
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2013

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
(State or other jurisdiction of
incorporation or organization)

95-4518700
(IRS Employer
Identification Number)

1940 East Mariposa Avenue, El Segundo, CA 90245
(Address of principal executive offices, including zip code)

(310) 354-5600

(Registrant's telephone number, including area code)

(Former address of principal executive offices, including zip code)

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

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

Securities registered pursuant to Section 12(g) of the Act: **None**

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

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

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

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

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

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller Reporting Company

(Do not check if a smaller reporting company)

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

As of June 30, 2013, the aggregate market value of the Common Stock held by non-affiliates of the registrant was approximately \$89.5 million, based upon the closing sales price of the registrant's Common Stock on such date, as reported on the Nasdaq Global Market. Shares of Common Stock held by each executive officer, director and each person owning more than 10% of the outstanding Common Stock of the registrant have been excluded in that such persons may be deemed to be affiliates of the registrant. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 10, 2014, the registrant had 11,897,724 shares of common stock outstanding.

Documents Incorporated By Reference Into Part III:

Portions of the definitive Proxy Statement for the Registrant to be filed in connection with its 2014 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report.

PCM, INC.
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PART I

FORWARD-LOOKING STATEMENTS

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

- our use of management information systems and their need for future support or upgrade;
- our expectations regarding the timing and costs of our ongoing or planned IT systems and communications infrastructure upgrades;
- our ability to execute and benefit from our business strategies; including but not limited to, business strategies related to and strategic investments in our IT systems, investments in our planned new data center, our reorganization strategy, our brand strategy and initiatives to unify our commercial brands, our efforts to expand our sales of value-added services and solutions offerings, and real estate acquisitions and dispositions;
- our cost reduction strategies and plans, including timing, expected cost savings, the uses of those savings, the timing and amount of payments, the impact on our business, and the amounts of future charges to complete our such plans;
- our expectations regarding key personnel and our ability to retain such individuals;
- our competitive advantages and growth opportunities;
- our ability to increase profitability and revenues;
- our expectations to continue our efforts to increase the productivity of our sales force and reduce costs;
- our 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 acquisition strategy and the impact of any past or future acquisitions;
- the impact of acquisitions on our financial condition, liquidity and our future cash flows and earnings;
- our expectation regarding general economic uncertainties and the related potential negative impact on our profit and profit margins, as well as our financial condition, liquidity and future cash flows;
- our expectations regarding our future capital needs and the availability of working capital, liquidity, cash flows from operations and borrowings under our credit facility and other long-term debt;
- the expected results or profitability of any of our individual business units in future periods;
- the impact on accounts receivable from our efforts to focus on sales in our Commercial and Public Sector segments;
- our ability to penetrate the public sector market;
- our beliefs relating to the benefits to be received from our Philippines office and Canadian call center, including tax credits and reduction in labor costs over time;
- our belief regarding our exposure to currency exchange and interest rate risks;
- our ability to attract new customers and stimulate additional purchases from existing customers, including our expectations regarding future advertising levels and the effect on consumer sales;
- our ability to leverage our market position and purchasing power and offer a wide selection of products at competitive prices;
- our expectations regarding the ability of our marketing programs or campaigns to stimulate additional purchases or to maximize product sales;
- our belief that the use and enhancement of extranets has the potential to yield additional sales opportunities and the ability to reach new customer bases;
- our ability to limit risk related to price reductions;
- our belief regarding the effect of seasonal trends and general economic conditions on our business and results of operations across all of our segments;
- our expectations regarding competition and the industry trend toward consolidation;
- our expectations regarding the payment of dividends and our intention to retain any earnings to finance the growth and development of our business;
- our compliance with laws and regulations;
- our beliefs regarding the applicability of tax statutes, regulations and governmental tax regulatory positions;
- our expectations regarding the impact of accounting pronouncements;
- our expectations regarding any future repurchases of our common stock, including the financing of any such repurchases;
- our belief that backlog is not useful for predicting our future sales;
- our belief that our existing distribution facilities are adequate for our current and foreseeable future needs;

- our expectations with respect to the timing and cost of completing our new data center in Ohio; and
- the likelihood that new laws and regulations will be adopted with respect to the Internet, privacy and data security that may impose additional restrictions or burdens on our business.

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

ITEM 1. BUSINESS

General

PCM, Inc. is a leading multi-vendor provider of technology products, services and solutions offered through our dedicated sales force and field service teams, direct marketing channels and a limited number of retail stores. Since our founding in 1987, we have served our customers by offering products and services from leading brands, such as Adobe, Apple, Cisco, Dell, HP, Lenovo, Microsoft and Oracle. We add additional value by incorporating products and services into comprehensive solutions. Our sales and marketing efforts allow our vendor partners to reach multiple customer segments including commercial businesses, state, local and federal governments, educational institutions and individual consumers.

We operate under three reportable operating segments - Commercial, Public Sector and MacMall. Our segments are primarily aligned based upon their respective customer base. Prior to 2013, we had four reportable operating segments: MME, SMB, Public Sector and MacMall/OnSale, which were reorganized in connection with our rebranding strategy discussed below. Additional information regarding our segments can be found in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 of this report.

We sell primarily to customers in the United States, and maintain offices throughout the United States, as well as in Montreal, Canada and Manila, Philippines. In 2013, we generated approximately 73% of our revenue in our Commercial segment, 13% of our revenue in our Public Sector segment and 14% of our revenue in our MacMall segment.

Recent Developments

Over the past several years, our company has grown in part through the acquisition and internal cultivation of many different brands. We historically differentiated our brands primarily based on the identity of the customers. After carefully examining the markets we serve and the trends taking shape in the marketplace, we believe our commercial customers will benefit from a more unified and streamlined brand strategy. Accordingly, we changed our legal corporate name from PC Mall, Inc. to PCM, Inc. effective December 31, 2012 and our NASDAQ ticker symbol from MALL to PCMI effective January 2, 2013. In addition, we combined our primary commercial subsidiaries PC Mall Sales, Inc., Sarcom, Inc. and PC Mall Services, Inc. into a single subsidiary effective December 31, 2012. The combined subsidiary now operates under the unified commercial brand PCM and generally includes our former SMB, MME and portions of our Corporate & Other segments. Further, in connection with the rebranding, our PC Mall Gov, Inc. subsidiary changed its name to PCMG, Inc. and now operates under the PCM-G brand. We expect this unification will lead to an improved customer experience, operational synergies and benefits to all of our stakeholders providing a brand that better represents the value-added solutions provider we are today.

