable and discretionary, but has initially been set at $35 million. Each advance under the Channel Finance Facility will be made directly to an approved vendor and must be repaid on the earlier of (i) the payment due date as set by Castle Pines or (ii) the date (if any) when the inventory is lost, stolen or damaged. No interest accrues on advances paid on or prior to payment due date. The Channel Finance Facility is secured by a lien on certain of our assets, subject to an intercreditor arrangement with the Lenders. The Channel Finance Facility has an initial term of one year, but shall be automatically renewed for one year periods from year to year thereafter unless terminated earlier by either party within reasonable notice periods.

Other Notes Payable

In March 2015, we completed the purchase of real property in Irvine, California for approximately $5.8 million and financed $4.9 million with a long-term note. The loan agreement provides for a seven year term and a 25 year straight-line, monthly principal repayment amortization period that began on May 1, 2015 with a balloon payment at maturity in April 2022. The loan is secured by the real property and contains financial covenants substantially similar to those of our existing asset-based credit facility. In September 2015, we listed the Irvine Property for sale. See Note 4 above for more information.

In January 2015, we completed the purchase of certain real property in Lewis Center, Ohio for approximately $6.6 million and financed $4.575 million with a long-term note. The $4.575 million term note provides for a seven year term and a 25 year straight-line, monthly principal repayment amortization period that began in February 2015 with a balloon payment at maturity in January 2022. The loan is secured by the real property and contains financial covenants substantially similar to those of our existing asset-based credit facility.

Throughout 2014, we entered into three financing arrangements with a bank to finance the costs of equipment, software and professional services related to our ERP upgrade. The total amount financed was $5.6 million, with a quarterly repayment schedule maturing in March 2017.

In December 2012, we completed the purchase of 7.9 acres of land for approximately $1.1 million and have incurred additional costs of $12.2 million through December 31, 2014 towards the construction of a new cloud data center that we opened in June 2014. In July 2013, we entered into a loan agreement for up to $7.725 million to finance the build out of the new data center. The loan agreement provides for a five year term and a 25 year straight-line, monthly principal repayment amortization period with a balloon payment at maturity in January 2020. The loan is secured by the real property and contains financial covenants substantially similar to those of our existing asset-based credit facility.

In June 2011, we entered into a credit agreement to finance a total of $10.1 million of the acquisition and improvement costs for the real property we purchased in March 2011 in El Segundo, California. The credit agreement provides for a five year term and a 25 year straight-line, monthly principal repayment amortization period with a balloon payment at maturity in September 2016. In August 2016, we entered into an amendment with the lender extending the term of the loan to November 30, 2017. The loan is secured by the real property and contains financial covenants substantially similar to those of our existing asset-based credit facility.

At September 30, 2016, the effective weighted average annual interest rate on our outstanding amounts under the credit facility, term note and variable interest rate notes payable was 2.16%.

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

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

Other Planned Capital Projects

ERP Upgrades

In October 2015, our management determined, and our Board of Directors approved such determination, to adopt the SAP platform acquired with the En Pointe transaction across all of our business units. We anticipate the SAP implementation to be incrementally adopted by portions of our business throughout the remainder of 2016 and 2017 with a total expected capitalized cost of under $5 million.

In addition to costs related to the upgrade of our ERP systems, we expect to make periodic upgrades to our IT systems on an ongoing basis.

Inflation

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

Dividend Policy

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

Off-Balance Sheet Arrangements

Our off-balance sheet arrangements are more fully described in our Annual Report on Form 10-K for the year ended December 31, 2015. As of September 30, 2016, there has been no material change in any off-balance sheet arrangements since December 31, 2015.

Contingencies

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

RELATED-PARTY TRANSACTIONS

There were no material related-party transactions during the three and nine months ended September 30, 2016 other than compensation arrangements in the ordinary course of business.

