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, 2018

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes [X] No [ ]

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

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

Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

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 5, 2018, the registrant had 12,151,006 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, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,549	$ 9,113
Accounts receivable, net of allowances of $2,228 and $2,181	451,485	439,658
Inventories	63,989	103,471
Prepaid expenses and other current assets	8,989	9,333
Total current assets	533,012	561,575
Property and equipment, net	69,014	71,551
Goodwill	87,505	87,768
Intangible assets, net	8,848	11,090
Deferred income taxes	1,274	1,759
Investment and other assets	4,775	6,509
Total assets	$ 704,428	$ 740,252
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 312,079	$ 289,201
Accrued expenses and other current liabilities	58,521	55,040
Deferred revenue	8,077	7,913
Line of credit	134,517	213,778
Notes payable — current	3,284	3,362
Total current liabilities	516,478	569,294
Notes payable	30,330	32,892
Other long-term liabilities	6,671	7,338
Deferred income taxes	4,051	3,102
Total liabilities	557,530	612,626
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; 17,534,250 and 17,170,273 shares issued; 12,143,598 and 11,779,621 shares outstanding	18	17
Additional paid-in capital	137,785	134,646
Treasury stock, at cost: 5,390,652 shares	(38,536)	(38,536)
Accumulated other comprehensive (loss) income	(282)	251
Retained earnings	47,913	31,248
Total stockholders' equity	146,898	127,626
Total liabilities and stockholders' equity	$ 704,428	$ 740,252

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,	
	2018	**2017**	**2018**	**2017**
Net sales	$ 510,580	$ 543,275	$ 1,599,842	$ 1,622,117
Cost of goods sold	425,446	461,818	1,340,695	1,377,017
Gross profit	85,134	81,457	259,147	245,100
Selling, general and administrative expenses	74,580	79,951	229,156	233,479
Operating profit	10,554	1,506	29,991	11,621
Interest expense, net	2,273	1,950	7,050	5,589
Equity income from unconsolidated affiliate	73	151	377	424
Income (loss) before income taxes	8,354	(293)	23,318	6,456
Income tax expense	2,383	474	6,653	685
Net income (loss)	$ 5,971	$ (767)	$ 16,665	$ 5,771
Basic and Diluted Earnings (Loss) Per Common Share				
Basic	$ 0.50	$ (0.06)	$ 1.40	$ 0.46
Diluted	0.47	(0.06)	1.35	0.43
Weighted average number of common shares outstanding:				
Basic	12,050	12,248	11,936	12,418
Diluted	12,795	12,248	12,343	13,325

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,	
	2018	**2017**	**2018**	**2017**
Net income (loss)	$ 5,971	$ (767)	$ 16,665	$ 5,771
Other comprehensive income (loss):				
Foreign currency translation adjustments	285	750	(533)	1,066
Total other comprehensive income (loss)	285	750	(533)	1,066
Comprehensive income (loss)	$ 6,256	$ (17)	$ 16,132	$ 6,837

See Notes to the Condensed Consolidated Financial Statements.

PCM, INC.

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

	Nine Months Ended September 30,	
	2018	2017
Cash Flows From Operating Activities		
Net income	$ 16,665	$ 5,771
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	10,235	10,482
Equity income from an unconsolidated affiliate	(377)	(424)
Distribution from equity method investee	225	—
Provision for deferred income taxes	1,426	266
Non-cash stock-based compensation	2,258	1,918
Change in operating assets and liabilities:		
Accounts receivable	(11,827)	(55,566)
Inventories	39,482	10,621
Prepaid expenses and other current assets	344	6,346
Other assets	2,079	1,181
Accounts payable	22,864	(7,145)
Accrued expenses and other current liabilities	4,373	3,547
Deferred revenue	164	(6,438)
Total adjustments	71,246	(35,212)
Net cash provided by (used in) operating activities	87,911	(29,441)
Cash Flows From Investing Activities		
Purchases of property and equipment	(3,816)	(14,122)
Acquisition of Stack Technology, net of cash acquired	(35)	(1,723)
Net cash used in investing activities	(3,851)	(15,845)
Cash Flows From Financing Activities		
Net (payments) borrowings under line of credit	(79,261)	60,948
Borrowings under notes payable	—	5,212
Payments under notes payable	(2,631)	(2,777)
Change in book overdraft	(42)	1,885
Payments of obligations under capital leases	(813)	(1,113)
Payments of earn-out liability	(2,199)	(11,058)
Proceeds from capital lease obligations	—	587
Net proceeds from stock issued under stock option plans	1,409	5,007
Payments for deferred financing costs	(273)	(669)
Common shares repurchased and held in treasury	—	(11,354)
Payment of taxes related to net-settled stock awards	(513)	(808)
Net cash (used in) provided by financing activities	(84,323)	45,860
Effect of foreign currency on cash flow	(301)	600
Net change in cash and cash equivalents	(564)	1,174
Cash and cash equivalents at beginning of the period	9,113	7,172
Cash and cash equivalents at end of the period	$ 8,549	$ 8,346
Supplemental Cash Flow Information		
Interest paid	$ 6,726	$ 4,970
Income taxes paid, net	1,306	3,826
Supplemental Non-Cash Investing and Financing Activities		
Financed and accrued purchases of property and equipment	$ 1,560	$ 520

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 solutions, including hardware products, software and services, offered through our dedicated sales force, ecommerce channels and technology services teams. 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, Symantec and VMware. We provide our customers with comprehensive solutions incorporating leading products and services across a variety of technology practices and platforms such as cloud, security, data center, networking, collaboration and mobility. 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, 2017 filed with the SEC.

We operate in four reportable segments: Commercial, Public Sector, Canada and United Kingdom. Our reportable operating segments are primarily aligned based upon our reporting of results as used by our chief operating decision maker in evaluating the operating results and performance of our company. We include corporate related expenses such as legal, accounting, information technology, product management and other administrative costs that are not otherwise included in our reportable operating segments in Corporate & Other.

We sell primarily to customers in the United States, Canada and the UK, and maintain offices in the United States, Canada and the UK, as well as in the Philippines. During the three months ended September 30, 2018, we generated approximately 75% of our revenue in our Commercial segment, 13% of our revenue in our Public Sector segment, 9% of our revenue in our Canada segment and 3% of our revenue in our United Kingdom segment. During the nine months ended September 30, 2018, we generated approximately 75% of our revenue in our Commercial segment, 12% of our revenue in our Public Sector segment, 9% of our revenue in our Canada segment and 3% of our revenue in our United Kingdom segment.

Our Commercial segment sells complex technology 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, as well as the acquisition of Stratiform in December 2016.

Our United Kingdom segment consists of results of our UK subsidiary, PCM Technology Solutions UK, Ltd. ("PCM UK"), and its wholly-owned subsidiaries, which serve as our hub for the UK and the rest of Europe. PCM UK commenced its sales operations in May 2017.

2. New Accounting Standards and Accounting Policies

In August 2018, the SEC adopted the final rule under SEC Release No. 33-10532, “Disclosure Update and Simplification,” amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition, the amendments expanded the disclosure requirements on the analysis of stockholders’ equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders’ equity presented in the balance sheet must be provided in a note or separate statement and present a reconciliation of the beginning balance to the ending balance of each period for which a statement of comprehensive income is required to be filed. We anticipate that the first presentation of changes in stockholders’ equity required by these amendments will be included in our Form 10-Q for the quarter ending March 31, 2019.

In January 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2017-04, “Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,” which simplified the testing of goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measured a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. ASU 2017-04 is effective for public companies for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. We are currently evaluating the effects that the adoption of ASU 2017-04 will have on our consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business,” which provides a more robust framework to use in determining when a set of assets and activities is a business. ASU 2017-01 provides a more narrow definition of what is referred to as outputs and align it with how outputs are described in Topic 606 in order to narrow the broad interpretations of the definition of a business. ASU 2017-01 is effective for public companies in their annual periods beginning after December 15, 2017, including interim periods within those periods. We adopted ASU 2017-01 effective January 1, 2018 and it did not have a material effect on our consolidated financial statements.

In August 2016, the 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 adopted ASU 2016-15 effective January 1, 2018 and it did not have a material effect 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. In July 2018, the FASB issued ASU No. 2018-11, “Targeted Improvements” which provides entities with an additional transition method to adopt Topic 842. Under the new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption. The new lease standard 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 transition methods available under the new standard and the effects that the adoption of the new lease standard will have on our consolidated financial statements. We expect that the primary effect of adopting the new lease standard on January 1, 2019 will be recording right-of-use assets and corresponding lease obligations for current operating leases on our balance sheet, which is expected to be material.

Adoption of New Revenue Recognition Standard

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09” or “ASC 606”), which, along with amendments issued in 2015 and 2016, replaced most existing revenue recognition guidance under GAAP and eliminated industry specific guidance. The core principle of the new guidance is that an entity should recognize revenue for the transfer of goods and services equal to an amount it expects to be entitled to receive for those goods and services. The new guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively by recognizing the cumulative effect of initially applying the guidance to all contracts existing at the date of initial application (the modified retrospective method). The ASU, as amended, was effective beginning in the first quarter of 2018. We adopted the guidance on January 1, 2018 using the full retrospective method and we have retrospectively adjusted our prior period financial information presented herein. See below for more information.

We have updated our accounting policies to conform with the new guidance, the adoption of which impacted two of our revenue streams as follows:

- *Timing of revenue recognition of product in transit to customers* - different businesses within PCM have had varying terms of sale related to when title and risk of loss transfer to the customer, either upon shipment or delivery. Historically, regardless of the terms of sale, we have recorded revenue upon delivery to the customer. The adoption of ASU 2014-09 changes the way we recognize revenue for sales with terms where title and risk of loss transfer at shipping point, such that they are now to be recorded at shipment, which is when we transfer control, rather than upon delivery, to our customers. Given that we are migrating to a common ERP, and to ensure consistent application of the new revenue standard across all of our businesses, we changed the terms of sale in the fourth quarter of 2017 such that all of our businesses have terms where title and risk of loss transfer upon delivery to the customer. As a result, following our adoption of ASC 606 on January 1, 2018, we record all sales similar to how we have historically recorded them in 2017 and prior by recording them upon delivery to our customers. Since we have elected the retrospective method of adoption, the 2016 and 2017 results will reflect the impact of recording revenue at its historical stated terms and conditions. See below for more information.

- *Gross vs. net treatment of certain security software revenues* – in certain security software transactions when accompanying third-party delivered software assurance is deemed to be critical or essential to the core functionality of the software license, we have determined that the software license and the accompanying third-party delivered software assurance are a single performance obligation. The value of the product is primarily the accompanying support delivered by a third-party and therefore we act as an agent in these transactions, which are recognized on a net basis. Following our adoption of ASC 606 on January 1, 2018, we recognize revenue from the software license on a gross basis (i.e., acting as a principal) and accompanying third-party delivered software assurance on a net basis. This change reduces both net sales and cost of sales with no impact on reported gross profit.

- The accounting for revenue related to hardware, software (excluding the above) and services remains unchanged.