In December 2012, we completed the purchase of 7.9 acres of land for approximately \$1.1 million and have incurred an additional \$1.3 million towards the construction of a new cloud data center that we currently expect to open in the first half of 2014. The Tier III facility is strategically located in a data center-centric development in New Albany, Ohio. The new facility will complement our two existing data centers and a 24/7 Integrated Operations Center (IOC) located in Atlanta, Georgia, enhancing our managed service offerings, including cloud services, data center hosting and management, remote monitoring and disaster recovery.

In March 2011, we completed the purchase of real property comprising approximately 184,000 square feet of land, which includes approximately 84,000 square feet of office space located at 1940 East Mariposa Avenue, El Segundo, California, which became our new corporate headquarters in November 2011. We purchased and have improved this building, located strategically adjacent to the Los Angeles International Airport (LAX), because we want it to be a compelling destination for customers who want to experience new and cutting edge IT solutions in person. The new headquarters was designed to drive higher productivity and efficiency for our employees and to provide a state-of-the-art demo center for our customers and vendor partners, as well as increase capacity to support

our growth well into the future. In conjunction with the move, we relocated and substantially upgraded our primary data center from Torrance, California to our own hosting facility in Atlanta, Georgia, which incorporates state of the art monitoring and disaster recovery capabilities. As a result of this relocation certain of our subsidiaries now have geographically redundant web and information systems. We are in the process of developing a formal disaster recovery plan for our critical systems.

In February 2011, we acquired certain assets, including approximately \$1 million of inventory, of eCOST.com, a subsidiary of PFSweb, Inc., for \$2.3 million. eCOST.com is an online marketplace featuring an assortment of product categories, including but not limited to computers, networking, electronics and entertainment, TVs, monitors and projectors, cameras and camcorders, memory and storage. The website also features a proprietary and patented shopping format, Bargain Countdown®, which amongst other features, offers limited time, limited quantity deals, and supports its premium online membership shopping club.

Strategy

We seek to be a leading multi-vendor provider of technology products, services and solutions with a customer experience so compelling that we will be the provider of choice. In pursuit of this goal, the key elements of our strategy are discussed below.

Increase Sales and Marketing Productivity

Our account executives, together with our pre-sales support personnel and technical specialists, are skilled as a team in solution selling, account management and offering a superior customer experience through a high touch model. They handle a variety of customer needs, including assessment and support for complex technology solutions, operations and procurement processes, ongoing customer service and other value-added services.

We intend to place significant strategic emphasis on increasing the productivity and tenure of our existing sales force by enhancing our training and tools, optimizing our technical pre-sales resources and other support functions, expanding our reach into higher-value, middle-market opportunities and realigning our commercial account executives and corporate and enterprise accounts under a unified brand strategy. Through these efforts we intend to better equip our account executives to evaluate, understand and deliver profitable technology solutions that address our customers' IT needs with a superior customer experience in a changing IT environment.

Develop and Provide Leading Edge, Value Added Services and Solutions Offerings

Historically, our growth has been driven by our hardware and software sales. Increasingly, however, our commercial customers are consuming IT in different and evolving ways. As a result, they are utilizing more elaborate services and solutions, and it is a key part of our strategy to tailor our offerings to leverage these market dynamics. We believe we have significant opportunities for growth and increased profitability by continuing to invest in, and enhance, our software, services and solutions capabilities and portfolio. We have recently enhanced our tools and billing systems with the implementation of new help desk software, and expect to open in the first half of 2014 our newly constructed cloud data center for customer use, which will be located near Columbus, Ohio. Our software, services and solutions employees collectively carry thousands of technical certifications. These professionals add value to our clients through their expertise, knowledge and ability to craft customized solutions, and we expect to continue to add to our software, service and solutions capabilities. With our experienced engineers, technicians and project managers, combined with a national network of third party service providers, we intend to efficiently provide pre-sales assessments for the complex services and solutions necessary to meet the evolving technology marketplace for our customers in the commercial and public sector markets and to profitably deliver the resulting required post-sales services and solutions.

We are also continuing to focus our strategy of working with our customers to identify areas where they can gain efficiencies by outsourcing to us traditional IT functions, including help desk support, deployment, project management, hosting, and related IT functions. Our strategy is to continue to enhance our value proposition in the areas where we believe companies are increasingly investing. Specifically, we are focused on solutions around the data center (which includes storage and security solutions), cloud computing, collaboration, virtualization, secure mobility, borderless networks and enterprise software solutions. Our services are available to our commercial and public sector customers and span the entire IT life cycle. These services include:

- Assessment & Planning Services
- Data Center Hosting Services
- Software Hosting Services
- Remote Systems Monitoring & Management
- IMAC & Deployment Services
- End-User Desktop Services
- Managed Print Services

- Recycling & Disposal Services
- Change Management Consulting Services
- Training
- Project Management
- Design and Consulting

Leverage our Strong Partnerships With Key Vendors

We believe it is important to leverage our strong relationships with key OEM and publisher vendor partners such as Adobe, Apple, Cisco, Dell, HP, Lenovo, Microsoft and Oracle and other key partners on a company-wide basis. We believe our long-standing relationships with our key vendor partners give us increased visibility and legitimacy in the minds of our customers and provide us key insights related to new and existing technology products, services and solutions, roadmaps for such offerings and other critical industry dynamics. These insights help to ensure that our sales and marketing organizations are knowledgeable and well positioned to profitably understand, market, sell and deliver these technologies to our customers, allowing us to meet our customers' evolving and increasingly complex technology needs.

We intend to continue to invest in sales and technical competencies to drive solutions-centric sales to commercial customers. We have continued to add specializations with our top partners in an effort to better align us with their respective growth strategies. We also intend to continue to invest in and enhance our training programs, our compensation plans and our marketing activities related to each of our key vendor partners. These investments and enhancements are central to our strategic efforts intended to add additional value to these partners by maintaining and enhancing our ability to efficiently and effectively market, sell, deliver and incorporate their products and services into our comprehensive solutions with a high degree of customization.