FORWARD-LOOKING STATEMENTS

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

- our ability to execute and benefit from our business strategies, including but not limited to, business strategies related to and strategic investments in our internal organization and focus on practice groups and sales of end-point solutions, advanced technologies, managed services and software solutions, leveraging our key vendor partner relationships, identifying and driving further operational efficiencies or successfully effecting our acquisition strategies including integrating our most recent acquisitions;
- our use of management information systems and their need for future support or upgrade;
- our expectations regarding the timing, costs and benefits of our ongoing or planned IT systems and communications infrastructure upgrades;
- our expectations regarding the business impact and accounting treatment of recent acquisitions, including any additional charges that may be taken in future periods;
- our expectations regarding key personnel and our ability to hire new and retain such individuals;
- our competitive advantages and growth opportunities;
- our ability to increase revenues and profitability;
- our expectation regarding general economic uncertainties and the related potential negative impact on our profit and profit margins, as well as our financial condition, liquidity and future cash flows;
- our expectations to continue our efforts to increase the productivity of our sales force and reduce costs;
- our plans to invest in and enhance programs and training to align us with our key vendor partners;
- our ability to generate vendor supported marketing;
- our expectations regarding our future capital needs and the availability of working capital, liquidity, cash flows from operations and borrowings under our credit facility and other long-term debt;
- the expected results or profitability of any of our individual business units in future periods;
- the impact on accounts receivable from our efforts to focus on sales in our Commercial and Public Sector segments;
- our ability to penetrate the public sector market;
- our beliefs relating to the benefits to be received from our international operations, including in Canada, the Philippines and Pakistan, including the impact of taxes and labor costs in such operations;
- our belief regarding our exposure to currency exchange and interest rate risks;
- our ability to attract new customers and stimulate additional purchases from existing customers, including our expectations regarding future marketing and advertising levels and the effect on sales;
- our ability to leverage our market position and purchasing power and offer a wide selection of products at competitive prices;
- our expectations regarding the ability of our marketing programs or campaigns to stimulate additional purchases or to maximize product sales;
- our ability to limit risk related to price reductions;
- our belief regarding the effect of seasonal trends and general economic conditions on our business and results of operations across all of our segments;
- our expectations regarding competition and the industry trend toward consolidation;
- the anticipated impact of reductions in sales to certain large enterprise customers;
- our expectations regarding the impact of investments we are making in the area of sales headcount, software and advanced technology solutions;
- our expectations regarding the payment of dividends and our intention to retain any earnings to finance the growth and development of our business;
- our expectations with respect to changes in our unrecognized tax benefits;
- our compliance with laws and regulations;
- our beliefs regarding the applicability of tax statutes, regulations and governmental tax regulatory positions;
- our expectations regarding the impact of accounting pronouncements;
- our expectations regarding any future repurchases of our common stock, including the financing of any such repurchases;
- our belief that backlog is not useful for predicting our future sales;
- our belief that our existing distribution facilities are adequate for our current and foreseeable future needs; and
- the likelihood that new laws and regulations will be adopted with respect to the Internet, privacy and data security that may impose additional restrictions or burdens on our business.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our financial instruments include cash and cash equivalents, accounts receivable, accounts payable, debt, accrued expenses and other current liabilities. At September 30, 2016, the carrying values of our financial instruments approximated their fair values based on current market prices and rates.

We have not entered into derivative financial instruments as of September 30, 2016. However, from time-to-time, we contemplate and may enter into derivative financial instruments related to interest rate, foreign currency, and other market risks.

Interest Rate Risk

We have exposure to the risks of fluctuating interest rates on our line of credit and notes payable. The variable interest rates on our line of credit and notes payable are tied to the prime rate or the LIBOR, at our discretion. At September 30, 2016, we had $121.7 million outstanding under our line of credit and $34.4 million outstanding under our notes payable with variable interest rates. As of September 30, 2016, the hypothetical impact of a one percentage point increase in interest rate related to the outstanding borrowings under our line of credit and such notes payable would be to increase our annual interest expense by approximately $1.6 million.

Foreign Currency Exchange Risk

We have operation centers in Canada and the Philippines that provide back-office administrative support, and sales and customer service support. In each of these countries, transactions are primarily conducted in the respective local currencies. In addition, our three foreign subsidiaries that operate the operation centers have intercompany accounts with our U.S. subsidiaries that eliminate upon consolidation. However, transactions resulting in such accounts expose us to foreign currency rate fluctuations. We record gains and losses resulting from exchange rate fluctuations on our short-term intercompany accounts in "Selling, general and administrative expenses" in our Consolidated Statements of Operations and translation gains and losses resulting from exchange rate fluctuations on local currency based assets and liabilities in "Accumulated other comprehensive income," a separate component of stockholders' equity on our Consolidated Balance Sheets. As such, we have foreign currency translation exposure for changes in exchange rates for these currencies and any significant changes in exchange rates between foreign currencies in which we transact business and the U.S. dollar may adversely affect our Consolidated Statements of Operations and Consolidated Balance Sheets. As of September 30, 2016, we did not have material foreign currency or overall currency exposure.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2016.