The adoption of ASU 2014-09 resulted in the following retrospective adjustments to our previously-reported financial statement amounts for the periods presented below (some items may not foot across due to rounding) (in thousands, except per share amounts):

	Three Months Ended March 31, 2017			Three Months Ended June 30, 2017			Three Months Ended September 30, 2017			Three Months Ended December 31, 2017		
	As Reported	New Revenue Recognition Standard Adjustment	As Adjusted	As Reported	New Revenue Recognition Standard Adjustment	As Adjusted	As Reported	New Revenue Recognition Standard Adjustment	As Adjusted	As Reported	New Revenue Recognition Standard Adjustment	As Adjusted
Net sales	$524,399	$ (1,639)	$522,760	$560,110	$ (4,028)	$556,082	$545,479	$ (2,204)	$543,275	$563,448	$ (18,678)	$544,770
Gross profit	78,205	293	78,498	85,371	(226)	85,145	81,294	163	81,457	80,852	(1,224)	79,628
Gross profit margin	14.9%	10 bps	15.0%	15.2%	7 bps	15.3%	14.9%	9 bps	15.0%	14.3%	27 bps	14.6%
Operating profit (loss)	4,473	238	4,711	5,624	(220)	5,404	1,385	121	1,506	(41)	(952)	(993)
Income tax expense (benefit)	(1,069)	93	(976)	1,273	(86)	1,187	427	47	474	353	(371)	(18)
Net income (loss)	4,027	145	4,172	2,500	(134)	2,366	(841)	74	(767)	(2,595)	(581)	(3,176)
Earnings (Loss) Per Share:												
Basic	0.33	0.01	0.34	0.20	(0.01)	0.19	(0.07)	0.01	(0.06)	(0.22)	(0.05)	(0.27)
Diluted	0.30	0.01	0.31	0.19	(0.01)	0.18	(0.07)	0.01	(0.06)	(0.22)	(0.05)	(0.27)

	At March 31, 2017			At June 30, 2017			At September 30, 2017		
	As Reported	New Revenue Recognition Standard Adjustment	As Adjusted	As Reported	New Revenue Recognition Standard Adjustment	As Adjusted	As Reported	New Revenue Recognition Standard Adjustment	As Adjusted
Accounts receivable	$354,301	$ 12,618	$366,919	$442,460	$ 12,269	$454,729	$412,733	$ 14,497	$427,230
Inventory	66,417	(11,331)	55,086	77,439	(11,208)	66,231	74,871	(13,273)	61,598
Total current assets	446,602	1,287	447,889	541,735	1,061	542,796	506,011	1,224	507,235
Total assets	611,045	1,287	612,332	710,041	1,061	711,102	678,537	1,224	679,761
Accounts payable	241,470	236	241,706	355,834	229	356,063	271,841	271	272,112
Total current liabilities	447,006	236	447,242	536,910	229	537,139	506,050	271	506,321
Deferred income tax liability	1,556	410	1,966	3,758	324	4,082	3,819	371	4,190
Total liabilities	473,698	646	474,344	569,386	554	569,940	548,548	643	549,191
Retained Earnings	32,184	641	32,825	34,778	507	35,285	33,843	581	34,424
Total stockholders' equity	137,347	641	137,988	140,655	507	141,162	129,989	581	130,570
Total liabilities and stockholders' equity	611,045	1,287	612,332	710,041	1,061	711,102	678,537	1,224	679,761

	Year Ended December 31, 2017			Year Ended December 31, 2016		
	As Reported	New Revenue Recognition Standard Adjustment	As Adjusted	As Reported	New Revenue Recognition Standard Adjustment	As Adjusted
Net sales	$ 2,193,436	$ (26,549)	$ 2,166,887	$ 2,250,587	$ (11,030)	$ 2,239,557
Gross profit	325,722	(994)	324,728	318,801	126	318,927
Gross profit margin	14.8%	14 bps	15.0%	14.2%	8 bps	14.2%
Operating profit	11,441	(813)	10,628	34,791	110	34,901
Income tax expense	984	(317)	667	11,115	43	11,158
Net income	3,091	(496)	2,595	17,593	67	17,660
Earnings Per Share:						
Basic	0.25	(0.04)	0.21	1.49	0.01	1.49
Diluted	0.24	(0.04)	0.20	1.40	0.01	1.41

	At December 31, 2017			At December 31, 2016		
	As Reported	New Revenue Recognition Standard Adjustment	As Adjusted	As Reported	New Revenue Recognition Standard Adjustment	As Adjusted
Accounts receivable	$ 439,658	$ -	$ 439,658	$ 358,949	$ 9,647	$ 368,596
Inventory	103,471	-	103,471	80,872	(8,653)	72,219
Total current assets	561,575	-	561,575	469,055	994	470,049
Total assets	740,252	-	740,252	629,810	994	630,804
Accounts payable	289,201	-	289,201	276,524	180	276,704
Total current liabilities	569,294	-	569,294	474,052	180	474,232
Deferred income tax liability	3,102	-	3,102	1,498	317	1,815
Total liabilities	612,626	-	612,626	501,339	498	501,837
Retained Earnings	31,248	-	31,248	28,251	496	28,747
Total stockholders' equity	127,626	-	127,626	128,471	496	128,967
Total liabilities and stockholders' equity	740,252	-	740,252	629,810	994	630,804

Revenue Recognition Policy

We adhere to the guidelines and principles of revenue recognition described in ASC 606. Under ASC 606, we identify and account for a contract with a customer when it has written approval and commitment of the parties, the rights of the parties including payment terms are identified, the contract has commercial substance, and consideration is probable of collection. We recognize revenue upon delivery to the customer when control, title and risk of loss of a promised product or service transfers to a customer, as per our contractual agreement with customers, in an amount that reflects the consideration to which we expect to be entitled in exchange for transferring those products or services. In certain types of arrangements, as discussed more fully below, revenue from sales of third-party vendor products or services is recorded on a net basis when we act as an agent between the customer and the vendor, and on a gross basis when we act as the principal for the transaction. To determine whether the company is an agent or principal, we consider whether we obtain control of the products or services before they are transferred to the customer, as well as whether we have primary responsibility for fulfillment to the customer, inventory risk and pricing discretion.

Product and service revenues are recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services. The following indicators are evaluated in determining when control has transferred to the customer: (i) the Company has a right to payment, (ii) the customer has legal title to the product, (iii) the Company has transferred physical possession of the product to the customer, (iv) the customer has the significant risk and rewards of ownership, and (v) the customer has accepted the product.

Products

Revenue from sales of product (hardware and software) is recognized at a point in time when the product has been delivered to the customer. The Company's shipping terms are FOB destination and it is upon delivery that the Company has right to payment, the customer obtains legal title to the product, and physical possession of the product has transferred to the customer. We act as the principal in these transactions and, as such, record product revenue at gross sales amounts. 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 also recognized at gross sales amounts.

When product sales incorporate a bill and hold arrangement, whereby the customer agrees to purchase product but requests delivery at a later date, we have determined that control transfers when the product is ready for delivery, which occurs when the product has been set aside or obtained specifically to fulfill the contract with the customer. It is at this point that we have right to payment, the customer obtains legal title, and the customer has the significant risks and rewards of ownership.

We recognize certain products on a net basis, as an agent. Products in this category include the sale of third-party services, warranties, software assurance ("SA"), and subscriptions.

Warranties represent third-party product warranties. Warranties not sold separately are assurance-type warranties that only provide assurance that products will conform to the manufacturer's specifications and are not considered separate performance obligations. Warranties that are sold separately, such as extended warranties, provide the customer with a service in addition to assurance that the product will function as expected. We consider these service-type warranties to be separate performance obligations from the underlying product. We arrange for a third-party to provide those services and therefore we act as an agent in the transaction and record revenue on a net basis at the point of sale.

SA is a product that allows customers to upgrade their software, at no additional cost, to the latest technology if new applications are introduced during the period that the SA is in effect. Most software licenses are sold with accompanying third-party delivered SA. The Company evaluates whether the SA is a separate performance obligation by assessing if the third-party delivered SA is critical to the core functionality of the software. This involves considering if the software provides its original intended functionality to the customer without the updates, if the customer would ascribe a higher value to the upgrades versus the initial software delivered, and if the customer would expect updates to the software to maintain the functionality. When the SA for a software product is deemed critical to maintaining the core functionality of the underlying software, the software license and SA are considered a single performance obligation and the value of the product is primarily the SA service delivered by a third-party. Therefore, the Company is acting as an agent in these transactions and the revenue is recognized on a net basis when the underlying software is delivered to the customer. 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. When the SA for a software product is deemed not critical to the core functionality of the underlying software, the SA is recognized as a separate performance obligation and the revenue is recognized on a net basis when the underlying software license is delivered to the customer.

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, and we act as a sales agent in the transaction. In addition to the vendor being primarily responsible for fulfilling the promise to the customer, they also assume the inventory risk as they are responsible for providing remedy or refund if the customer is not satisfied with the delivered services. At the time of sale, our obligation as an agent is fulfilled and we recognize revenue in the amount of an agency fee or commission. We record these fees as a component of net sales 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.

Services

Service revenues are recognized over time since customers simultaneously receive and consume the benefits of the Company's services as they are provided. The Company is the principal in service transactions and therefore recognizes revenue on a gross basis. 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 in the amount to which the Company has the right to invoice in accordance with the practical expedient in paragraph 606-10-55-18. Revenue for fixed fee services are recognized using an input method based on the total number of hours incurred for the period as a proportion of the total expected hours for the project. Total expected hours to complete the project is updated for each period and best represents the transfer of control of the service to the customer.

Bundled Arrangements

Bundled arrangements are contracts that can include various combinations of products and services. When a contract includes multiple performance obligations delivered at varying times, we determine whether the delivered items are distinct under ASC 606. For arrangements with multiple performance obligations, the transaction price is allocated among the performance obligations based on their relative standalone selling prices ("SSP"). When observable evidence from recent transactions exists, it is used to confirm that prices are representative of SSP. When evidence from recent transactions is not available, an expected cost plus a margin approach is used.

Sales In Transit

In order to recognize revenues in accordance with our revenue recognition policy under ASC 606, we perform an analysis to estimate the number of days that 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 that are initially recorded in our accounting records based on the estimated value of products that have shipped, but have not yet been delivered to 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 the timing of revenue recognized in future periods.

Freight Costs

The Company records freight billed to its customers on a gross basis to net sales and related freight costs to cost of sales when the product is delivered to the customer. For freight not billed to its customers, the Company records the freight costs as cost of sales. The Company's shipping terms are FOB destination, which results in shipping being performed before the customer obtains control of the product, thus shipping activities are not a promised service to the customer. Rather, shipping is an activity to fulfill the promise to deliver the products.

Other

The Company's contracts give rise to variable consideration in the form of sales returns and allowances which we estimate at the most likely amount to which we are expected to be entitled. This estimate is included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. The most likely amount estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based on an assessment of the Company's anticipated performance and historical experience and are recorded at the time of sale.

Sales are reported net of estimated returns and allowances, discounts, mail-in rebate redemptions, credit card chargebacks, and taxes collected from customers. If the actual sales returns, allowances, discounts, mail-in rebate redemptions or credit card chargebacks are greater than estimated by management, additional reductions to revenue may be required.

Generally, the period between when control of the promised products or services transfer to the customer and when the customer pays for the product or service is one year or less. As such, we elected the practical expedient allowed in paragraph 606-10-32-18 and we do not adjust product and service consideration for the effects of a significant financing component.

The amortization period of any asset resulting from incremental costs of obtaining a contract would generally be one year or less. As such, we elected the practical expedient allowed in paragraph 340-40-25-4 and we expense these costs as incurred.

The following table presents our total net sales disaggregated by our major product line and our reportable segments (in thousands):

	Commercial	Public Sector	Canada	United Kingdom	Corporate & Other	Consolidated
Three Months Ended September 30, 2018						
Hardware & Software Products	$ 351,077	$ 63,024	$ 36,108	$ 15,806	$ (155)	$ 465,860
Services	30,487	5,254	7,753	1,226	—	44,720
Total	$ 381,564	$ 68,278	$ 43,861	$ 17,032	$ (155)	$ 510,580
Three Months Ended September 30, 2017						
Hardware & Software Products	$ 393,814	$ 76,446	$ 30,245	$ 2,691	$ (137)	$ 503,059
Services	29,665	2,664	7,841	46	—	40,216
Total	$ 423,479	$ 79,110	$ 38,086	$ 2,737	$ (137)	$ 543,275
Nine Months Ended September 30, 2018						
Hardware & Software Products	$1,114,361	$ 185,890	$ 122,596	$ 44,799	$ (469)	$ 1,467,177
Services	92,884	13,162	22,801	3,818	—	132,665
Total	$1,207,245	$ 199,052	$ 145,397	$ 48,617	$ (469)	$ 1,599,842
Nine Months Ended September 30, 2017						
Hardware & Software Products	$1,182,452	$ 211,530	$ 107,620	$ 3,053	$ (342)	$ 1,504,313
Services	84,440	10,613	22,705	46	—	117,804
Total	$1,266,892	$ 222,143	$ 130,325	$ 3,099	$ (342)	$ 1,622,117

The change in our deferred revenue related to contracts with customers was as follows (in thousands):

	Current	Long-Term	Total
Balance at December 31, 2017	$ 7,913(1)	$ 463(2)	$ 8,376
Deferral of revenue	22,855	391	23,246
Recognition of deferred revenue	(22,638)	(837)	(23,475)
Foreign currency translation	(53)	—	(53)
Balance at September 30, 2018	$ 8,077(1)	$ 17(2)	$ 8,094

(1) Presented as “Deferred revenue” on our consolidated balance sheets.
(2) Presented as part of “Other long-term liabilities” on our consolidated balance sheets.