Identify and Drive Further Operational Efficiencies

We utilize a centralized infrastructure for our back-office capabilities. In order to free our sales and marketing organizations to increase their focus on our existing and prospective customers, we maintain centralized IT, finance, human resources, and other support functions. We believe that leveraging a centralized model for these critical back-office functions drives a more efficient overall cost structure and allows us to more cost effectively introduce new tools to our sales and marketing organizations. As an additional part of our strategy to drive cost advantages and operational efficiencies, we also have located a significant number of personnel related to these functions in the Philippines and intend to continue with this strategy.

We recently completed an internal reorganization of our commercial businesses and a rebranding of our multiple commercial brands as part of our strategy to streamline various aspects of our operations and our branding. These changes are critical to our ongoing strategic efforts to drive operational efficiencies and we intend to continue implementing these changes as we go forward. While we historically organized our marketing and sales efforts around multiple brands that were differentiated based on the different markets we serve, going forward we believe our commercial and government customers can benefit from a more unified and streamlined brand strategy. Through our reorganized operational structures and unified brand efforts, we intend to pursue substantial cost synergies. For example, we expect to achieve efficiencies by building brand equity in a single combined commercial business, which will allow us to invest and develop recognition in a single name. We expect our advertising and marketing campaigns will be simplified and will become more impactful as we expect this strategy will allow us to more effectively communicate and deliver our capabilities and organize our sales and marketing resources accordingly.

As an additional key part of our strategy to identify and drive operational efficiencies, we are currently upgrading many of our IT systems. We have purchased licenses for workflow software, web development tools, Microsoft Dynamics AX (Axapta) and appropriate ISV (Independent Software Vendor) solutions to upgrade our ERP systems. We are currently working on the implementation of the ERP modules and the upgrade of the ERP systems, including additional enhancements and features. We have completed the initial phase of the implementation, and we expect to be complete with all major phases of the implementation of the ERP systems and migration of certain of the legacy systems to the new ERP solution by the end of 2014. We believe the implementation and upgrade should help us to gain further efficiencies across our organization. Additionally, we have completed the initial implementation and upgrade of our eCommerce systems and launched new generation of our public sites and extranet at pcm.com, macmall.com, pcmg.com and onsale.com.

Selectively Pursue Strategic Acquisitions

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 and expand our market coverage or add new business capabilities. The technology solutions industry has undergone significant consolidation over the past 15-20 years and while we believe that the fragmented nature of the industry, and industry consolidation trends, may continue to present acquisition opportunities for us, these trends may also make acquisitions more competitive.

We continually evaluate and explore strategic opportunities as they arise, including business combination transactions, strategic partnerships and the purchase or sale of assets. We may choose to pursue acquisitions for several reasons. For instance, we may pursue acquisitions that will broaden our capabilities in IT services and solutions. We may also choose to pursue acquisitions that will enable us to further penetrate or enter geographies we deem attractive. We evaluate acquisition opportunities based on our assessment of several factors, including the perceived value of the opportunity, our available financing sources, potential synergies of the acquisition target with our business and the opportunity costs of any such investment. The implementation of our acquisition strategy depends on the availability of suitable acquisition candidates at reasonable prices and our ability to resolve challenges associated with integrating acquired businesses into our existing business. Our ability to complete acquisitions in the future will depend on our ability to fund such acquisitions with our internally available cash, cash generated from operations, amounts available under our existing credit facilities, additional borrowings or from the issuance of additional securities.

Sales and Marketing

Sales Activities. Our account executives handle a variety of customer needs, including, assessment and support for complex technology solutions, operations and procurement processes, ongoing customer service and other value-added services in our Commercial and Public Sector segments. They are responsible for assisting customers in purchasing decisions, answering product pricing and availability questions and processing product orders, but more importantly, for proactively reaching out to existing and prospective clients to assess opportunities to sell them value-added technology services and solutions. Our account executives profile accounts, identify and build relationships with key decision makers and influencers within their account base and are responsible for growing the depth of product and service categories we sell to our customers. Account executives have the authority to vary prices within specified parameters in order to be competitive. Our account executives also utilize a support team which is focused on non-selling administrative support activities, leaving our account executives incremental time to sell and prospect. We further support our account executives with systems used for order entry, customer tracking and relationship management, product availability and fulfillment schedules and which support their ability to sell across multiple product categories.

We believe that the success of our account executives is substantially dependent on the quality of our recruiting and training programs. Upon hiring, our account executives undergo an initial sales training program focusing on the use of our systems, product, service and solutions offerings, sales techniques and customer service. To ensure that they are able to effectively sell all products, services and solutions, account executives attend regular training sessions to stay up-to-date on new technology offerings. Account executives are also supported by pre-sales personnel who assist them with product specific questions and solutions support. We also require the account executives to acquire certain sales technical certifications for key technologies to ensure they are credible and competent in selling complex services and solutions.

We frequently enhance our tools that are used to support our sales activities. Generally, these tools enable our account executives and sales managers to utilize a number of metrics and analytics from which incremental opportunities can be identified within specific customer accounts or an account executive's entire book of business. These capabilities provide a solid foundation from which our account executives can expand their customer account penetration and drive incremental revenue and profitability.

We address the needs of our MacMall customers through inbound and outbound account executives who are trained to support the product needs and the order management requirements of its creative professional, small business and high-end consumer customers. The account executives are managed to efficiently handle inquiries, to process orders rapidly and to address customer service issues. The sales force has access to phone-based technical and customer service resources to ensure a 24/7 ability to handle customer needs. We believe that MacMall's specialized capabilities make for a strong value proposition in acquiring and servicing these customers, particularly as Apple's market share grows.

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

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

Online Marketing. eCommerce marketing programs and capabilities, such as affiliate marketing, search engine optimization, email and search engine marketing, are essential components of our customer acquisition and retention strategy. We operate several websites, including pcm.com, pcmg.com, macmall.com, abreon.com, onsale.com and ecost.com. Our websites offer features such as online ordering, access to inventory availability and a large product selection with detailed product information. We also maintain and operate commercial, customized extranets to provide businesses and their employees with an online purchasing channel with custom catalogs, pricing, security, asset management and workflow configurable to our customers' needs. These extranet sites are designed to enhance sales productivity by allowing customers to perform routine tasks online, freeing our associated account executive's time for other tasks. We have recently launched a significant enhancement to our corporate extranet for PCM, which we believe will increase online adoption of our extranet by these customers.