Changes in Internal Control Over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the third quarter of 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

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

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

Our success is dependent on the accuracy and proper utilization of our management information systems and our communications systems. In addition to the costs associated with system upgrades, the transition to and implementation of new or upgraded solutions can result in system delays or failures. We currently operate one of our management information systems using an HP3000 Enterprise System, which was supported by HP until December 2010. We currently contract with a third party service provider specializing in maintenance and support of this system to provide us adequate support until we finalize the upgrade of this system to the SAP platform historically utilized by our recently acquired En Point business. Any interruption, corruption, degradation or failure of our management information systems or communications systems could adversely impact our ability to receive and process customer orders on a timely basis.

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

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

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

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

As a result of the ongoing economic uncertainties, the direction and relative strength of the U.S. and Canadian economies remains a considerable risk to our business, operating results and financial condition. This economic uncertainty could also increase the risk of uncollectible accounts receivable from our customers. During previous economic downturns in the U.S., Canada and elsewhere, customers generally reduced, often substantially, their rate of information technology spending. Additionally, economic conditions and the level of consumer confidence has limited technology spending. Future changes and uncertainties in the economic climate in the U.S., Canada and elsewhere could have a similar negative impact on the rate of information technology spending of our current and potential customers, which would likely have a negative impact on our business, operating results and financial condition, and could significantly hinder our growth and prevent us from achieving our financial performance goals.

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

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

Our revenue is dependent on sales of products and services 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 and services from a small number of key manufacturers and software publishers, including Adobe, Apple, Cisco, Dell, Hewlett Packard Enterprise, HP Inc., Lenovo, Microsoft, Oracle, Samsung, Symantec and VMware. For example, products manufactured by Microsoft, Cisco and HP Inc. represented approximately 13%, 11% and 9%, respectively, of our gross billed sales (excluding the impact of sales reported on a net basis) in the three months ended September 30, 2016, and approximately 14%, 11% and 13%, respectively, of our gross billed sales in the three months ended September 30, 2015. A decline in sales of any of our key manufacturers' products, whether due to decreases in supply of or demand for their products, termination of any of our agreements with them, or otherwise, could have a material adverse impact on our sales and operating results.

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

Certain of our vendors, including OEMs, software publishers and distribution partners provide us with trade credit or substantial incentives in the form of discounts, credits and cooperative advertising. We have agreements with many of our vendors under which they provide us, or they have otherwise consistently provided us, with market development funds to finance portions of our advertising, marketing and distribution costs based upon the amount of coverage we give to their respective products in our advertising and marketing mediums. Any termination or interruption of our relationships with one or more of these vendors, or modification of the terms or discontinuance of our agreements and market development fund programs and arrangements with these vendors, could adversely affect our operating income and cash flow. For example, the amount of vendor consideration we receive from a particular vendor may be impacted by a number of events outside of our control, including acquisitions, divestitures, management changes or economic pressures affecting such vendor, any of which could materially affect the amount of vendor consideration we receive from such vendor.

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

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

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

Substantially all of our vendor agreements are terminable upon 30 days' notice or less. Vendors that currently sell their products or services through us could decide to sell, or increase their sales of, their products or services 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 market demand, as well as our ability to sell popular products from new vendors.