At September 30, 2018, we had an immaterial amount of contract assets resulting from revenue being recognized in excess of the amount that we have the right to invoice the customer.

Revenue allocated to remaining performance obligations represents non-cancellable contracted revenue that has not yet been recognized, which includes unearned revenue and amounts that will be delivered and recognized as revenue in future periods. Contracted, but not recognized, revenue was $28.9 million as of September 30, 2018, of which we expect to recognize approximately 59% over the next 12 months and the remainder thereafter. We applied the practical expedient provided under ASC 606-10-50-14(a) and have not included information about remaining performance obligations that have original expected duration of one year or less.

3. Acquisition

On December 22, 2017, PCM UK, our UK based subsidiary, completed the acquisition of Provista Technology for an initial purchase price of £3.4 million, net of cash acquired and including £1.1 million of accrued earn-out liability (or $4.5 million, net of cash acquired and including $1.4 million of accrued earn-out liability). Provista Technology has expertise across a range of technologies and manufacturers including Cisco, Avaya, Cisco Meraki, Huawei, Checkpoint, and other leading vendors, with offerings encompassing all aspects of Cloud Networking, Cloud Video, Hyperconvergence, Security, Collaboration, Secure Wireless and IP LAN, WAN & Data Center Networks. We believe this acquisition will further enhance PCM UK’s expertise and vendor accreditations in the United Kingdom as a Cisco Gold Partner, allowing PCM UK and its subsidiaries to offer further consultancy, integration and supply of services and solutions across the UK marketplace while replicating many existing offerings from our North American organization. As part of the Provista acquisition, we agreed to pay certain contingent earn-out consideration related to years ending December 31, 2018, 2019 and 2020 (each year the “measurement period”), and payable 90 days in arrears following each measurement period. As of September 30, 2018, we have estimated that the fair value of contingent consideration to be paid throughout the earn-out periods to be approximately $1.4 million, of which we have included $0.5 million in “Accrued expenses and other current liabilities” and $0.9 million in “Other long-term liabilities” on our consolidated balance sheet. The accounting for the acquisition of Provista Technology is currently preliminary and we continue to obtain information relative to the fair values of certain assets acquired and certain liabilities assumed in the transaction.

4. Goodwill and Intangible Assets

Goodwill

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

	Commercial	Public Sector	Canada	United Kingdom	Total
Balance at December 31, 2017	$ 69,735	$ 8,322	$ 4,997	$ 4,714	$ 87,768
Adjustment related to acquisition of Stack Technology	—	—	—	35	35
Foreign currency translation	—	—	(127)	(171)	(298)
Balance at September 30, 2018	$ 69,735	$ 8,322	$ 4,870	$ 4,578	$ 87,505

Intangible Assets

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

	Weighted Average Estimated Useful Lives (years)	At September 30, 2018			At December 31, 2017		
		Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Patent, trademarks, trade names & URLs	5	$ 5,701(1)	$ 1,771	$ 3,930	$ 7,739(1)	$ 3,186	$ 4,553
Customer relationships	14	13,597	9,026	4,571	13,533	7,799	5,734
Non-compete agreements	4	2,371	2,024	347	2,377	1,574	803
Total intangible assets		$ 21,669	$ 12,821	$ 8,848	$ 23,649	$ 12,559	$ 11,090

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

Amortization expense for intangible assets was approximately $0.7 million and $1.0 million for the three months ended September 30, 2018 and 2017, respectively, and $2.3 million and $3.1 million for the nine months ended September 30, 2018 and 2017, respectively. Estimated amortization expense for intangible assets as of September 30, 2018 in each of the next five years and thereafter is as follows: $0.7 million in the remainder of 2018, $1.9 million in 2019, $1.3 million in 2020, $0.5 million in 2021, $0.4 million in 2022 and $1.1 million thereafter.

5. Debt

The following table sets forth our outstanding debt balances (in thousands):

	At September 30, 2018	At December 31, 2017
Revolving credit facility, LIBOR plus 1.50%, maturing in March 2021	$ 134,517	$ 213,778
Note payable, LIBOR plus 1.50%, maturing in March 2021	9,691	11,032
Note payable, LIBOR plus 1.50%, maturing in March 2021	1,706	1,943
Note payable, greater of 2% or LIBOR plus 2.15%, maturing in April 2022	4,256	4,404
Note payable, LIBOR plus 2.25%, maturing in January 2022	3,736	3,908
Note payable, LIBOR plus 2.25%, maturing in January 2020	6,566	6,798
Note payable, Prime rate plus 0.375% or LIBOR plus 2.375%, maturing in January 2020	7,409	7,710
Note payable, LIBOR plus 3.2%, maturing in May 2025	250	284
Other note payable, matured in August 2018	—	175
Total	168,131	250,032
Less: Total current debt	137,801	217,140
Total non-current debt	$ 30,330	$ 32,892

The following table sets forth the maturities of our outstanding debt balances as of September 30, 2018 (in thousands):

	Remainder of 2018	2019	2020	2021	2022	Thereafter	Total
Total long-term debt obligations	$ 819	$ 3,275	$ 15,651	$ 10,118	$ 3,654	$ 97	$ 33,614
Revolving credit facility	134,517	—	—	—	—	—	134,517
Total	$ 135,336	$ 3,275	$ 15,651	$ 10,118	$ 3,654	$ 97	$ 168,131

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 with the Lenders and on February 24, 2017, we entered into a Second Amendment to the Fourth Amended Loan Agreement with the Lenders. On October 24, 2017, PCM, all of its wholly-owned domestic subsidiaries (collectively with PCM, the "US Borrowers"), all of its Canadian subsidiaries (collectively, the "Canadian Borrowers") and its PCM UK subsidiary (together with the US Borrowers and the Canadian Borrowers, the "Borrowers"), entered into a Fifth Amended and Restated Loan and Security Agreement (the "Fifth Amended Loan Agreement") with the Lenders. The Fifth Amended Loan Agreement amends and restates the Fourth Amended Loan Agreement.

The terms of our credit facility, as amended, provide for (i) a Maximum Credit, as defined in the credit facility, of $345,000,000; (ii) a sub-line of up to C$40,000,000 as the Canadian Maximum Credit and a sub-line of up to £25,000,000 as the UK Maximum Credit ((i) and (ii) collectively the "Revolving Line"); (iii) a Maturity Date of March 19, 2021; (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 Fifth 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%; (v) interest on outstanding UK balances based on LIBOR plus a margin, depending on average excess availability under the Revolving Line, ranging from 1.50% to 1.75%; (vi) 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%; and (vii) 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 terms of our credit facility are more fully described in the Fifth Amended Loan Agreement.

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, 2018, 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, 2018, we had $169.0 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 a sub-line with a limit of $12.5 million secured by our properties located in Santa Monica, California, with a monthly principal amortization of $149,083 and a sub-line with a limit of $2.2 million secured by our property in Woodridge, Illinois, with a monthly principal amortization of $26,250.

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. As of September 30, 2018, we had no outstanding balance under the Channel Finance Facility.

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 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.

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 with a bank for draws 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, as amended, 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 September 2017, we entered into an amendment with the lender extending the maturity of the loan to January 31, 2020. 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, 2018, the effective weighted average annual interest rate on our outstanding amounts under the credit facility, term note and variable interest rate notes payable was 3.78%.

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

6. Income Taxes

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, adjusting the result for any discrete items which occurs during the interim period.

On December 22, 2017, U.S. tax legislation was enacted containing a broad range of tax reform provisions. The SEC staff concurrently issued Staff Accounting Bulletin No.118, providing additional guidance on accounting for the financial statement effects of U.S. tax reform and allowing companies to record provisional amounts during a one-year measurement period, not to extend beyond one year from the enactment date. During the three months ended September 30, 2018, we recorded an incremental charge of $0.3 million against our provisional net tax benefit of $1.2 million recorded in December 2017 related to the impact on our deferred tax balances and the additional tax resulting from the mandatory deemed repatriation of foreign earnings. We expect to finalize our remaining provisional estimates, which primarily relate to the state impact of tax reform, during the three months ending December 31, 2018. Further, we are continuing to evaluate the provisions related to global intangible low tax income (GILTI) and expect to make a policy election to account for GILTI as a period expense during the three months ending December 31, 2018. For additional information regarding 2017 U.S. tax reform, see Note 9 of the notes to our consolidated financial statements included in our 2017 Form 10-K.

Accounting for Uncertainty in Income Taxes

At September 30, 2018 and December 31, 2017, we had unrecognized tax benefits of $0.3 million and $0.5 million, respectively, related to research credits. For the three and nine months ended September 30, 2018 and 2017, we did not recognize any interest or penalties for uncertain tax positions, nor were there any interest or penalties accrued at September 30, 2018 and December 31, 2017. 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 2014, and state income tax examinations for years subsequent to 2012. 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.

7. 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. Our Board of Directors originally adopted the plan in October 2008 with an initial authorized maximum of $10 million. The plan was amended in September 2012 and increased to $20 million, again amended in April 2015 and increased to a total of $30 million, and again amended in August 2017 and increased to a total of $40 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 made no repurchase of shares of our common stock under this program during the three and nine months ended September 30, 2018. At September 30, 2018, we had $2.5 million available for 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.

8. 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 months ended September 30, 2018, approximately 135,000 common shares have been excluded from the calculation of diluted EPS because the effect of their inclusion would have been antidilutive. For the three months ended September 30, 2017, since we reported a net loss, all potential shares totaling approximately 634,000 were excluded from the computation of diluted EPS as their inclusion would have been antidilutive. For the three months ended September 30, 2017, had we reported net income, approximately 229,000 common shares would have been excluded from the calculation of diluted EPS because the effect of their inclusion would have been antidilutive. For the nine months ended September 30, 2018 and 2017, approximately 649,000 and 142,000 common shares, respectively, have been excluded from the calculation of diluted EPS because the effect of their inclusion would have been antidilutive.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Numerator:				
Net income (loss)	$ 5,971	$ (767)	$ 16,665	$ 5,771
Denominator:				
Basic EPS - Weighted average number of common shares outstanding	12,050	12,248	11,936	12,418
Dilutive effect of stock awards	745	—	407	907
Diluted EPS - Weighted average number of common shares outstanding	12,795	12,248	12,343	13,325
Net earnings (loss) per share:				
Basic	$ 0.50	$ (0.06)	$ 1.40	$ 0.46
Diluted	0.47	(0.06)	1.35	0.43

9. Segment Information

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

	Commercial	Public Sector	Canada	United Kingdom	Corporate & Other	Consolidated
Three Months Ended September 30, 2018						
Net sales	$ 381,564	$ 68,278	$ 43,861	$ 17,032	$ (155)	$ 510,580
Gross profit (loss)	65,627	9,808	6,682	3,168	(151)	85,134
Depreciation and amortization expense(1)	1,266	124	261	113	1,558	3,322
Operating profit (loss)	23,212	4,189	306	(758)	(16,395)	10,554
Three Months Ended September 30, 2017						
Net sales	$ 423,479	$ 79,110	$ 38,086	$ 2,737	$ (137)	$ 543,275
Gross profit (loss)	64,943	9,647	6,554	448	(135)	81,457
Depreciation and amortization expense(1)	1,423	208	278	21	1,639	3,569
Operating profit (loss)	19,172	2,901	(830)	(1,467)	(18,270)	1,506
Nine Months Ended September 30, 2018						
Net sales	$ 1,207,245	$ 199,052	$ 145,397	$ 48,617	$ (469)	$ 1,599,842
Gross profit (loss)	201,622	26,209	22,421	9,355	(460)	259,147
Depreciation and amortization expense(1)	3,884	422	758	235	4,936	10,235
Operating profit (loss)	70,421	8,872	2,934	(2,152)	(50,084)	29,991
Nine Months Ended September 30, 2017						
Net sales	$ 1,266,892	$ 222,143	$ 130,325	$ 3,099	$ (342)	$ 1,622,117
Gross profit (loss)	196,052	27,606	21,281	501	(340)	245,100
Depreciation and amortization expense(1)	4,247	622	783	21	4,809	10,482
Operating profit (loss)	57,150	9,127	685	(3,204)	(52,137)	11,621

(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, 2018 and December 31, 2017, we had total consolidated assets of $704.4 million and $740.3 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.