Other Direct Marketing. We selectively mail catalogs to existing and prospective customers, utilize online advertising methodologies and, to a limited extent, advertise in certain major magazines, radio and local television programs. We also send direct marketing mailers to selected target audiences to drive sales to new and existing customers. We create our marketing materials in-house with our own design team and production artists. We believe the in-house preparation of catalogs, advertisements, and promotional materials streamlines the production process, provides greater flexibility and creativity in catalog production and results in significant cost savings over outside production.

Products and Merchandising

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

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

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

	Years Ended December 31,		
	2013	2012	2011
Notebooks	17.6%	16.0%	15.7%
Software (1)	15.4	15.1	14.2
Desktops	9.8	10.0	10.5
Delivered services	8.6	8.5	7.3
Networking	8.3	7.3	7.1
Tablets	6.0	7.3	6.9
Storage	5.7	5.1	4.7
Displays	5.2	5.2	4.9
Manufacturer service and warranty (1)	5.1	4.2	3.5
Accessories	2.9	3.5	3.1
Input devices	2.8	3.2	2.2
Servers	2.5	3.0	3.8
Other (2)	10.1	11.6	16.1
Total	100.0%	100.0%	100.0%

(1) Software, including software licenses, maintenance and enterprise agreements, and manufacturer service and warranties are shown, for purposes of this table, on a gross sales billed to customers basis, net of returns and do not reflect the net down impact related to revenue recognition for sales of such products.

(2) All other includes power, printers, supplies, consumer electronics, memory, iPod/MP3 and miscellaneous other items.

Service Offerings for Commercial and Public Sector Markets

Our sales of services were in excess of \$120 million in 2013 and represented approximately 8.6% of our overall revenues. As part of our strategy, we recently enhanced our tools and billing systems with the implementation of new help desk software and expect to open in the first half of 2014 our newly constructed cloud data center for customer use, which will be located near Columbus, Ohio. We are focused on working with our customers to identify areas where they can gain efficiencies by outsourcing to us traditional IT functions, including help desk support, deployment, project management, hosting, and related IT functions. We also continue to enhance our value proposition in the areas where we believe companies are increasingly investing. Specifically, we are focused on solutions around the data center (which includes storage and security solutions), cloud computing, collaboration, virtualization, secure mobility, borderless networks and enterprise software solutions. Our services are available to our commercial and public sector customers and span the entire IT life cycle.

To better support our customers and as a reflection of our focus on customer satisfaction, we have grown to over 800 certified engineers, technicians and project managers providing on-site support to our clients. These professionals, who collectively hold thousands of technical certifications, support a wide variety of technology services, software and solutions and, along with our strong industry relationships with Adobe, Apple, Cisco, Dell, HP, Lenovo, Microsoft, Oracle and others, are augmented by a nationwide network of service providers, which act as our subcontractors to increase our reach into all of our geographical markets and allow us to deliver the most appropriate solutions for our customers. Our IT services, whether they are delivered by us or through our partners, complement our offerings and allow us to develop complete solutions to meet our customers' needs.

Purchasing and Inventory

Effective purchasing is a key element of our strategy to provide technology products and solutions at competitive prices. We believe that our high volume of sales results in increased purchasing power with our primary suppliers, resulting in volume discounts, favorable product return and price protection policies and certain other vendor consideration. Products manufactured by HP accounted for 21%, 20% and 21% of our net sales in 2013, 2012 and 2011 and products manufactured by Apple represented approximately 18%, 18% and 21% of our net sales in 2013, 2012 and 2011. We are also linked electronically with 25 distributors and manufacturers, which allows our account executives to view applicable product availability online and drop-ship those products directly to customers. These arrangements allow us to reduce inventory carrying costs, achieve higher order fill rates and improve inventory turns.

Many of our vendor partners provide us with volume incentive rebates and market development funds to assist in the active marketing and sales of their products. Such funds help offset portions of the costs incurred to market their products. As is customary in our industry, we have no long-term supply contracts with any of our vendors. Substantially all of our contracts with our vendors are terminable upon 30 days' notice or less.

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

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

Backlog

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

Distribution

We operate a full-service 212,000 square foot distribution center in Memphis, Tennessee, an 84,640 square foot warehouse facility in Columbus, Ohio and a 20,254 square foot warehouse facility in Irvine, California. The Memphis warehouse is our primary distribution center and is strategically located near the FedEx main hub in Memphis, which allows most orders of in-stock products

accepted by 10:00 p.m. Eastern Time to be shipped for delivery by 10:30 a.m. the following day via FedEx priority, if requested by the customer. We have a comprehensive network of transportation and delivery partners that is optimized to meet our customers' service level requirements. The Columbus and Irvine warehouses primarily function as custom configuration and distribution centers for our commercial customers. We believe that our existing distribution facilities are adequate for our current and foreseeable future needs.

Our distribution and fulfillment process is highly automated. When an order is entered into our systems and credit is approved, the order is electronically transmitted to one of our warehouses or our vast network of distributors and manufacturers warehouses that are electronically linked to our systems for order fulfillment. Inventory items are bar coded and located in computer-designated areas which are easily identified for accurate processing. Orders are checked with bar code scanners prior to final packing to ensure that each order is packed correctly.

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

Management Information and Communication Systems

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

We are currently upgrading many of our IT systems. We have purchased licenses for Microsoft Dynamics AX (Axapta) and other related tools, such as workflow software, web development tools and other related items and ISVs (Independent Software Vendors), to upgrade our ERP and eCommerce systems. We are currently working on the implementation of the ERP modules and the upgrade of the ERP systems, including additional enhancements and features. We believe the implementation and upgrade should help us to gain further efficiencies across our organization. Additionally, we have completed the initial implementation and upgrade of our eCommerce systems and launched a new generation of our public sites and extranet at pcm.com, macmall.com, pcmg.com and onsale.com. While it is difficult to estimate costs and timeframes for completion, based on the complexity of the systems design, customization and implementation and our current estimates, which are subject to change, we currently expect to incur a cost of approximately \$19 million for the major phases of these IT system upgrades and to be complete with all major phases of the implementation of the ERP systems and migration of certain of the legacy systems to the new ERP solution by the end of 2014. To date, we have incurred approximately \$16.8 million of such costs. In addition to the above expenditures, we expect to make periodic upgrades to our IT systems on an ongoing basis. In addition to the upgrades to our IT systems, we recently implemented various Cisco solutions to upgrade our communications infrastructure to provide a unified platform for our entire company and to provide a robust and efficient contact center.