The products and services 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 and services that meet these changes in market demand. Our success is also dependent on our ability to develop relationships with and sell products and services from new vendors that address these changes in marketplace demand. To the extent products that address changes in market 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 vendor relationships or preferred provider status with our vendors, 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 and services for resale both directly from manufacturers and software publishers and indirectly through distributors and other sources, all of whom we consider our vendors. We also maintain certain qualifications and preferred provider status with several of our vendors, which provides us with preferred pricing, vendor training and support, preferred access to products and services, and other significant benefits. In many cases, vendors require us to meet certain minimum standards in order to retain these qualifications and preferred provider status. If we do not maintain our existing relationships or preferred provider certifications or authorizations, or if we fail to build new relationships with vendors on acceptable terms, including favorable pricing, vendor consideration or reseller qualifications, we may not be able to offer a broad selection of products and services or continue to offer products and services from these vendors at competitive prices or at all. From time to time, vendors may be acquired by other companies, terminate our right to sell some or all of their products, modify or terminate our preferred provider or qualification status, change the applicable terms and conditions of sale or reduce or discontinue the incentives or vendor consideration that they offer us. For example, one of our major vendors recently adopted heightened sales growth and dedicated sales personnel standards for its preferred provider designation. Our failure to meet these heightened standards could cause us to lose preferred provider status with the vendor. Any termination of our preferred provider status with any of our major vendors, or our failure to build new vendor relationships, could have a negative impact on our operating results. Additionally, some products are subject to manufacturer, publisher or distributor allocation, which limits the number of units of those products that are available to us and may adversely affect our operating results.

Part of our business strategy includes the opportunistic 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 the potential expansion through opportunistic acquisitions of businesses, assets, personnel or technologies that allow us to complement our existing operations, expand our market coverage, enter new geographic markets, 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. In 2015, we completed three strategic acquisitions and are focused on integrating these acquisitions into our operations. No assurance can be given that the benefits or synergies we may expect from acquisitions will be realized to the extent or in the time frame we anticipate. We may lose key employees, customers, distributors, vendors and other business partners of the companies we acquire 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 in which our management has limited prior experience, the diversion of management's attention to the operations and personnel of the acquired company, the integration of the acquired company's personnel, operations and management information (ERP) systems, changing relationships with customers, suppliers and strategic partners, differing regulatory requirements in new geographic markets and new business areas, and potential short-term adverse effects on our operating results. These challenges can be magnified as the size of the acquisition increases. Any delays or unexpected costs incurred in connection with the integration of acquired companies or otherwise related to acquisitions could have a material adverse effect on our business, financial condition and results of operations.

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

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

We cannot assure you that we will be able to identify suitable acquisition opportunities, consummate any pending or future acquisitions or that we will realize any anticipated benefits from any such acquisitions. 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.

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

We are subject to intense price competition with respect to the products, services and solutions we sell. As a result, our gross and operating margins have historically been narrow, and we expect them to continue to be narrow. We have recently experienced increasing price competition, which has a negative impact on our margins. Narrow margins magnify the impact of variations in operating costs and of adverse or unforeseen events on operating results. Future increases in costs such as the cost of merchandise, wage levels, shipping rates, freight costs and fuel costs may negatively impact our margins and profitability. We are not always able to raise the sales price to offset cost increases. If we are unable to maintain our margins in the future, it could have a material adverse effect on our business, financial condition or results of operations. In addition, because price is an important competitive factor in our industry, we cannot assure you that we will not be subject to increased price competition in the future. If we become subject to increased price competition in the future, we cannot assure you that we will not lose market share, that we will not be forced to reduce our prices and further reduce our 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 relative mix of products, services and solutions sold during the period;
- the general economic environment and competitive conditions, such as pricing;
- the timing of procurement cycles by our business, government and educational institution customers;
- seasonality in customer spending and demand for products, services and solutions we offer;
- variability in vendor programs;
- the introduction of new or upgraded products, services or solutions;
- changes in prices from our suppliers;
- promotions;
- the loss or consolidation of significant suppliers or customers;
- our ability to control costs;
- the timing of our capital expenditures;
- the condition of our industry in general;
- customer acceptance of new purchasing models;
- deferral of customer orders in anticipation of new offerings;
- product or solution enhancements or operating system changes;
- any inability on our part to obtain adequate quantities of products, services or solutions;
- delays in the release by suppliers of new products, services or solutions and inventory adjustments;
- our expenditures on new business ventures and acquisitions;
- performance of acquired businesses;
- adverse weather conditions that affect supply or customer response;
- distribution or shipping to our customers; and
- geopolitical events.