10. Commitments and Contingencies

Total rent expense under our operating leases, net of sublease income, was $1.9 million and $1.8 million in the three month periods ended September 30, 2018 and 2017, respectively, and $5.8 million and $4.7 million in the nine month periods ended September 30, 2018 and 2017, respectively. Some of our leases contain renewal options and escalation clauses, and require us to pay taxes, insurance and maintenance costs.

Legal Proceedings

From time to time, we receive claims of and become subject to consumer protection, employment, intellectual property and other litigation related to the conduct of our business. Any such litigation could result in a material amount of legal or related expenses and be time consuming and could divert our management and key personnel from our business operations. In connection with any such litigation, we may be subject to significant damages or equitable remedies relating to the operation of our business. Any such litigation may materially harm our business, results of operations and financial condition.

We acquired certain assets of En Pointe Technologies in 2015. The assets were acquired by an indirect wholly-owned subsidiary of PCM, which subsidiary now operates under the En Pointe brand ("En Pointe"). We are currently involved in several disputes related to the En Pointe acquisition as described below. Any litigation, arbitration or other dispute resolution process 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. While we intend to pursue and/or defend these actions vigorously, 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.

Delaware Litigation with Collab9. On December 5, 2016, Collab9, Inc. (formerly, En Pointe Technologies Sales, Inc.) filed an action against PCM, Inc. and its subsidiary, En Pointe Technologies Sales, LLC, in the Superior Court of Delaware in New Castle County, Delaware. The action arises out of a March 12, 2015 Asset Purchase Agreement ("APA") pursuant to which the Company acquired assets of Collab9's information technology solutions business. Collab9's complaint alleged that the Company breached the APA by failing to pay Collab9 the full amount of the periodic "earn-out" payments to which Collab9 is entitled under the APA. The complaint also alleged that the Company breached an obligation to cooperate with Collab9's evaluation of its claim for breach of the APA's earn-out provisions. The complaint did not specify the amount of damages Collab9 is seeking, but asserted that the amount of underpayment is "millions of dollars." On February 8, 2017, the Company filed an answer to Collab9's complaint in which the Company denied that it breached the APA and asserted that there is no merit in Collab9's claim. On March 5, 2018, Collab9 filed a motion for leave to amend its pleadings to add new allegations in support of its earn-out claim and to advance additional theories of recovery. Collab9's Second Amended Complaint was accepted for filing on June 20, 2018. In it, Collab9 advances four counts, or "causes of action," in which it alleges that the Company (i) failed to include in the earn-out payments a portion of internally delivered services revenue calculated across all consolidated Company businesses rather than the acquired En Pointe business; (ii) transferred accounts and sales persons away from the En Pointe business for the purpose of reducing the earn-out payment calculation; (iii) had an implied duty to maintain a separate financial accounting system for the purpose of tracking earn-out payment calculations; (iv) failed to provide Collab9 with a sublicense to certain SAP software acquired by the Company under the APA; (v) obtained and modified certain data that Collab9 delivered to the Company; and (vi) failed to cooperate with Collab9 to indemnify it in connection with the foregoing claims. Collab9 further asserts breaches of the APA and the implied covenant of good faith and fair dealing, and that the Company's certification of earn-out payments was fraudulent. On June 27, 2018, the Company moved to dismiss two of the four counts and otherwise answered the complaint. In response to the Company's motion, Collab9 filed a Third Amended Complaint on September 10, 2018 for the stated purpose of addressing the Company's arguments. On October 23, 2018, the Company again moved to dismiss two of the four counts and otherwise answered the complaint. The Company believes the claims are speculative and wholly without merit, and intends to vigorously defend the claims. However, the outcome of this matter is uncertain and, as a result, the Company cannot reasonably estimate the loss or range of loss that could result in the event of an unfavorable outcome. Accordingly, no amounts have been accrued for any liability that may result from the resolution of this matter.

In its June 27, 2018 answer, the Company also included counterclaims against the sellers in the Collab 9 transaction, including Collab9. These counterclaims assert claims for breach of contract, tortious interference, and intentional misrepresentation. The counterclaims include allegations that the sellers intentionally breached their representations and warranties concerning the financial statements of the business whose assets the Company acquired under the APA, and the need for minority business certifications which were required for certain acquired contracts under the APA. The counterclaims also include allegations that the sellers failed to disclose related party interests or retained control over Ovex Technologies (Private) Limited ("Ovex"), a third party operation in Pakistan that provided support functions for the acquired business. The sellers filed a motion to dismiss portions of the Company's counterclaims on October 17, 2018, to which the Company's response or amended pleading is due November 16, 2018. At this time, the outcome of this matter is uncertain.

California Litigation with Collab9. On January 13, 2017, Collab9 filed an action against PCM, Inc. and its subsidiary, En Pointe Technologies Sales, LLC, in the Superior Court of California for the County of Los Angeles. The complaint alleged that, in connection with the Company's processing of transactions with certain customers whose contracts the Company purchased the rights to under the APA following the closing of the APA, the Company, without authorization, accessed and altered electronically stored data of which Collab9 claims to have retained ownership. It further alleged that, although Collab9 authorized the Company to access the data in question during a post-closing transition period, the Company continued to access and alter the data Collab9 claims to own after an alleged termination of such authorization, and, in so doing, violated California's Computer Data Access and Fraud Act. On February 21, 2017, the Company moved to dismiss the case on the ground that the APA governs this dispute and contains a provision designating New Castle County, Delaware as the exclusive forum in which claims arising out of or relating to the APA may be brought. Following briefing and oral argument on July 12, 2017, the court granted the Company's motion to dismiss. Collab9 did not include these claims in its Second or Third Amended Complaints in the Delaware Litigation described above, and we do not know whether Collab9 will refile the claims in a Delaware court. The Company believes the claims are wholly without merit, and if pursued by Collab9 in Delaware, the Company intends to vigorously defend against them.

California Litigation Against Yunus, Ovex, Din and Zones. On February 22, 2017, En Pointe filed an action against former employee Imran Yunus in California Superior Court alleging misappropriation of trade secrets, breach of contract, and other claims relating to Mr. Yunus's departure from his employment at En Pointe to commence employment at a competitor. After discovering new facts about an alleged conspiracy to cause Ovex employees to resign and join a competitor, En Pointe amended the complaint on June 1, 2017 to add Zones, Inc., Ovex and Bob Din as defendants. In its complaint, En Pointe seeks damages against Zones, Yunus, and Din, and injunctive relief against all defendants. The core allegations relate to an alleged scheme orchestrated by defendant Din to conspire with Ovex management to cause Ovex employees to leave Ovex, taking En Pointe's confidential information and trade secrets, and join competitor Zones. On June 6, 2017, a temporary restraining order was issued by the court in which defendants were ordered, among other things, to immediately provide En Pointe with access to information in their possession and to not use or disclose En Pointe's trade secrets and confidential information. Ovex partially complied with the order. On July 13, 2017, the court denied En Pointe's request for a preliminary injunction, without prejudice, and dissolved the temporary restraining order for periods after July 13, 2017 without relieving defendants of their obligations while the temporary restraining order was in effect. The court based its decision primarily upon its determination that, at this stage of the litigation, there lacked sufficient evidence at this time to support the continued need for injunctive relief. In November 2017, En Pointe voluntarily dismissed the action without prejudice in order to seek resolution of disputes regarding data ownership and use rights in the pending Delaware Litigation with Collab9 described above. Depending on the outcome of the Delaware case, we may decide to reinstate this action in California.

Pakistan Litigation. On June 3, 2017, Ovex filed an action in Islamabad Pakistan against PCM's subsidiary En Pointe, and PCM's subsidiary in Pakistan, claiming that En Pointe breached a contract pursuant to which Ovex provided En Pointe with back-office administrative support and customer service support. The complaint sought damages, declaratory relief that En Pointe's termination of services contract should be suspended, and other injunctive relief. On the same date, the court in Pakistan issued a temporary order suspending the termination of the services contract pending a further hearing on the action and indicating that such order will not affect any other order or proceeding of any other competent judicial authority. En Pointe filed applications before the court in Pakistan seeking orders dismissing the injunction and staying the case filed by Ovex seeking damages. En Pointe's applications were based on its assertion that any matters to be litigated arising out of or in connection with the services contract is subject to a binding and enforceable exclusive arbitration clause in the services contract. On October 10, 2017, the Civil Court in Islamabad Pakistan dismissed the case on grounds of the exclusive venue provision of the contract which requires the case to be litigated in arbitration in California. Ovex appealed the decision of the Civil Court to the High Court in Islamabad. The High Court heard arguments by Ovex on the appeal in early November 2017. The case was temporarily adjourned by request to the High Court by Ovex with the consent of En Pointe, was then refixed for a hearing in August 2018 and is currently awaiting a hearing date to be set by the High Court for further argument on the appealed decision of the Civil Court. The Company believes the claims by Ovex are speculative and wholly without merit, and continues to vigorously defend the claims on jurisdictional grounds. However, the outcome of this matter in Pakistan is uncertain and, as a result, the Company cannot reasonably estimate the loss or range of loss that could result in the event of an unfavorable outcome in the Pakistan courts. Accordingly, no amounts have been accrued for any liability that may result from the resolution of this matter. In addition to the action by Ovex against En Pointe in Islamabad, on April 3, 2018, the sole shareholder of Ovex filed an action in Lahore Pakistan purportedly on behalf of Ovex against certain officers and directors of En Pointe, PCM and PCM's subsidiary in Pakistan claiming that Ovex was harmed as a result of an alleged scheme to drive Ovex employees to leave Ovex and join Pakistan-based direct competitors of PCM and affiliates of PCM. No relief has been sought directly against PCM or any of its subsidiaries in the action. We believe that the claims in this action lack merit and continue to vigorously defend the claims on jurisdictional grounds. On September 11, 2017, July 5, 2018, and again on August 17, 2018, the U.S. District Court for the Central District of California entered orders confirming that the pending proceedings in Islamabad and Lahore Pakistan are barred by the arbitration requirements of the applicable service contract between the parties. Despite the orders by the U.S. District Court for the Central District of California, Ovex and its shareholder continue to pursue the litigation in Islamabad and Lahore.

Ovex Arbitration. On June 6, 2017, En Pointe commenced arbitration against Ovex claiming damages arising from various claimed breaches by Ovex of the services contract between the parties. On July 7, 2017, an emergency arbitrator granted En Pointe some interim relief, including (i) a declaration that the arbitration clause in the services contract is valid and not waived, (ii) that any claim relating to termination of the services contract, or for beach of the contract, or for damages arising out of the services contract must be conducted within the arbitration, and (iii) that the services contract terminates no later than August 18, 2017. A permanent arbitrator for the action was appointed on August 3, 2017 and the arbitrator held an in-person, live, evidentiary hearing on November 28, 2017. On March 9, 2018, the arbitrator in the primary arbitration proceeding entered a partial final award in favor of En Pointe. In the award, the arbitrator found, among other things, that: (1) En Pointe had not breached the service contract and owes nothing to Ovex; (2) Ovex materially breached the service agreement and owes En Pointe $990,586 in actual damages plus attorneys' fees in an amount to be determined later; and (3) the service agreement was properly terminated by En Pointe with no further obligations to En Pointe. En Pointe has submitted support for the award of attorneys' fees and is awaiting the Arbitrator's ruling on the amount of the award. Additional claims and damages against Ovex will be decided in a later phase of the arbitration.

Federal Anti-Suit Injunction Action. On June 12, 2017, En Pointe filed a petition in the U.S. District Court for the Central District of California to compel arbitration in California for claims relating to the services contract with Ovex and for an anti-suit injunction against Ovex. In this action, En Pointe sought an order directing that any claims for damages arising out of the services contract must occur in arbitration, and any attempt to pursue damages in a foreign jurisdiction will be blocked by an anti-suit injunction. On September 11, 2017, the U.S. District Court issued an order compelling arbitration in California and granting the anti-suit injunction as requested in En Pointe's petition. Ovex and its sole shareholder have continued to litigate in Pakistan in violation of the U.S. District Court's order. On July 5, 2018, the U.S. District Court for the Central District of California entered another order confirming that the pending proceedings in Pakistan are barred by the arbitration requirement and by the Court's anti-suit injunction and directing Ovex and its shareholder to appear before the Federal Court to show cause why they should not be held in contempt for continuing to litigate in Pakistan in violation of this order. On August 17, 2018, the U.S. District Court for the Central District of California entered another order finding each of Ovex and its shareholder in contempt for continuing to litigate in Pakistan.