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 Microsoft Dynamics AX. 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.

We relocated our company headquarters and main data center from Torrance, California to El Segundo, California in late 2011. As a result of this relocation, we upgraded our infrastructure and provided geographical redundancy for critical systems that were operating from Torrance. The geographical redundancy is provided through our newly upgraded data center in El Segundo and our own hosting facility in Atlanta. The two data centers now provide geographically redundancy for certain critical systems.

Retail Stores

We currently operate four retail stores, located in Huntington Beach, Santa Monica and Torrance, California and Chicago, Illinois, whose target customers are consumers and small businesses residing or located in the local areas. The retail stores operate under the MacMall brand, and we believe they are able to extend the reach of the Apple brand into markets where Apple does not currently have a retail location.

Competition

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

- other technology solution providers and direct marketers, including CDW, Insight Enterprises and PC Connection;
- large value added resellers such as CompuCom Systems, Pomeroy IT Solutions and World Wide Technology;
- government resellers such as CDWG and GovConnection;
- computer retail stores and resellers, including superstores such as Best Buy, Office Depot and Staples;
- hardware and software vendors such as Apple and Dell Computer that sell or are increasing sales directly to end users;
- online resellers, such as Amazon.com, Newegg.com and TigerDirect.com;
- software focused resellers such as Soft Choice and Software House International; and
- other direct marketers and value added resellers of information technology products, solutions and services.

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

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

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

Although many of our competitors have greater financial resources than we do, we believe that our ability to offer commercial, public sector and consumer customers a wide selection of products, solutions and services, at competitive prices, with prompt delivery and a high level of customer satisfaction, together with good relationships with our vendors and suppliers, allows us to compete effectively. We compete not only for customers, but also for favorable product allocations and cooperative advertising support from our vendor partners. Some of our competitors could enter into exclusive distribution arrangements with our vendors and deny us access to their products and solutions, devote greater resources to marketing and promotional campaigns and devote substantially more resources to their websites and systems development than we can. New technologies and the continued enhancement of existing technologies also may increase competitive pressures on us. An increase in competition could require us to adopt competitive pricing or advertising strategies that may have an adverse effect on our operating results. There can be no assurance that we can continue to compete effectively against existing or new competitors that may enter the market.

Intellectual Property

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

Third parties have asserted, and may in the future assert, that our business methods or the technologies we use infringe their intellectual property rights. We may be subject to intellectual property claims and legal proceedings in the ordinary course of our business. If we are forced to defend against any third-party infringement claims, we could face expensive and time-consuming litigation and be required to pay monetary damages, which could include treble damages and attorneys' fees for any infringement that is found to be willful, and either be enjoined or required to pay ongoing royalties with respect to any business methods or technologies that are found to be infringing. Further, as a result of infringement claims either against us or against those who license technology to us, we may be required, or deem it advisable, to develop non-infringing business methods or technology, which could be costly and time-consuming, or enter into costly royalty or licensing agreements.

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

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

Segment Reporting Data

Operating segment and principal geographic area data for 2013, 2012 and 2011 are summarized in Note 14 of the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report, which is incorporated herein by reference.

We operate under three reportable operating segments - Commercial, Public Sector and MacMall. Our segments are primarily aligned based upon their respective customer base. Prior to 2013, we had four reportable operating segments: MME, SMB, Public Sector and MacMall/OnSale, which were reorganized in connection with our rebranding strategy. 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.

Employees

At December 31, 2013, we had 2,837 full-time and 83 part-time employees, consisting of 1,915 in the United States, 357 in Canada and 648 in the Philippines. We emphasize recruiting and training high-quality personnel and, to the extent practical, promote people to positions of increased responsibility from within the company. Many employees initially receive training appropriate for their position, followed by varying levels of training in computer technology, communication and leadership. New account executives participate in an intensive sales training program, during which time they are introduced to our business ethics and philosophy, available resources, products and services, as well as basic and advanced sales skills. Training for specific product lines and continuing education programs are conducted on a regular basis, supplemented by vendor-sponsored training programs for account executives and technical support personnel.

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

Regulatory and Legal Matters

Our businesses are subject to various regulatory and legal requirements, such as the Mail or Telephone Order Merchandise Rule and other related regulations promulgated by the Federal Trade Commission and other laws and regulations applicable to commerce on the Internet and laws and regulations of the federal government related to our procurement of products and services and our sales to the government. These laws and regulations may cover taxation of eCommerce, user privacy, marketing and promotional practices (including electronic communications with our customers and potential customers), database protection, pricing, content, copyrights, distribution, electronic contracts and other communications, consumer protection, product safety, the provision of online payment services, copyrights, patents and other intellectual property rights, data security, unauthorized access (including the Computer Fraud and Abuse Act), and the characteristics and quality of products and services.

While we believe we are currently in compliance with such laws and regulations and have sought to implement processes, programs and systems in an effort to achieve compliance with existing laws and regulations applicable to our businesses, many of these laws and regulations are unclear and have yet to be interpreted by courts, or may be subject to conflicting interpretations by courts. No assurances can be given that new laws or regulations will not be enacted or adopted, or that our processes, programs and systems will be sufficient to comply with present or future laws or regulations, which might adversely affect our operations. Moreover, changing technologies and the growth and evolution of Internet commerce has and may continue to prompt calls for more stringent consumer protection, privacy and data protection laws that, if enacted, could impose additional restrictions or burdens on us and other companies.

Based upon current law, certain of our subsidiaries currently collect and remit sales and use tax only on sales of products or services to residents of the states in which the respective subsidiaries have a physical presence or have voluntarily registered. Various state taxing authorities have sought to impose on direct marketers with no physical presence in the taxing state the burden of collecting state sales and use taxes on the sale of products or services shipped or sold to those states' residents, and it is possible that such a requirement could be imposed in the future. In addition, a number of bills may be introduced or are pending before federal and state legislatures that would potentially expand our tax collection or reporting responsibility. Until these legislative efforts have run their course and the courts have considered and resolved some cases involving these tax collection and reporting issues, there can be no assurance that future laws or interpretations of existing laws imposing taxes or other regulations on direct marketing or Internet commerce would not substantially impair our growth or otherwise have a material adverse effect on our business, results of operations and financial condition.