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

Our focus on 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 is focused on commercial and public sector sales and related market share growth. In competing in these markets, we face numerous risks and challenges, including competition from a wider range of sources and the need to continually develop and enhance strategic relationships. We cannot assure you that our focus on 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 or results of operations. Moreover, contracting with governmental departments and agencies involves additional risks, such as longer payment terms, limited recourse against the government agency in the event of a business dispute, requirements that we provide representations, warranties and indemnities related to the products, services and solutions we sell, the potential lack of a limitation of our liability for damages from our product sales or our provision of services to the department or agency, and the potential for changes in statutory or regulatory provisions that negatively affect the profitability of such contracts. Similarly, many large commercial businesses also require us to regularly enter into complex contractual relationships involving various risks and uncertainties such as requirements that we provide representations, warranties and indemnities to our customers and potential lack of limitation of our liability for damages under some of such contracts. Additionally, our operating results from our commercial segment are impacted by certain commercial customer diverse supplier requirements and relationships we maintain with third party diverse supplier partners. Changes in any of these diverse supplier customer requirements or failure of our diverse supplier relationships to satisfy any such requirements at any time could have a material adverse effect on our results of operations or financial condition.

Our strategy and investments in increasing the productivity of our account executives, and our focus on sales and delivery of technology services and solutions 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 sales force. We have also incurred, and expect to continue to incur, significant expenses resulting from infrastructure investments related to our sales force. Our customers are increasingly consuming IT in different and evolving ways and utilizing more elaborate services and solutions. In response, we are investing in our services and solutions capabilities and portfolio and are working with our customers to identify areas where they can gain efficiencies by outsourcing to us traditional IT functions. Specifically, we are focused on and investing in managed, advanced and end-point technology solutions, including around centers (which includes storage and security solutions), cloud computing, collaboration, virtualization, secure mobility, borderless networks and enterprise software solutions. We cannot assure you that any of our investments in our sales force or sales support resources or our focus on our services and solutions capabilities and portfolio will result in expanded market share or increased profitability in the near or long term.

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

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

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

We may be subject to state or local taxes on income, gross receipts, sales or use or a similar measure. State and local governments may seek to impose such taxes in cases where they believe the taxpayer may have a significant economic presence by reason of significant sales to customers located in the states. The responsibility to pay or collect taxes has been the subject of court actions and various legislative efforts. There can be no assurance that these taxes or tax obligations will not be imposed upon us and our subsidiaries in a manner that could materially adversely impact our financial condition or results of operations.

We are subject to a number of general business laws and regulations, including laws and regulations specifically governing companies that do business over the Internet. These laws and regulations may cover user privacy, marketing and promotional practices (including electronic communications with our customers and potential customers), data protection and security, pricing, content, copyrights, distribution, 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. Additionally, some of our subsidiaries which are government contractors or subcontractors are subject to laws and regulations related to companies that sell to the government, including but not limited to regulations of the Department of Labor and laws and regulations related to our procurement of products and services and our sales to the government.

In addition, we may be subject to federal, state or local taxes on income, gross receipts, sales or use or a similar measure. State and local governments may seek to impose such taxes in cases where they believe the taxpayer may have a sufficient economic presence by reason of sales or services to customers located in the applicable jurisdiction. The responsibility to pay or collect taxes has been the subject of court actions and various legislative efforts. There can be no assurance that these taxes or tax collection obligations will not be imposed upon us and our subsidiaries in a manner that could materially adversely impact our financial condition or results of operations.

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

Such existing and future laws and regulations may also impede our business. Additionally, it is not always clear how new or existing laws and regulations apply to our businesses. Unfavorable resolution of these issues may expose us to liability and costly changes in our business operations, and could reduce customer demand for our products, services and solutions.

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

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

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

If significant negative industry or economic trends, including decreases in our market capitalization, slower growth rates or lack of growth in our business occurs in the future it may indicate that impairment charges are required. If we are required to record any impairment charges, this could have a material adverse effect on our consolidated financial statements. In addition, the testing of goodwill for impairment requires us to make significant estimates about the future performance and cash flows of our company, as well as other assumptions. These estimates can be affected by numerous factors, including changes in economic, industry or market conditions, changes in underlying business operations, future reporting unit operating performance, existing or new product market acceptance, changes in competition, or changes in technologies. Any changes in key assumptions, or actual performance compared with those assumptions, about our business and future prospects or other assumptions could affect the fair value of one or more reporting units, resulting in an impairment charge.