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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 solutions, including hardware products, software and services, offered through our dedicated sales force, ecommerce channels and technology services teams. 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, Symantec, Synnex and VMware. We provide our customers with comprehensive solutions incorporating leading products and services across a variety of technology practices and platforms such as cloud, security, data center, networking, collaboration and mobility. 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 operate in four reportable segments: Commercial, Public Sector, Canada and United Kingdom. Our reportable operating segments are primarily aligned based upon our reporting of results as used by our chief operating decision maker in evaluating the operating results and performance of our company. We include corporate related expenses such as legal, accounting, information technology, product management and other administrative costs that are not otherwise included in our reportable operating segments in Corporate & Other.

We sell primarily to customers in the United States, Canada and the UK, and maintain offices in the United States, Canada and the UK, as well as in the Philippines. During the three months ended September 30, 2018, we generated approximately 75% of our revenue in our Commercial segment, 13% of our revenue in our Public Sector segment, 9% of our revenue in our Canada segment and 3% of our revenue in our United Kingdom segment. During the nine months ended September 30, 2018, we generated approximately 75% of our revenue in our Commercial segment, 12% of our revenue in our Public Sector segment, 9% of our revenue in our Canada segment and 3% of our revenue in our United Kingdom segment.

Our Commercial segment sells complex technology 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, as well as the acquisition of Stratiform in December 2016.

Our United Kingdom segment consists of results of our UK subsidiary, PCM Technology Solutions UK, Ltd. ("PCM UK"), and its wholly-owned subsidiaries, which serve as our hub for the UK and the rest of Europe. PCM UK commenced its sales operations in May 2017.

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 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 Microsoft and HP Inc. products as well as products purchased from other vendors including Apple, Cisco, Dell, Hewlett Packard Enterprise, Ingram Micro, Lenovo, Synnex 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,	
	2018	2017	2018	2017
Microsoft	14%	14%	16%	16%
HP Inc.	10	11	11	10

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, the UK and other countries 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, UK 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.

STRATEGIC DEVELOPMENTS

On December 22, 2017, PCM UK, our UK based subsidiary, completed the acquisition of Provista Technology for an initial purchase price of £3.4 million, net of cash acquired and including £1.1 million of accrued earn-out liability (or $4.5 million, net of cash acquired and including $1.4 million of accrued earn-out liability). Provista Technology has expertise across a range of technologies and manufacturers including Cisco, Avaya, Cisco Meraki, Huawei, Checkpoint, and other leading vendors, with offerings encompassing all aspects of Cloud Networking, Cloud Video, Hyperconvergence, Security, Collaboration, Secure Wireless and IP LAN, WAN & Data Center Networks. We believe this acquisition will further enhance PCM UK's expertise and vendor accreditations in the United Kingdom as a Cisco Gold Partner, allowing PCM UK and its subsidiaries to offer further consultancy, integration and supply of services and solutions across the UK marketplace while replicating many existing offerings from our North American organization.

We are currently involved in several disputes related to our acquisition of En Pointe Technologies completed in April 2015. These proceedings are described under the heading "*Legal Proceedings*" in Part I, Item 1, Note 10 to the Notes to the Condensed Consolidated Financial Statements of this report and are incorporated herein by reference. Any litigation, arbitration or other dispute resolution process 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. While we intend to pursue and/or defend these actions vigorously, 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 adopted ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09" or "ASC 606") effective January 1, 2018, utilizing the full retrospective method as discussed in Note 2 of the Notes to the Condensed Consolidated Financial Statements of this report. Our prior period amounts presented herein have been adjusted accordingly. See below under Critical Accounting Policies and Estimates - Revenue Recognition – for more information.

ERP Upgrades

We have made significant progress in the configuration, implementation and successful migration of a large number of our customers to our new ERP platform. We will continue to make progress throughout the remainder of 2018. We currently expect to have the vast majority of our business transitioned to the new platform by mid-2019 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Management considers an accounting estimate to be critical if:

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

Management has discussed the development and selection of these critical accounting policies and estimates with the audit committee of our board of directors. We believe the critical accounting policies described below affect the more significant judgments and estimates used in the preparation of our consolidated financial statements. For a summary of our significant accounting policies, including those discussed below, see Note 2 of the Notes to the Consolidated Financial Statements in Item 8, Part II, of our Annual Report on Form 10-K for the year ended December 31, 2017.

Revenue Recognition. We adhere to the guidelines and principles of revenue recognition described in ASC 606. Under ASC 606, we identify and account for a contract with a customer when it has written approval and commitment of the parties, the rights of the parties including payment terms are identified, the contract has commercial substance, and consideration is probable of collection. We recognize revenue upon delivery to the customer when control, title and risk of loss of a promised product or service transfers to a customer, as per our contractual agreement with customers, in an amount that reflects the consideration to which we expect to be entitled in exchange for transferring those products or services. In certain types of arrangements, as discussed more fully below, revenue from sales of third-party vendor products or services is recorded on a net basis when we act as an agent between the customer and the vendor, and on a gross basis when we act as the principal for the transaction. To determine whether the company is an agent or principal, we consider whether we obtain control of the products or services before they are transferred to the customer, as well as whether we have primary responsibility for fulfillment to the customer, inventory risk and pricing discretion.

Product and service revenues are recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services. The following indicators are evaluated in determining when control has transferred to the customer: (i) the Company has a right to payment, (ii) the customer has legal title to the product, (iii) the Company has transferred physical possession of the product to the customer, (iv) the customer has the significant risk and rewards of ownership, and (v) the customer has accepted the product.

Products

Revenue from sales of product (hardware and software) is recognized at a point in time when the product has been delivered to the customer. The Company’s shipping terms are FOB destination and it is upon delivery that the Company has right to payment, the customer obtains legal title to the product, and physical possession of the product has transferred to the customer. We act as the principal in these transactions and, as such, record product revenue at gross sales amounts. 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 also recognized at gross sales amounts.

When product sales incorporate a bill and hold arrangement, whereby the customer agrees to purchase product but requests delivery at a later date, we have determined that control transfers when the product is ready for delivery, which occurs when the product has been set aside or obtained specifically to fulfill the contract with the customer. It is at this point that we have right to payment, the customer obtains legal title, and the customer has the significant risks and rewards of ownership.

We recognize certain products on a net basis, as an agent. Products in this category include the sale of third-party services, warranties, software assurance ("SA"), and subscriptions.

Warranties represent third-party product warranties. Warranties not sold separately are assurance-type warranties that only provide assurance that products will conform to the manufacturer's specifications and are not considered separate performance obligations. Warranties that are sold separately, such as extended warranties, provide the customer with a service in addition to assurance that the product will function as expected. We consider these service-type warranties to be separate performance obligations from the underlying product. We arrange for a third-party to provide those services and therefore we act as an agent in the transaction and record revenue on a net basis at the point of sale.

SA is a product that allows customers to upgrade their software, at no additional cost, to the latest technology if new applications are introduced during the period that the SA is in effect. Most software licenses are sold with accompanying third-party delivered SA. The Company evaluates whether the SA is a separate performance obligation by assessing if the third-party delivered SA is critical to the core functionality of the software. This involves considering if the software provides its original intended functionality to the customer without the updates, if the customer would ascribe a higher value to the upgrades versus the initial software delivered, and if the customer would expect updates to the software to maintain the functionality. When the SA for a software product is deemed critical to maintaining the core functionality of the underlying software, the software license and SA are considered a single performance obligation and the value of the product is primarily the SA service delivered by a third-party. Therefore, the Company is acting as an agent in these transactions and the revenue is recognized on a net basis when the underlying software is delivered to the customer. 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. When the SA for a software product is deemed not critical to the core functionality of the underlying software, the SA is recognized as a separate performance obligation and the revenue is recognized on a net basis when the underlying software license is delivered to the customer.

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, and we act as a sales agent in the transaction. In addition to the vendor being primarily responsible for fulfilling the promise to the customer, they also assume the inventory risk as they are responsible for providing remedy or refund if the customer is not satisfied with the delivered services. At the time of sale, our obligation as an agent is fulfilled and we recognize revenue in the amount of an agency fee or commission. We record these fees as a component of net sales 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.

Services

Service revenues are recognized over time since customers simultaneously receive and consume the benefits of the Company's services as they are provided. The Company is the principal in service transactions and therefore recognizes revenue on a gross basis. 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 in the amount to which the Company has the right to invoice in accordance with the practical expedient in paragraph 606-10-55-18. Revenue for fixed fee services are recognized using an input method based on the total number of hours incurred for the period as a proportion of the total expected hours for the project. Total expected hours to complete the project is updated for each period and best represents the transfer of control of the service to the customer.

Bundled Arrangements

Bundled arrangements are contracts that can include various combinations of products and services. When a contract includes multiple performance obligations delivered at varying times, we determine whether the delivered items are distinct under ASC 606. For arrangements with multiple performance obligations, the transaction price is allocated among the performance obligations based on their relative standalone selling prices ("SSP"). When observable evidence from recent transactions exists, it is used to confirm that prices are representative of SSP. When evidence from recent transactions is not available, an expected cost plus a margin approach is used.

Sales In Transit

In order to recognize revenues in accordance with our revenue recognition policy under ASC 606, we perform an analysis to estimate the number of days that 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 that are initially recorded in our accounting records based on the estimated value of products that have shipped, but have not yet been delivered to 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 the timing of revenue recognized in future periods.

Freight Costs

The Company records freight billed to its customers on a gross basis to net sales and related freight costs to cost of sales when the product is delivered to the customer. For freight not billed to its customers, the Company records the freight costs as cost of sales. The Company’s shipping terms are FOB destination, which results in shipping being performed before the customer obtains control of the product, thus shipping activities are not a promised service to the customer. Rather, shipping is an activity to fulfill the promise to deliver the products.

Other

The Company’s contracts give rise to variable consideration in the form of sales returns and allowances which we estimate at the most likely amount to which we are expected to be entitled. This estimate is included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. The most likely amount estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based on an assessment of the Company’s anticipated performance and historical experience and are recorded at the time of sale.

Sales are reported net of estimated returns and allowances, discounts, mail-in rebate redemptions, credit card chargebacks, and taxes collected from customers. If the actual sales returns, allowances, discounts, mail-in rebate redemptions or credit card chargebacks are greater than estimated by management, additional reductions to revenue may be required.

Generally, the period between when control of the promised products or services transfer to the customer and when the customer pays for the product or service is one year or less. As such, we elected the practical expedient allowed in paragraph 606-10-32-18 and we do not adjust product and service consideration for the effects of a significant financing component.

The amortization period of any asset resulting from incremental costs of obtaining a contract would generally be one year or less. As such, we elected the practical expedient allowed in paragraph 340-40-25-4 and we expense these costs as 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 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, 2017, our goodwill resided in our Abreon, Commercial Technology, Public Sector, Canada and United Kingdom 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, net of any assumed liabilities, 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, 2017. Our annual impairment analysis excluded goodwill associated with acquisitions made during the third and fourth quarter of 2017, 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, 2017, we have determined that no impairment of goodwill and other indefinite-lived intangible assets existed.