In addition, we and our subsidiaries may be subject to state or local taxes on income or (in states such as Kentucky, Michigan, Ohio, Texas, Washington or the District of Columbia) on gross receipts or a similar measure earned in a state even though we and our subsidiaries may have no physical presence in the state. State and local governments may seek to impose such taxes in cases where they believe the taxpayer may have a significant economic presence by reason of significant sales to customers located in the states. The responsibility to pay income and gross receipts taxes has also been the subject of court actions and various legislative efforts. There can be no assurance that these taxes will not be imposed upon us and our subsidiaries.

Available Information

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

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 Microsoft Dynamics AX. 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 ERP and eCommerce 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. economy remains a considerable risk to our business, operating results and financial condition. This economic uncertainty could also increase the risk of uncollectible accounts receivable from our customers. During the recent economic downturns in the U.S. and elsewhere, 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. 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 and other countries' economies slows or declines, consumer and business spending rates could be significantly reduced. This could result in reductions in sales of our products, longer sales and payment cycles, slower adoption of new technologies and increased price competition, any of which could materially and adversely affect our business, results of operations and financial condition. Weak general economic conditions or uncertainties in geopolitical conditions could adversely impact our revenue, expenses and growth rate. In addition, our revenue, gross margins and earnings could deteriorate in the future as a result of unfavorable economic or geopolitical conditions.

Our revenue is dependent on sales of products from a small number of key manufacturers, and a decline in sales of products from these manufacturers could materially harm our business.

Our revenue is dependent on sales of products from a small number of key manufacturers and software publishers, including Apple, Cisco, Dell, HP, Lenovo and Microsoft. For example, products manufactured by HP accounted for approximately 21%, 20% and 21% of our total net sales for 2013, 2012 and 2011 and products manufactured by Apple accounted for approximately 18 %, 18% and 21% of our total net sales for 2013, 2012 and 2011. 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 Apple, Cisco, Dell, HP, Ingram Micro, Lenovo, Microsoft and Tech Data, provide us with trade credit or substantial incentives in the form of discounts, credits and cooperative advertising. We have agreements with many of our vendors under which they provide us, or they have otherwise consistently provided us, with market development funds to finance portions of our catalog publication and distribution costs based upon the amount of coverage we give to their respective products in

our catalogs or other advertising mediums. Any termination or interruption of our relationships with one or more of these vendors, particularly Apple or HP, or modification of the terms or discontinuance of our agreements and market development fund programs and arrangements with these vendors, could adversely affect our operating income and cash flow. For example, the amount of vendor consideration we receive from a particular vendor may be impacted by a number of events outside of our control, including acquisitions, 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 agreements with vendors are terminable upon 30 days' notice or less. For example, while we are an authorized dealer for HP and Apple products, they can terminate our dealer agreements upon 30 days' notice. Vendors that currently sell their products through us could decide to sell, or increase their sales of, their products directly or through other resellers or channels. Any termination, interruption or adverse modification of our relationship with a key vendor or a significant number of other vendors would likely adversely affect our operating income, cash flow and future prospects.

Our success is dependent in part upon the ability of our vendors to develop and market products that meet changes in marketplace demand, as well as our ability to sell popular products from new vendors.

The products we sell are generally subject to rapid technological change and related changes in marketplace demand. Our success is dependent in part upon the ability of our vendors to develop and market products that meet these changes in marketplace demand. Our success is also dependent on our ability to develop relationships with and sell products from new vendors that address these changes in marketplace demand. To the extent products that address changes in marketplace demand are not available to us, or are not available to us in sufficient quantities or on acceptable terms, we could encounter increased price and other competition, which would likely adversely affect our business, financial condition and results of operations.

We may not be able to maintain existing or build new vendor relationships, which may affect our ability to offer a broad selection of products at competitive prices and negatively impact our results of operations.

We purchase products for resale both directly from manufacturers and indirectly through distributors and other sources, all of whom we consider our vendors. We also maintain certain qualifications and preferred provider status with several of our vendors, which provides us with preferred pricing, vendor training and support, preferred access to products, and other significant benefits. While these vendor relationships are an important element of our business, we do not have long-term agreements with any of these vendors. Any agreements with vendors governing our purchase of products are generally terminable by either party upon 30 days' notice or less. In general, we agree to offer products on our websites and through our catalogs and the vendors agree to provide us with information about their products and honor our customer service policies. If we do not maintain our existing relationships or build new relationships with vendors on acceptable terms, including favorable product pricing and vendor consideration, we may not be able to offer a broad selection of products or continue to offer products at competitive prices. In addition, some vendors may decide not to offer particular products for sale on the Internet, and others may avoid offering their new products to retailers offering a mix of close-out and refurbished products in addition to new products. From time to time, vendors may be acquired by other companies, terminate our right to sell some or all of their products, modify or terminate our preferred provider or qualification status, change the applicable terms and conditions of sale or reduce or discontinue the incentives or vendor consideration that they offer us. Any such termination or the implementation of such changes, or our failure to build new vendor relationships, could have a negative impact on our operating results. Additionally, some products are subject to manufacturer or distributor allocation, which limits the number of units of those products that are available to us and may adversely affect our operating results.

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

We are subject to intense price competition with respect to the products, services and solutions we sell. As a result, our gross 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 gross margins. Narrow gross 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 gross 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 gross margins, or that we will be able to compete effectively.

We experience variability in our net sales and net income on a quarterly basis as a result of many factors.

We experience variability in our net sales and net income on a quarterly basis as a result of many factors. These factors include:

- the relative mix of products, services and solutions sold during the period;
- the general economic environment and competitive conditions, such as pricing;
- the timing of procurement cycles by our business, government and educational institution customers;
- seasonality in consumer spending;
- variability in vendor programs;
- the introduction of new products, services or solutions by us or our competitors;
- changes in prices from our suppliers;
- promotions;
- the loss or consolidation of significant suppliers or customers;
- our ability to control costs;
- the timing of our capital expenditures;
- the condition of our industry in general;
- seasonal shifts in demand for products, services or solutions we offer;
- consumer acceptance of new purchasing models;
- industry announcements and market acceptance of new offerings or upgrades;
- 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 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 gross margins may magnify the impact of these factors on our operating results. We believe that period-to-period comparisons of our operating results are not necessarily a good indication of our future performance. In addition, our results in any quarterly period are not necessarily indicative of results to be expected for a full fiscal year. In future quarters, our operating results may be below the expectations of public market analysts or investors and as a result the market price of our common stock could be materially adversely affected.