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

Our ability to maintain profitability on a quarterly or annual basis given our planned business strategy depends upon a number of factors discussed in these risk factors, including our ability to manage and control operating expenses and to generate and sustain adequate levels of revenue. Many of our expenses are fixed in the short term, and we may not be able to quickly reduce spending if our revenue is lower than what we project. In addition, we may find that our business plan costs more to execute than what we currently anticipate. Some of the factors that affect our ability to maintain profitability on a quarterly or annual basis are beyond our control, including general economic trends and uncertainties.

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:

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

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

We derive a significant amount of our gross sales from products sold out of owned inventory at our directly operated and distributor partner warehouse and distribution facilities. We assume the inventory damage, theft and obsolescence risks, as well as price erosion risks for products that are sold out of such inventory. These risks are especially significant because many of the products we sell are characterized by rapid technological change, obsolescence and price erosion, and because at times we may 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 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 some of our largest vendor partners, but these rights vary by product line, are subject to specified conditions and limitations and can be terminated or changed at any time. We also recently have decided to move more of our inventory warehousing and distribution functions to third party distributor partners in replacement of our historic directly operated facility in Memphis Tennessee. Moving these operations to third party facilities will result in greater dependence on these third parties for portions of our warehousing and distribution needs. As a result, we will now be subject to third party contractual relationships for these replaced operations, which could result in future cost increases and other contractual risk allocations which we have not historically faced and may not be able control.

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

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

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

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

A significant portion of our working capital requirements and our real estate acquisitions have historically been funded through borrowings under our working capital credit facility or through long term notes. These facilities bear interest at variable rates tied to the LIBOR or prime rate, and the long term notes generally have initial terms of between five and seven years. If the variable interest rates on our borrowings increase, we could incur greater interest expense than we have in the past. Rising interest rates, and our increased interest expense that would result from them, could negatively impact our results of operations and financial condition.

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

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

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

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

From time to time we receive claims and become subject to litigation, including consumer protection, employment, intellectual property and other litigation and government or third party audits 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, audit or investigation 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 matters, we may be subject to significant damages or equitable remedies relating to the operation of our business and could incur significant costs in asserting, defending, or settling any such matters. We cannot determine with any certainty the costs or outcome of such pending or future matters and they may materially harm our business, results of operations or financial condition.

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

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

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

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

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

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

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

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

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

Any inability to effectively manage our growth and achieve economies of scale 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. Also crucial to our success in managing our growth will be our ability to achieve additional economies of scale. We cannot assure you that we will be able to achieve such economies of scale, and the failure to do so could have a material adverse effect upon our business, financial condition or results of operations.

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

We incur substantial expense in connection with our advertising and marketing efforts. Although we target our advertising and marketing efforts on current and potential customers who we believe are likely to be in the market for the products we sell, we cannot assure you that our advertising and marketing efforts will achieve our desired results. In addition, we periodically adjust our advertising expenditures in an effort to optimize the return on such expenditures. Any decrease in the level of our advertising expenditures which may be made to optimize such return could adversely affect our sales.

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

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

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

We make allowances for product returns in our consolidated financial statements based on historical return rates. We are responsible for returns of certain products shipped 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.

We have received in the past, and anticipate that we will receive in the future, communications from customers due to purported fraudulent activities, including fraudulent activities on our websites such as 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 could also subject us to losses and could lead to scrutiny from lawmakers and regulators regarding the operation of our businesses, including 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.

Breaches of data security could significantly impact our business and expose us to material costs and liability.

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

Laws or regulations relating to privacy and data protection may adversely affect the growth of our business or our marketing efforts and expose us to material costs and liability.

We market 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, in the United States, Canada and elsewhere, laws and regulations are becoming increasingly protective of consumer privacy, with a trend toward requiring companies to establish procedures to notify users of privacy and security policies, to obtain consent from users for collection and use of personal information, and to provide users with the ability to access, correct and delete personal information stored by companies. Such privacy and data protection laws and regulations, and efforts to enforce such laws and regulations, may restrict our ability to collect, use or transfer demographic and personal information from users, which could be costly or harm our marketing efforts. Further, any violation of domestic or foreign privacy or data protection laws and regulations, including the U. S. national do-not-call list and CAN-SPAM Act and the Canadian Anti-Spam Legislation, may subject us to fines, penalties and damages, which could decrease our revenue and profitability.