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, the 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, 2017. All reporting units with goodwill passed the first step of the goodwill evaluation, with the fair values of our Abreon, Commercial Technology, Public Sector and Canada reporting units exceeding their respective carrying values by 56%, 46%, 63% and 103% and, accordingly, we were not required to perform the second step of the goodwill evaluation. We had $7.2 million, $62.5 million, $8.3 million and $6.5 million of goodwill as of October 1, 2017 residing in our Abreon, Commercial Technology, Public Sector and Canada 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, 2017, 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 34% as of October 1, 2017. 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, 2017 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, 2018 or other periods, 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,	
	2018	2017	2018	2017
Net sales	$ 510,580	$ 543,275	$ 1,599,842	$ 1,622,117
Cost of goods sold	425,446	461,818	1,340,695	1,377,017
Gross profit	85,134	81,457	259,147	245,100
Selling, general and administrative expenses	74,580	79,951	229,156	233,479
Operating profit	10,554	1,506	29,991	11,621
Interest expense, net	2,273	1,950	7,050	5,589
Equity income from unconsolidated affiliate	73	151	377	424
Income (loss) before income taxes	8,354	(293)	23,318	6,456
Income tax expense	2,383	474	6,653	685
Net income (loss)	$ 5,971	$ (767)	$ 16,665	$ 5,771
Basic and Diluted Earnings (Loss) Per Common Share				
Basic	$ 0.50	$ (0.06)	$ 1.40	$ 0.46
Diluted	0.47	(0.06)	1.35	0.43
Weighted average number of common shares outstanding:				
Basic	12,050	12,248	11,936	12,418
Diluted	12,795	12,248	12,343	13,325

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	83.3	85.0	83.8	84.9
Gross profit	16.7	15.0	16.2	15.1
Selling, general and administrative expenses	14.6	14.7	14.3	14.4
Operating profit	2.1	0.3	1.9	0.7
Interest expense, net	0.4	0.4	0.4	0.3
Equity income from unconsolidated affiliate	0.0	0.0	0.0	0.0
Income (loss) before income taxes	1.7	(0.1)	1.5	0.4
Income tax expense	0.5	0.0	0.5	0.0
Net income (loss)	1.2%	(0.1)%	1.0%	0.4%

Three Months Ended September 30, 2018 Compared to the Three Months Ended September 30, 2017

Net Sales

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

	Three Months Ended September 30,					
	2018		2017			
	Net Sales	Percentage of Total Net Sales	Net Sales	Percentage of Total Net Sales	Dollar Change	Percent Change
Commercial	$ 381,564	75%	$ 423,479	78%	$ (41,915)	(10)%
Public Sector	68,278	13	79,110	15	(10,832)	(14)
Canada	43,861	9	38,086	7	5,775	15
United Kingdom	17,032	3	2,737	1	14,295	522
Corporate & Other	(155)	—	(137)	—	(18)	(13)
Consolidated	$ 510,580	100%	$ 543,275	100%(1)	$ (32,695)	(6)

(1) Does not foot due to rounding.

Consolidated net sales were $510.6 million in the three months ended September 30, 2018 compared to $543.3 million in the three months ended September 30, 2017, a decrease of $32.7 million or 6%. Consolidated sales of services were $44.7 million in the three months ended September 30, 2018 compared to $40.2 million in the three months ended September 30, 2017, an increase of $4.5 million, or 11%, and represented 9% and 7% of consolidated net sales in the three months ended September 30, 2018 and 2017, respectively.

Commercial net sales were $381.6 million in the three months ended September 30, 2018 compared to $423.5 million in the three months ended September 30, 2017, a decrease of $41.9 million or 10%. Sales of services in our Commercial segment were $30.5 million in the three months ended September 30, 2018 compared to $29.7 million in the three months ended September 30, 2017, an increase of $0.8 million or 3%, and represented 8% and 7% of Commercial net sales in the three months ended September 30, 2018 and 2017, respectively. The decrease in our Commercial segment net sales in the three months ended September 30, 2018 was primarily due to a $17.1 million increase in sales reported on a net basis, the impact of a couple of large, lower-margin enterprise customer projects in the prior year that did not reoccur, and several specific customer deals we elected not to pursue based on our focus on profitable growth. In addition, we believe we were negatively impacted by integrated circuit supply shortages from a major chip manufacturer due to their high demand, which shortages affected finished goods supply of certain notebooks and desktops in the third quarter of 2018.

Public Sector net sales were $68.3 million in the three months ended September 30, 2018 compared to $79.1 million in the three months ended September 30, 2017, a decrease of $10.8 million or 14%, primarily due to a 43% decrease in our federal sales which were negatively impacted in the quarter by the loss of a single Federal contract, which we were unwilling to rebid at a loss, and a large rollout to a different Federal agency that did not reoccur. Sales of services in our Public Sector segment were $5.3 million in the three months ended September 30, 2018 compared to $2.7 million in the three months ended September 30, 2017, an increase of $2.6 million or 97%, and represented 8% and 3% of Public Sector net sales in the three months ended September 30, 2018 and 2017, respectively. The decrease in Public Sector net sales was also impacted by an $11.5 million increase in sales reported on a net basis, partially offset by an increase in sales account executive productivity in our SLED business.

Canada net sales were $43.9 million in the three months ended September 30, 2018 compared to $38.1 million in the three months ended September 30, 2017, an increase of $5.8 million, or 15%. Sales of services in our Canada segment remained relatively flat at $7.8 million in each of the three months ended September 30, 2018 and 2017, and represented 18% and 21% of Canada net sales in the three months ended September 30, 2018 and 2017, respectively.

Our United Kingdom segment, which officially launched in the second quarter of 2017, generated net sales of $17.0 million in the three months ended September 30, 2018 compared to $2.7 million in the three months ended September 30, 2017, an increase of $14.3 million, or 522%.

Gross Profit and Gross Profit Margin

Consolidated gross profit was $85.1 million in the three months ended September 30, 2018 compared to $81.5 million in the three months ended September 30, 2017, an increase of $3.6 million, or 5%. Consolidated gross profit margin increased to 16.7% in the three months ended September 30, 2018 from 15.0% in the same period last year. The increase in consolidated gross profit and gross profit margin was primarily due to a shift in mix toward higher margin solutions and service sales, partially offset by a decrease in vendor consideration.

Selling, General & Administrative Expenses

Consolidated SG&A expenses were $74.6 million in the three months ended September 30, 2018 compared to $80.0 million in the three months ended September 30, 2017, a decrease of $5.4 million or 7%. Consolidated SG&A expenses as a percentage of net sales decreased to 14.6% in the three months ended September 30, 2018 from 14.7% in the same period last year. The decrease in consolidated SG&A expenses was primarily due to a decrease in personnel costs of $2.4 million which included a $1.0 million decrease in severance costs, a decrease in restructuring charges of $2.0 million, which included $0.9 million of prior year duplicative expenses associated with our terminated back office support services provided by our former service provider in Pakistan, a $0.7 million decrease in M&A and related litigation costs and a $0.6 million decrease in outside service costs.

Operating Profit (Loss)

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

	Three Months Ended September 30,						
	2018		2017				
	Operating Profit (Loss)	Operating Profit (Loss) Margin(1)	Operating Profit (Loss)	Operating Profit (Loss) Margin(1)	Change in Operating Profit (Loss) $	Change in Operating Profit (Loss) %	Change in Operating Profit (Loss) Margin %
Commercial	$ 23,212	6.1%	$ 19,172	4.5%	$ 4,040	21%	1.6%
Public Sector	4,189	6.1	2,901	3.7	1,288	44	2.4
Canada	306	0.7	(830)	(2.2)	1,136	137	2.9
United Kingdom	(758)	(4.5)	(1,467)	(53.6)	709	48	49.1
Corporate & Other	(16,395)	(3.2)(1)	(18,270)	(3.4)(1)	1,875	10	0.2
Consolidated	$ 10,554	2.1	$ 1,506	0.3	$ 9,048	601	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.

Consolidated operating profit was $10.6 million in the three months ended September 30, 2018 compared to $1.5 million in the three months ended September 30, 2017, an increase of $9.1 million or 601%.

Commercial operating profit was $23.2 million in the three months ended September 30, 2018 compared to $19.2 million in the three months ended September 30, 2017, an increase of $4.0 million or 21%. The increase in Commercial operating profit was primarily due to a $2.2 million decrease in personnel costs, a $0.7 million increase in Commercial gross profit, a $0.4 million decrease in credit card processing costs and a decrease of $0.2 million each of outside service costs and telecommunication costs.

Public Sector operating profit was $4.2 million in the three months ended September 30, 2018 compared to $2.9 million in the three months ended September 30, 2017, an increase of $1.3 million or 44%. The increase in Public Sector operating profit was primarily due to a $0.8 million decrease in personnel costs and a $0.2 million increase in Public Sector gross profit.

Canada operating profit was $0.3 million in the three months ended September 30, 2018 compared to an operating loss of $0.8 million in the three months ended September 30, 2017, an increase of $1.1 million or 137%. The increase in Canada operating profit was primarily due to a $0.8 million decrease in personnel costs, a $0.2 million decrease in consulting fees and a $0.1 million increase in Canada gross profit.

United Kingdom operating loss was $0.8 million in the three months ended September 30, 2018 compared to $1.5 million in the three months ended September 30, 2017, a decrease of $0.7 million. The decrease in United Kingdom operating loss was primarily due to a $2.7 million increase in United Kingdom gross profit, partially offset by a $1.6 million increase in personnel costs.

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 $16.4 million in the three months ended September 30, 2018 compared to $18.3 million in the three months ended September 30, 2017, a decrease of $1.9 million or 10%, which was primarily due to a $0.6 million decrease in M&A expenses, a $0.5 million decrease in outside service costs and a $0.4 million decrease in telecommunication costs.

Net Interest Expense

Total net interest expense for the three months ended September 30, 2018 was $2.3 million compared with $2.0 million in the same period of 2017, an increase of $0.3 million or 17%. The increase in net interest expense was primarily due to higher average interest rate during the three months ended September 30, 2018 compared to the same period in the prior year, partially offset by a lower average loan balance outstanding during the three months ended September 30, 2018 compared to the same period in the prior year.

Income Taxes

We recorded an income tax expense of $2.4 million in the three months ended September 30, 2018 compared to $0.5 million in the three months ended September 30, 2017. Our effective tax rates for the three months ended September 30, 2018 and 2017 were 28.5% and (161.8)%, respectively. Income taxes in the three months ended September 30, 2018 reflect excess tax benefits associated with stock-based compensation, offset by $0.3 million associated with adjustments to 2017 tax year provisional estimates previously recorded related to U.S. tax reform. Income taxes in the three months ended September 30, 2017 were impacted by the increased impact of discrete items and increased forecasted losses of captive foreign subsidiaries on the effective tax rate due to lower levels of pretax book income during the quarter.

Nine Months Ended September 30, 2018 Compared to the Nine Months Ended September 30, 2017

Net Sales

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

	Nine Months Ended September 30,					
	2018		2017			
	Net Sales	Percentage of Total Net Sales	Net Sales	Percentage of Total Net Sales	Dollar Change	Percent Change
Commercial	$ 1,207,245	75%	$ 1,266,892	78%	$ (59,647)	(5)%
Public Sector	199,052	12	222,143	14	(23,091)	(10)
Canada	145,397	9	130,325	8	15,072	12
United Kingdom	48,617	3	3,099	—	45,518	1,469
Corporate & Other	(469)	—	(342)	—	(127)	37
Consolidated	$ 1,599,842	100%(1)	$ 1,622,117	100%	$ (22,275)	(1)

(1) Does not foot due to rounding.

Consolidated net sales were $1,599.8 million in the nine months ended September 30, 2018 compared to $1,622.1 million in the nine months ended September 30, 2017, a decrease of $22.3 million or 1%. Consolidated sales of services were $132.7 million in the nine months ended September 30, 2018 compared to $117.8 million in the nine months ended September 30, 2017, an increase of $14.9 million, or 13%, and represented 8% and 7% of consolidated net sales in the nine months ended September 30, 2018 and 2017, respectively.

Commercial net sales were $1,207.2 million in the nine months ended September 30, 2018 compared to $1,266.9 million in the nine months ended September 30, 2017, a decrease of $59.7 million or 5%. Sales of services in our Commercial segment were $92.9 million in the nine months ended September 30, 2018 compared to $84.4 million in the nine months ended September 30, 2017, an increase of $8.5 million or 10%, and represented 8% and 7% of Commercial net sales in the nine months ended September 30, 2018 and 2017, respectively. The decrease in our Commercial segment net sales in the nine months ended September 30, 2018 was primarily due to a $30.9 million increase in sales reported on a net basis, the impact of a couple of large, lower-margin enterprise customer projects in the prior year that did not reoccur, and several specific customer deals we elected not to pursue based on our focus on profitable growth. In addition, we believe we were negatively impacted by integrated circuit supply shortages from a major chip manufacturer due to their high demand, which shortages affected finished goods supply of certain notebooks and desktops in the third quarter of 2018.