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 strategy is to focus on commercial and public sector sales and related market share growth. In competing in these markets, we face numerous risks and challenges, including competition from a wider range of sources and the need to continually develop and enhance strategic relationships. We cannot assure you that our focus on commercial and public sector sales will result in expanded market share or increased profitability. Furthermore, revenue from our public sector business is derived from sales to federal, state and local governmental departments and agencies, as well as to educational institutions, through various contracts and open market sales. Government contracting is a highly regulated area, and noncompliance with government procurement regulations or contract provisions could result in civil, criminal, and administrative liability, including substantial monetary fines or damages, termination of government contracts, and suspension, debarment or ineligibility from doing business with the government. The effect of any of these possible actions by any governmental department or agency with which we contract could adversely affect our business or results of operations. Moreover, contracting with governmental departments and agencies involves additional risks, such as longer payment terms, limited recourse against the government agency in the event of a business dispute, requirements that we provide representations, warranties and indemnities related to the products, services and solutions we sell, the potential lack of a limitation of our liability for damages from our product sales or our provision of services to the department or agency, and the potential for changes in statutory or regulatory provisions that negatively affect the profitability of such contracts. Similarly, many large commercial businesses also require us to regularly enter into complex contractual relationships involving various risks and uncertainties such as requirements that we provide representations, warranties and indemnities to our customers and potential lack of limitation of our liability for damages under some of such contracts.

Our strategy and investments in increasing the productivity of our account executives, and our focus on sales and delivery of technology services and solutions may not improve our profitability or result in expanded market share.

We have made and are currently making efforts to increase our market share by investing in training and retention of our outbound phone-based sales force. We have also incurred, and expect to continue to incur, significant expenses resulting from infrastructure investments related to our outbound phone-based sales force. Our customers are increasingly consuming IT in different and evolving ways and utilizing more elaborate services and solutions. In response, we are investing in our services and solutions capabilities and portfolio and are working with our customers to identify areas where they can gain efficiencies by outsourcing to us traditional IT functions. Specifically, we are focused on and investing in solutions around the data center (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 outbound phone-based sales force 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.

Based upon current interpretations of existing law, certain of our subsidiaries currently collect and remit sales or use tax only on sales of products or services to residents of the states in which the respective subsidiaries have a physical presence or have voluntarily registered for sales tax collection. The U.S. Supreme Court has ruled that states, absent Congressional legislation, may not impose tax collection obligations on an out-of-state direct marketer whose only contacts with the taxing state are distribution of catalogs and other advertisement materials through the mail, and whose subsequent delivery of purchased goods is by mail or interstate common carriers. However, we cannot predict the level of contact with any state which would give rise to future or past tax collection obligations. Additionally, it is possible that federal legislation could be enacted that would permit states to impose sales or use tax collection obligations on out-of-state direct marketers. Furthermore, court cases have upheld tax collection obligations on companies, including mail order companies, whose contacts with the taxing state were quite limited (e.g., visiting the state several times a year to aid customers or to inspect stores stocking their goods or to provide training or other support to customers in the state). States have also successfully imposed sales and use tax collection responsibility upon in-state manufacturers that agree to act as a drop shipper for the out-of-state marketer, giving rise to the risk that such taxes may be imposed indirectly on the out-of-state seller. We believe our operations in states in which we have no physical presence are different from the operations of the companies in those cases and are thus not subject to the tax collection obligations imposed by those decisions. Various state laws, regulations and taxing authorities have sought to impose on direct marketers with no physical presence in the taxing state the burden of collecting or reporting information related to state sales and use taxes on the sale of products shipped or services sold to those states' residents, and it is

possible that such a requirement could be imposed in the future. For example, New York recently adopted an affiliate marketing statute and related regulations that impose sales and use tax collection obligations on out-of-state sellers that use certain web-based affiliate marketing relationships with web-based affiliates deemed to be located in New York. Other states have proposed similar legislation. There can be no assurance that existing or future laws that impose taxes or other regulations on direct marketing or Internet commerce would not substantially impair our growth or otherwise have a material adverse effect on our business, results or operations and financial condition.

In addition, we and our subsidiaries may be subject to state or local taxes on income or (in states such as Kentucky, Michigan, Ohio, Texas, Washington or the District of Columbia) on gross receipts or a similar measure earned in a state even though we and our subsidiaries may have no physical presence in the state. State and local governments may seek to impose such taxes in cases where they believe the taxpayer may have a significant economic presence by reason of significant sales to customers located in the states. The responsibility to pay income and gross receipts taxes has also been the subject of court actions and various legislative efforts. There can be no assurance that these taxes will not be imposed upon us and our subsidiaries.

We also are subject to general business laws and regulations, as well as laws and regulations specifically governing companies that do business over the Internet. These laws and regulations may cover taxation of eCommerce, user privacy, marketing and promotional practices (including electronic communications with our customers and potential customers), database protection, pricing, content, copyrights, distribution, electronic contracts and other communications, consumer protection, product safety, the provision of online payment services, copyrights, patents and other intellectual property rights, data security, unauthorized access (including the Computer Fraud and Abuse Act), and the characteristics and quality of products and services. Additionally, some of our subsidiaries which are government contractors or subcontractors are subject to laws and regulations 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.

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

Such existing and future laws and regulations may also impede our business. Additionally, it is not always clear how existing laws and regulations governing issues such as property ownership, sales and other taxes, libel, trespass, data mining and collection, data security and personal privacy, among other laws, apply to our businesses. Unfavorable resolution of these issues may expose us to liability and costly changes in our business operations, and could reduce customer demand for our products, services and solutions.

Additionally, although historically only a small percentage of our total sales in any given quarter or year are made to customers outside of the continental United States, there is a possibility that a foreign jurisdiction may take the position that our business is subject to its laws and regulations, which could impose restrictions or burdens on us and expose us to tax and other potential liabilities and could also require costly changes to our business operations with respect to those jurisdictions. 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.