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. We also could incur additional costs and liability exposures if new laws or regulations regarding the use of personal information are introduced. These privacy protection laws could result in substantial compliance costs and could decrease our profitability. Further, additional regulation of the Internet may lead to a decrease in Internet usage, which could adversely affect our business. Growing public concern about privacy and the collection, distribution and use of information about individuals may subject us to increased regulatory scrutiny or litigation. In the past, the FTC has investigated companies that have used personally identifiable information without permission or in violation of a stated privacy policy. If we are accused of violating the stated terms of our privacy policy, we may face a loss of customers or damage to our reputation and may be forced to expend significant amounts of financial and managerial resources to defend against these accusations, face potential liability and be subject to extended regulatory oversight in the form of a long-term consent order.

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

In order for the eCommerce market to be successful, we and other market participants must be able to transmit confidential information securely over public networks. Third parties may have the technology or know-how to breach the security of customer transaction data. Any breach could cause customers to lose confidence in the security of our websites and choose not to purchase from our websites. If someone is able to circumvent our security measures, he or she could destroy or steal valuable information or disrupt our operations. Concerns about the security and privacy of transactions over the Internet could inhibit the growth of Internet usage and eCommerce.

Credit card fraud could decrease our revenue and profitability.

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

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

Our headquarters, customer service center and a part of our infrastructure, including computer servers, are located near Los Angeles, California and in other areas that are susceptible to earthquakes, floods, severe weather and other natural disasters. Our owned and third party distribution facilities, which house the product inventory from which a material amount of our orders may be shipped, are located in areas that are susceptible to natural disasters and extreme weather conditions such as earthquakes, fire, floods and major storms. Our operations in the Philippines are also in an area that is periodically subject to extreme weather. A natural disaster or other catastrophic event, such as an earthquake, fire, flood, severe storm, break-in, terrorist attack or other comparable events in the areas in which we operate could cause interruptions or delays in our business and loss of data or render us unable to accept and fulfill customer orders in a timely manner, or at all. Our systems, including our management information systems, websites and communications systems, are not fully redundant, and we do not have redundant geographic locations or earthquake insurance. Further, power outages in any locations where our systems are located could disrupt our operations. Our business interruption insurance may not adequately compensate us for losses that may occur.

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

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

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

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

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

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

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

We are exposed to the risks of business and other conditions in Asia and Canada.

All or portions of certain of the products we sell are produced, or have major components produced, in Asia. We engage in U.S. dollar denominated transactions with U.S. divisions and subsidiaries of companies located in that region as well. We have also recently entered the Canadian market with our Acrodex and Systemax acquisitions. As a result, we may be indirectly affected by risks associated with international events, including economic and labor conditions, such as fluctuating oil prices, 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 Asia have experienced volatility in their currency, banking and equity markets. Future volatility could adversely affect the supply and price of the products we sell and their components and ultimately, our results of operations.

We also maintain an office in the Philippines and third party back office support from Pakistan, as a result of our En Pointe acquisition, 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. The risks associated with doing business overseas and international events could prevent us from realizing the expected benefits from our Philippines or Pakistan operations or any other offshore operations that we may establish.

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

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

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

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

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

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

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

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

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

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

Many technology solution providers are consolidating operations and acquiring or merging with other providers to achieve economies of scale, expanded product and service offerings, and increased efficiency. The current industry reconfiguration and the trend towards consolidation could cause the industry to become even more competitive, further increase pricing pressures and make it more difficult for us to maintain our operating margins or to increase or maintain the same level of net sales or gross profit. Declining prices, resulting in part from technological changes, may require us to sell a greater number of products, services or solutions to achieve the same level of net sales and gross profit. Such a trend could make it more difficult for us to continue to increase our net sales and earnings growth. In addition, growth in the information technology market has slowed. If the growth rate of the information technology market were to further decrease, our business, financial condition and operating results could be materially adversely affected.

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

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

Our stock price may be volatile.

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

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

The stock market in general, and the stocks of computer and software resellers, and companies in the Internet and electronic commerce industries in particular, and other technology or related stocks, have in the past experienced extreme price and volume fluctuations which have been unrelated to corporate operating performance. Such market volatility may adversely affect the market price of our common stock. In the past, following periods of volatility in the market price of a public company's securities, securities class action litigation has often been instituted against that company. Such litigation, if asserted against us, could result in substantial costs to us and cause a likely diversion of our management's attention from the operations of our company.