Public Sector net sales were $199.1 million in the nine months ended September 30, 2018 compared to $222.1 million in the nine months ended September 30, 2017, a decrease of $23.0 million or 10%. Sales of services in our Public Sector segment was $13.2 million in the nine months ended September 30, 2018 compared to $10.6 million in the nine months ended September 30, 2017, and represented 7% and 5% of Public Sector net sales in the nine months ended September 30, 2018 and 2017, respectively. The decrease in Public Sector net sales was primarily due to a 29% decrease in our federal sales which were negatively impacted by the loss of a single Federal contract, which we were unwilling to rebid at a loss, and a large rollout to a different Federal agency that did not reoccur. Our SLED sales decreased by 2% in the nine months ended September 30, 2018 compared to the same period in 2017. Further, our public sector sales were impacted by an $8.2 million increase in sales reported on a net basis.

Canada net sales were $145.4 million in the nine months ended September 30, 2018 compared to $130.3 million in the nine months ended September 30, 2017, an increase of $15.1 million, or 12%. Sales of services in our Canadian segment were $22.8 million in the nine months ended September 30, 2018 compared to $22.7 million in the nine months ended September 30, 2017, and represented 16% and 17% of Canada net sales in the nine months ended September 30, 2018 and 2017, respectively.

United Kingdom net sales were $48.6 million in the nine months ended September 30, 2018 compared to $3.1 million in the nine months ended September 30, 2017, an increase of $45.5 million reflecting the growth of our United Kingdom segment since its launch in the second quarter of 2017.

Gross Profit and Gross Profit Margin

Consolidated gross profit was $259.1 million in the nine months ended September 30, 2018 compared to $245.1 million in the nine months ended September 30, 2017, an increase of $14.0 million, or 6%. Consolidated gross profit margin increased to 16.2% in the nine months ended September 30, 2018 from 15.1% in the same period last year. The increase in consolidated gross profit was primarily due to a shift in mix toward higher margin solutions and service sales, partially offset by a decrease in vendor consideration. The increase in gross profit margin was primarily due to a shift in mix towards higher margin solutions and services and the increase in sales recorded on a net basis, partially offset by a decrease in vendor consideration as percentage of net sales.

Selling, General & Administrative Expenses

Consolidated SG&A expenses were $229.2 million in the nine months ended September 30, 2018 compared to $233.5 million in the nine months ended September 30, 2017, a decrease of $4.3 million or 2%. Consolidated SG&A expenses as a percentage of net sales decreased to 14.3% in the nine months ended September 30, 2018 from 14.4% in the same period last year. The decrease in consolidated SG&A expenses was primarily due to a $4.3 million decrease in outside service costs which was primarily related to the termination of the Pakistani BPO service contract, a $2.5 million decrease in restructuring costs and a $1.1 million decrease in telecommunications costs, partially offset by an increase in personnel costs of $3.4 million, which reflects a $6.8 million increase related to the growth of our new United Kingdom segment which was launched in the second quarter of 2017 but partially offset by a $2.4 million decrease in Commercial segment personnel costs.

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,						
	2018		2017		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	$ 70,421	5.8%	$ 57,150	4.5%	$ 13,271	23%	1.3%
Public Sector	8,872	4.5	9,127	4.1	(255)	(3)	0.4
Canada	2,934	2.0	685	0.5	2,249	328	1.5
United Kingdom	(2,152)	(4.4)	(3,204)	(103.4)	1,052	33	99.0
Corporate & Other	(50,084)	(3.1)(1)	(52,137)	(3.2)(1)	2,053	4	0.1
Consolidated	$ 29,991	1.9	$ 11,621	0.7	$ 18,370	158	1.2

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

Consolidated operating profit was $30.0 million in the nine months ended September 30, 2018 compared to $11.6 million in the nine months ended September 30, 2017, an increase of $18.4 million or 158%.

Commercial operating profit was $70.4 million in the nine months ended September 30, 2018 compared to $57.2 million in the nine months ended September 30, 2017, an increase of $13.2 million or 23%. The increase in Commercial operating profit was primarily due to a $5.6 million increase in Commercial gross profit, a $2.4 million decrease in personnel costs, a $1.3 million decrease in outside service costs, a $1.2 million decrease in credit card processing costs and a $0.8 million decrease in net advertising expenses.

Public Sector operating profit was $8.9 million in the nine months ended September 30, 2018 compared to $9.1 million in the nine months ended September 30, 2017, a decrease of $0.2 million or 3%. The decrease in Public Sector operating profit was primarily due to a $1.4 million decrease in Public Sector gross profit partially offset by a $0.5 million decrease in personnel costs, a $0.2 million decrease in amortization expense, and a $0.1 million decrease in each of outside service costs, consulting fees and variable fulfillment costs.

Canada operating profit was $2.9 million in the nine months ended September 30, 2018 compared to $0.7 million in the nine months ended September 30, 2017, an increase of $2.2 million or 328%. The increase in Canada operating profit was primarily due to a $1.3 million decrease in personnel costs and a $1.1 million increase in Canada gross profit.

United Kingdom operating loss was $2.2 million in the nine months ended September 30, 2018 compared to $3.2 million in the nine months ended September 30, 2017, a decrease of $1.0 million. The decrease in United Kingdom operating loss was primarily due to an $8.9 million increase in United Kingdom gross profit, partially offset by a $6.8 million increase in personnel costs.

Corporate & Other operating expenses were $50.1 million in the nine months ended September 30, 2018 compared to $52.1 million in the nine months ended September 30, 2017, a decrease of $2.0 million or 4%, which was primarily due to a $2.9 million decrease in outside services and a $1.9 million decrease in restructuring costs, partially offset by a $1.2 million increase in lease expenses and a $0.9 million increase in personnel costs.

Net Interest Expense

Total net interest expense for the nine months ended September 30, 2018 was $7.1 million compared with $5.6 million in the same period of 2017. The $1.5 million increase in interest expense during the nine months ended September 30, 2018 was primarily due to higher average interest rate and a higher average loan balance outstanding in the nine months ended September 30, 2018 compared to the same period in the prior year.

Income Tax Expense

We recorded an income tax expense of $6.7 million in the nine months ended September 30, 2018 compared to $0.7 million in the nine months ended September 30, 2017. Our effective tax rates for the nine months ended September 30, 2018 and 2017 were 28.5% and 10.6%, respectively. Income taxes for the nine months ended September 30, 2018 and 2017 include the benefit of $0.7 million and $2.7 million in excess tax benefits related to stock based compensation, respectively. The increase in the effective tax rate for the nine months ended September 30, 2018 compared to the same period in 2017 was primarily related to the impact of lower excess tax benefits related to stock based compensation recorded in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017, offset by the reduction in the Federal income tax rate and other factors within tax reform.

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, which are discussed further below in “Other Planned Capital Projects,” possible sales growth, possible acquisitions and new business ventures, and possible repurchases of our common stock under a discretionary repurchase program, which is also 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 and cyclical 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 2021, 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.

We had cash and cash equivalents of $8.5 million at September 30, 2018 and $9.1 million at December 31, 2017. Our working capital increased by $24.2 million to a working capital of $16.5 million at September 30, 2018 from negative working capital of $7.7 million at December 31, 2017.

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. Our Board of Directors originally adopted the plan in October 2008 with an initial authorized maximum of $10 million. The plan was amended in September 2012 and increased to $20 million, again amended in April 2015 and increased to a total of $30 million, and again amended in August 2017 and increased to a total of $40 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 made no repurchases of shares of our common stock under this program during the three and nine months ended September 30, 2018. At September 30, 2018, we had $2.5 million available for 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 historically received the benefit of labor credits under the Investment Quebec Refundable Tax Credit for Major Employment Generating Projects (GPCE) program. The labor credits program ended at the end of fiscal year 2016. We have received full payment under all of our outstanding claims for labor credits under this program as of September 30, 2018.

Cash Flows from Operating Activities. Net cash provided by operating activities was $87.9 million in the nine months ended September 30, 2018 compared to net cash used in operating activities of $29.4 million in the nine months ended September 30, 2017.

The $87.9 million of net cash provided by operating activities in the nine months ended September 30, 2018 was primarily due to a $39.5 million decrease in inventory and a $22.9 million increase in accounts payable, partially offset by an $11.8 million increase in accounts receivable. The decrease in our inventory balance was due to our sell through of certain purchases we made in the fourth quarter of 2017. The increase in our accounts payable and accounts receivable was primarily due to seasonally strong sales and related purchase volumes toward the end of the third quarter of 2018 compared to the end of the fourth quarter of 2017.

The $29.4 million of net cash used in operating activities in the nine months ended September 30, 2017 was primarily due to a $55.6 million increase in accounts receivable, partially offset by a $10.6 million decrease in our inventory and a $6.3 million decrease in our prepaid expenses and other current assets.

Cash Flows from Investing Activities. Net cash used in investing activities was $3.9 million in the nine months ended September 30, 2018 compared to $15.8 million in the nine months ended September 30, 2017.

The $3.9 million of net cash used in investing activities in the nine months ended September 30, 2018 was primarily related to investments in our IT infrastructure and leasehold improvements.

The $15.8 million of net cash used in investing activities in the nine months ended September 30, 2017 was primarily related to $14.1 million of capital expenditures, including a purchase of real property in Woodridge, Illinois for $3.1 million, expenditures relating to investments in our IT infrastructure and leasehold improvements and the acquisition of Stack Technology in the UK for $1.7 million.

Cash Flows from Financing Activities. Net cash used in financing activities in the nine months ended September 30, 2018 was $84.3 million compared to net cash provided by financing activities of $45.9 million in the nine months ended September 30, 2017.

The $84.3 million of net cash used in financing activities in the nine months ended September 30, 2018 was primarily related to $79.3 million of net payments made on our line of credit, $2.6 million of payments on our notes payable and $2.2 million of earn-out liability payments.

The $45.9 million of net cash provided by financing activities in the nine months ended September 30, 2017 was primarily related to $60.9 million of net borrowings on our line of credit, partially offset by $11.4 million of payments relating to repurchases of our common shares under a repurchase program and $11.1 million of earn-out liability payments.

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 with the Lenders and on February 24, 2017, we entered into a Second Amendment to the Fourth Amended Loan Agreement with the Lenders. On October 24, 2017, PCM, all of its wholly-owned domestic subsidiaries (collectively with PCM, the "US Borrowers"), all of its Canadian subsidiaries (collectively, the "Canadian Borrowers") and its PCM UK subsidiary (together with the US Borrowers and the Canadian Borrowers, the "Borrowers"), entered into a Fifth Amended and Restated Loan and Security Agreement (the "Fifth Amended Loan Agreement") with the Lenders. The Fifth Amended Loan Agreement amends and restates the Fourth Amended Loan Agreement.

The terms of our credit facility, as amended, provide for (i) a Maximum Credit, as defined in the credit facility, of $345,000,000; (ii) a sub-line of up to C$40,000,000 as the Canadian Maximum Credit and a sub-line of up to £25,000,000 as the UK Maximum Credit ((i) and (ii) collectively the "Revolving Line"); (iii) a Maturity Date of March 19, 2021; (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 Fifth 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%; (v) interest on outstanding UK balances based on LIBOR plus a margin, depending on average excess availability under the Revolving Line, ranging from 1.50% to 1.75%; (vi) 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%; and (vii) 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 terms of our credit facility are more fully described in the Fifth Amended Loan Agreement.

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, 2018, 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, 2018, we had $169.0 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 a sub-line with a limit of $12.5 million secured by our properties located in Santa Monica, California, with a monthly principal amortization of $149,083 and a sub-line with a limit of $2.2 million secured by our property in Woodridge, Illinois, with a monthly principal amortization of $26,250.

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. As of September 30, 2018, we had no outstanding balance under the Channel Finance Facility.

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 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.

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 with a bank for draws 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, as amended, 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 September 2017, we entered into an amendment with the lender extending the maturity of the loan to January 31, 2020. 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, 2018, the effective weighted average annual interest rate on our outstanding amounts under the credit facility, term note and variable interest rate notes payable was 3.78%.