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

Issuer Purchases of Equity Securities

In April 2015, our Board of Directors approved a $10 million increase to our discretionary stock repurchase program, which was originally adopted in October 2008 with an initial authorized maximum of $10 million and amended in September 2012 to add an additional $10 million. Under the program, the shares may be repurchased from time to time at prevailing market prices, through open market or unsolicited negotiated transactions, depending on market conditions. We expect that the repurchase of our common stock under the program will be financed with existing working capital and amounts available under our existing credit facility. The repurchased shares are held as treasury stock. No limit was placed on the duration of the repurchase program. There is no guarantee as to the exact number of shares that we will repurchase. Subject to applicable securities laws, repurchases may be made at such times and in such amounts as our management deems appropriate. The program can also be discontinued at any time management feels additional purchases are not warranted. From the inception of the program in October 2008 through September 30, 2016, we have repurchased an aggregate of 4,081,687 shares of our common stock for a total cost of $25.9 million.

We did not repurchase any shares of our common stock under this program during the three months ended September 30, 2016. We repurchased a total of 405,698 shares of our common stock under this program during the nine months ended September 30, 2016 for a total cost of approximately $3.5 million. From the inception of the program in October 2008 through September 30, 2016, we have repurchased an aggregate of 4,081,687 shares of our common stock for a total cost of $25.9 million. At September 30, 2016, we had $4.1 million available in stock repurchases under the program, subject to any limitations that may apply from time to time under our existing credit facility.

ITEM 6. EXHIBITS

Exhibit Number	Description
10.1	First Amendment to Fourth Amended and Restated Loan and Security Agreement, dated as of July 7, 2016, by and among PCM, Inc. and all of its wholly-owned domestic and Canadian subsidiaries, certain lenders and Wells Fargo Capital Finance, LLC (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2016, filed with the Commission on August 9, 2016)
10.2	Credit Agreement, dated as of July 7, 2016, by and among PCM, Inc. and Castle Pines Capital LLC (incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2016, filed with the Commission on August 9, 2016)
31.1	Certification of the Chief Executive Officer of the Registrant pursuant to Exchange Act Rule 13a-14(a)
31.2	Certification of the Chief Financial Officer of the Registrant pursuant to Exchange Act Rule 13a-14(a)
32.1	Certification of the Chief Executive Officer of Registrant furnished pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer of Registrant furnished pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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PCM, INC.

SIGNATURE

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

PCM, INC.
(Registrant)

Date: November 9, 2016

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

PCM, INC.

EXHIBIT LIST

Exhibit Number	Description
31.1	Certification of the Chief Executive Officer of the Registrant pursuant to Exchange Act Rule 13a-14(a)
31.2	Certification of the Chief Financial Officer of the Registrant pursuant to Exchange Act Rule 13a-14(a)
32.1	Certification of the Chief Executive Officer of Registrant furnished pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002
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101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

EXHIBIT 31.1

PCM, INC.

CERTIFICATION

I, Frank F. Khulusi, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PCM, Inc.;

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

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

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

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

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: November 9, 2016

/s/ Frank F. Khulusi

Frank F. Khulusi
Chief Executive Officer

EXHIBIT 31.2

PCM, INC.

CERTIFICATION

I, Brandon H. LaVerne, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PCM, Inc.;

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

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

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

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

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: November 9, 2016

/s/ Brandon H. LaVerne

Brandon H. LaVerne
Chief Financial Officer

EXHIBIT 32.1

PCM, INC.

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

In connection with the Quarterly Report of PCM, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended September 30, 2016 as filed with the Securities and Exchange Commission (the "Report"), I, Frank F. Khulusi, Chief Executive Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

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

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

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

November 9, 2016

/s/ Frank F. Khulusi

Frank F. Khulusi
Chief Executive Officer

EXHIBIT 32.2

PCM, INC.

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

In connection with the Quarterly Report of PCM, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended September 30, 2016 as filed with the Securities and Exchange Commission (the "Report"), I, Brandon H. LaVerne, Chief Financial Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

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

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

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

November 9, 2016

/s/ Brandon H. LaVerne

Brandon H. LaVerne
Chief Financial Officer