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

We have made significant progress in the configuration, implementation and successful migration of a large number of our customers to our new ERP platform. We will continue to make progress throughout the remainder of 2018. We currently expect to have the vast majority of our business transitioned to the new platform by mid-2019 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 fully described in our Annual Report on Form 10-K for the year ended December 31, 2017. As of September 30, 2018, there has been no material change in any off-balance sheet arrangements since December 31, 2017.

Contingencies

For a discussion of contingencies, see Part I, Item 1, Note 10 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, 2018 other than compensation arrangements in the ordinary course of business.

RECENTLY ISSUED FINANCIAL ACCOUNTING STANDARDS

For a discussion of recently issued financial accounting standards, see Part I, Item 1, Note 2 of the Notes to the Condensed Consolidated Financial Statements of this report, which is incorporated herein by reference.

FORWARD-LOOKING STATEMENTS

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

- our 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, and expanding our international capabilities;
- 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 that the transfer of certain customer contracts to potentially non-consolidated partners may have a negative impact on our consolidated net sales in future periods;
- our expectations regarding key personnel and our ability to hire new and retain such individuals;
- our expectations regarding the impact of our transition of certain outsourced services to our captive support operations;
- our expectations regarding the impact of cost reductions on our results in future periods;
- our expectations regarding our operations in newly opened geographies, including the United Kingdom;

- 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 expected impact of customer implementations or rollouts on 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 the UK, including the impact of taxes and labor costs in such operations;
- our expectations regarding the impact of our transition from outsourced operations in Pakistan to our captive BPO operations including our captive BPO operations in the Philippines;
- 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 expectations regarding the impact and outcome of pending litigation and other dispute resolution proceedings;
- 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, and our implementation of compliance procedures and the costs associated with compliance with such laws and regulations.

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, accrued expenses and other current liabilities, and debt. At September 30, 2018 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, 2018. 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, 2018, we had $134.5 million outstanding under our line of credit and $34.2 million outstanding under our notes payable with variable interest rates. At September 30, 2018, 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 $1.7 million.

Foreign Currency Exchange Risk

We have operation centers in Canada and the Philippines that provide back-office administrative support and customer service support. We have also recently commenced operations in the United Kingdom. In each of these countries, transactions are primarily conducted in the respective local currencies. In addition, our two foreign subsidiaries that operate the operation centers have intercompany accounts with our U.S. subsidiaries that eliminate upon consolidation. However, transactions resulting in such accounts expose us to foreign currency rate fluctuations. We record gains and losses resulting from exchange rate fluctuations on our short-term intercompany accounts in “Selling, general and administrative expenses” in our Consolidated Statements of Operations and translation gains and losses resulting from exchange rate fluctuations on local currency based assets and liabilities in “Accumulated other comprehensive income,” a separate component of stockholders’ equity on our Consolidated Balance Sheets. As such, we have foreign currency translation exposure for changes in exchange rates for these currencies 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, 2018, 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, 2018.

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 2018 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 and certain other noteworthy proceedings described under the heading “Legal Proceedings” in Part I, Item 1, Note 10 to the Notes to the Condensed Consolidated Financial Statements of this report.

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 the En Pointe 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 remain 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, the UK 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, the UK 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, the UK 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 from a small number of key manufacturers, and a decline in sales of products from these manufacturers could materially harm our business.

Our revenue is dependent on sales of products from a small number of key manufacturers and software publishers, including Adobe, Apple, Cisco, Dell, Hewlett Packard Enterprise, HP Inc., Lenovo, Microsoft, Oracle, Samsung, Symantec and VMware. For example, products manufactured by Microsoft represented approximately 14% of our net sales in each of the three months ended September 30, 2018 and 2017, and HP Inc. represented approximately 10% and 11% of our net sales in the three months ended September 30, 2018 and 2017, respectively. 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 catalogs or other 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 market demand. To the extent products that address changes in marketplace demand are not available to us, or are not available to us in sufficient quantities or on acceptable terms, we could encounter increased price and other competition, which would likely adversely affect our business, financial condition and results of operations.

We may not be able to maintain existing 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 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. Since 2015, we completed four 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 technology offerings we provide. 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 hardware products, software and services 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 technology offerings we provide;
- variability in vendor programs;
- the introduction of new and 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 our offerings, 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 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 solutions. In response, we are investing in our capabilities and portfolio and are working with our customers to identify areas where they can gain efficiencies by outsourcing to us traditional technology functions. Specifically, we are focused on and investing in 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 also been the subject of court actions and various legislative efforts. There can be no assurance that these taxes will not be imposed upon us and our subsidiaries 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 privacy, 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.

The Tax Cuts and Jobs Act of 2017 was approved by Congress and signed into law in December 2017. This legislation made significant changes to the U.S. Internal Revenue Code. Such changes include a reduction in the corporate tax rate and limitations on certain corporate deductions and credits, among other changes. Certain of these changes could have a negative impact on our business. Moreover, further legislative and regulatory changes may be more likely in the current political environment, particularly to the extent that Congress and the U.S. presidency are controlled by the same political party and significant reform of the tax code has been described publicly as a legislative priority. Significant further changes to the tax code could have an adverse impact on our business, financial condition and results of operations.

Such existing and future laws and regulations may also impede our business. Additionally, it is not always clear how existing laws and regulations 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 offerings.

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 acquisitions in Canada, which subjected us to laws and regulations applicable to companies doing business in the multiple Canadian provinces. We also commenced operations in the United Kingdom in the first quarter of 2017. Further, there is a possibility that other foreign jurisdictions may take the position that our business is subject to their 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 effectively compete in the marketplace with our competitors. Our ability to maintain profitability on a quarterly or annual basis will also depend on our ability to manage and control operating expenses and to generate and sustain adequate levels of revenue. Many of our expenses are fixed in the short term, and we may not be able to quickly reduce spending if our revenue is lower than what we project. In addition, we may find that our business plan costs more to execute than what we currently anticipate. Some of the factors that affect our ability to maintain profitability on a quarterly or annual basis are beyond our control, including general economic trends and uncertainties.

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 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. For example, we are currently involved in several disputes related to the En Pointe acquisition. These proceedings are described under the heading "*Legal Proceedings*" in Part I, Item 1, Note 10 to the Notes to the Condensed Consolidated Financial Statements of this report. Any litigation, arbitration, audit, investigation or other dispute resolution process 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 hardware product, software or service categories and offerings, our websites or our processing systems in a cost-effective and timely manner as may be required to efficiently operate our business.

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

We have generated substantial portions of our revenue in the past from the sale of computer hardware, software and accessories and consumer electronics products. Expansion into new hardware product, software and service 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 and comply with new regulations. In addition, demand for the solutions we sell to our customers could decrease if we are unable to adapt in areas like cloud technology, IaaS, SaaS, PaaS, SDN or other emerging technologies. We may lack the necessary expertise in a new category or offering to realize the expected benefits of that new category or offering. These requirements could strain our managerial, financial and operational resources. Additional challenges that may affect our ability to expand into new hardware product, software or service categories and offerings include our ability to:

- establish or increase awareness of our new brands and categories and offerings;
- acquire, attract and retain customers at a reasonable cost;
- achieve and maintain a critical mass of customers and orders across all of our categories and offerings;
- 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 business to our customers on terms that are acceptable to us; and
- manage our inventory in new categories and offerings.

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 in a cost-effective or timely manner. If our new categories or offerings 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 categories or offerings to offset their cost could harm our business, financial condition or results of operations.

The evolution of cloud-based offerings may negatively impact our sales of hardware products, software and related services.

Our customers are increasingly able to access technology solutions necessary to their operations through cloud-based offerings. Increasing demand for cloud-based offerings may reduce demand for certain of our existing technology solution offerings. We are investing in our cloud-based capabilities, including products and services related to our own direct and third-party cloud-based offerings, such as our hybrid cloud data center and NOC services, Azure Cloud solutions, Office 365 and Enterprise Mobility Suite. We expect to continue to increasingly invest in our cloud-based capabilities in support of anticipated customer evolution towards cloud-based solutions. There can be no assurance that our investments in cloud-based offerings will result in improved sales or profitability or allow us to offset any reductions in sales of our more traditional hardware product, software and related service offerings which may result from our customers' increased adoption of cloud-based solutions. Any such reductions in sales may have a material adverse effect on our business, financial condition or results of operations.

We may not be able to attract and retain key personnel such as senior management, sales and services 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, services 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.

We are subject to data security laws that are becoming more widespread and burdensome, and increasingly require notification of security breaches to affected individuals, regulators and other third parties. At the same time, cyber attacks and other efforts by bad actors to steal personal information or company proprietary information, and to disrupt service, are on the rise. Our systems contain personal, financial and other information that is entrusted to us by our customers and employees, as well as financial, proprietary, and other confidential information relating to our business. Despite the security measures we have in place, security breaches involving our systems or the systems of our third-party vendors may occur, and could result in system and service disruptions or the theft or disclosure of personal or confidential information. In addition to risks we face from cyber attacks or security attacks 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. The occurrence of any of these security breaches, or the claim that our company has suffered such a security breach, whether accurate or not, could result in adverse publicity, loss of customer confidence, increased costs, reduced sales and profits, criminal penalties, and civil liabilities. In addition, in order to ensure customer confidence in our solutions and services, we may choose to remediate actual or perceived security concerns by implementing further security measures which could require us to expend significant resources. The FTC and state consumer protection authorities have brought a number of enforcement actions against U.S. companies for alleged deficiencies in 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, security breaches, or other disclosures of personal information, 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 or violation 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, the United Kingdom, the European Union and elsewhere, laws and regulations, such as the General Data Protection Regulation (GDPR), 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, the Canadian Anti-Spam Legislation, GDPR and the UK Privacy and Electronic Communications Regulations, 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, wildfires, 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 technology offerings we provide is highly competitive and driven in large part by price, products and services 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 solution providers, including CDW, Insight Enterprises, Presidio and 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, 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, technology services and computer-related and electronic products, including Amazon Business and Web Services, and Google Business Services. In the technology solution provider and resale 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 technology offerings are distributed and sold is changing, and new methods of sale and distribution have emerged and serve an increasingly large portion of the market. Computer hardware and software OEM vendors have sold, and may intensify their efforts to sell, their products directly to end users. From time to time, certain OEM vendors 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, Canada and the United Kingdom.

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 also entered the Canadian market in 2015 with our Acrodex and Systemax acquisitions and the UK market in 2017. 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. In addition, the referendum in the UK electing to withdraw from the European Union has created significant uncertainty about the future relationship between the UK and the European Union, including with respect to the laws and regulations that will apply as the UK determines which European Union laws to replace or replicate in the event of a withdrawal. Future volatility in any of these international markets 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 historically received third party back office support from Pakistan, as a result of our En Pointe acquisition, and we may increase our offshore operations in the future. Establishing and transitioning 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 international 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 and the Philippines that have historically provided back-office administrative support and customer service support, and we recently began selling technology solutions in the Canadian market in connection with three business acquisitions and launched a new business in the United Kingdom in 2017. 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 and support, 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 and support 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 and support 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.

Following our acquisition of En Pointe, we received third party back office support in Pakistan to supplement our captive support operations in other geographies. The agreement for these outsourced services in Pakistan expired in the third quarter of 2017. We have transitioned these IT, accounting, customer service and order management and other support services to our wholly-owned service operations in the Philippines and other geographies. Any transition of historical support operations involves risks of business disruption and management distraction. We cannot be certain that any such transition in our support operations will ultimately produce the expected benefits to our business or our customers.

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 6. EXHIBITS

The following exhibits are filed with this Report:

Exhibit Number	Description
3.1	Second Amended and Restated Bylaws of PCM, Inc., amended as of September 10, 2018 (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Commission on September 14, 2018 (the "September 14, 2018 Form 8-K"))
3.2	Second Amended and Restated Bylaws of PCM, Inc., marked to show amendments effective as of September 10, 2018 (incorporated herein by reference to Exhibit 3.2 to the September 14, 2018 Form 8-K)
10.1	Form of Amended and Restated Indemnification Agreement, by and between PCM, Inc. and the indemnitees parties thereto (incorporated herein by reference to Exhibit 10.1 to the September 14, 2018 Form 8-K)
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 8, 2018

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

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 8, 2018

/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 8, 2018

/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, 2018 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 8, 2018

/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, 2018 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 8, 2018

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