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, or add new business capabilities. We continually evaluate and explore strategic opportunities as they arise, including business combination transactions, strategic partnerships, and the purchase or sale of assets. Our acquisition strategy depends on the availability of suitable acquisition candidates at reasonable prices and our ability to resolve challenges associated with integrating acquired businesses into our existing business. No assurance can be given that the benefits or synergies we may expect from the acquisition of companies or businesses will be realized to the extent or in the time frame we anticipate. We may lose key employees, customers, distributors, vendors and other business partners of the companies we acquire following and continuing after announcement of acquisition plans. In addition, acquisitions may involve a number of risks and difficulties, including expansion into new geographic markets and business areas, the diversion of management's attention to the operations and personnel of the acquired company, the integration of the acquired company's personnel, operations and management information (ERP) systems, changing relationships with customers, suppliers and strategic partners, and potential short-term adverse effects on our operating results. These challenges can be magnified as the size of the acquisition increases. Any delays or unexpected costs incurred in connection with the integration of acquired companies or otherwise related to the acquisitions could have a material adverse effect on our business, financial condition and results of operations.

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

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

We cannot assure you that we will be able to 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.

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, including but not limited to our ability to achieve and maintain vendor relationships, procure merchandise and fulfill orders in an efficient manner, leverage our fixed cost structure, maintain adequate levels of vendor consideration and price protection, maintain a well-balanced product and customer mix, maintain customer acquisition costs and shipping costs at acceptable levels, and our ability to effectively compete in the marketplace with our competitors. Our ability to maintain profitability on a quarterly or annual basis will also depend on our ability to manage and control operating expenses and to generate and sustain adequate levels of revenue. Many of our expenses are fixed in the short term, and we may not be able to quickly reduce spending if our revenue is lower than what we project. In addition, we may find that our business plan costs more to execute than what we currently anticipate. Some of the factors that affect our ability to maintain profitability on a quarterly or annual basis are beyond our control, including general economic trends and uncertainties.

The effect of accounting rules for stock-based compensation may materially adversely affect our consolidated operating results, our stock price and our ability to hire, retain and motivate employees.

We use employee stock options and other stock-based compensation to hire, retain and motivate certain of our employees. Current accounting rules require us to measure compensation costs for all stock-based compensation (including stock options) at fair value as of the date of grant and to recognize these costs as expenses in our consolidated statements of operations. The recognition of non-cash stock-based compensation expenses in our consolidated statements of operations has had and will likely continue to have a negative effect on our consolidated operating results, including our net income and earnings per share, which could negatively impact our stock price. Additionally, if we reduce or alter our use of stock-based compensation to reduce these expenses and their impact, our ability to hire, motivate and retain certain employees could be adversely affected and we may need to increase the cash compensation we pay to these employees.

Our operating results are difficult to predict and may adversely affect our stock price.

Our operating results have fluctuated in the past and are likely to vary significantly in the future based upon a number of factors, many of which we cannot control. We operate in a highly dynamic industry and future results could be subject to significant fluctuations. These fluctuations could cause us to fail to meet or exceed financial expectations of investors or analysts, which could cause our stock price to decline rapidly and significantly. Revenue and expenses in future periods may be greater or less than revenue and expenses in the immediately preceding period or in the comparable period of the prior year. Therefore, period-to-period comparisons of our operating results are not necessarily a good indication of our future performance. Some of the factors that could cause our operating results to fluctuate include:

- 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 by us or our competitors;
- fluctuations in our shipping costs; and
- foreign currency exchange rates.

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

We derive a significant amount of our gross sales from products sold out of inventory at our distribution facilities. We assume the inventory damage, theft and obsolescence risks, as well as price erosion risks for products that are sold out of inventory stocked at our distribution facilities. These risks are especially significant because many of the products we sell are characterized by rapid technological change, obsolescence and price erosion, and because our distribution facilities sometimes stock large quantities of particular types of inventory. There can be no assurance that we will be able to identify and offer products necessary to remain competitive, maintain our gross margins, or avoid or minimize losses related to excess and obsolete inventory. We currently have limited return rights with respect to products we purchase from Apple, HP and certain other vendors, but these rights vary by product line, are subject to specified conditions and limitations, and can be terminated or changed at any time.

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

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

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 and solutions manufactured and distributed by third parties, some of which may be defective. If any product 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 related to the conduct of our business. Additionally, we may from time to time institute legal proceedings against third parties to protect our interests. Any litigation that we become a party to could be costly and time consuming and could divert our management and key personnel from our business operations. In connection with any such litigation, we may be subject to significant damages or equitable remedies relating to the operation of our business and could incur significant costs in asserting, defending, or settling any such litigation. We cannot determine with any certainty the costs or outcome of pending or future litigation. Any such litigation may materially harm our business, results of operations or financial condition.

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

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

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

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

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

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

Our future performance will depend to a significant extent upon the efforts and abilities of certain key management and other personnel, including Frank F. Khulusi, our Chairman of the Board and Chief Executive Officer, as well as other executive officers and senior management. The loss of service of one or more of our key management members could have a material adverse effect on our business. Our success and plans for future growth will also depend in part on our management's continuing ability to hire, train and retain skilled personnel in all areas of our business such as sales, service and solutions personnel and IT personnel. For example, our

management information systems and processes require the services of employees with extensive knowledge of these systems and processes and the business environment in which we operate, and in order to successfully implement and operate our systems and processes we must be able to attract and retain a significant number of information technology specialists. We may not be able to attract, train and retain the skilled personnel required to, among other things, implement, maintain, and operate our information systems and processes, and any failure to do so would likely have a material adverse effect on our operations.

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

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

Any inability to effectively manage our growth may prevent us from successfully expanding our business.

The growth of our business has required us to make significant additions in personnel and has significantly increased our working capital requirements. Although we have experienced significant sales growth in the past, such growth should not be considered indicative of future sales growth. Such growth has resulted in new and increased responsibilities for our management personnel and has placed and continues to place significant strain upon our management, operating and financial systems, and other resources. Any future growth, whether organic or through acquisition, may result in increased strain. There can be no assurance that current or future strain will not have a material adverse effect on our business, financial condition, and results of operations, nor can there be any assurance that we will be able to attract or retain sufficient personnel to continue the expansion of our operations. Also crucial to our success in managing our growth will be our ability to achieve additional economies of scale. We cannot assure you that we will be able to achieve such economies of scale, and the failure to do so could have a material adverse effect upon our business, financial condition 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 December 2012, we unified many of our commercial brands. While we believe this unification will lead to an improved customer experience, operational synergies and benefits to all of our stakeholders, we are unable to quantify all of the synergies or potential future costs related to our rebranding strategy. 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 on our websites.

We have received in the past, and anticipate that we will receive in the future, communications from customers due to purported fraudulent activities on our websites, including fraudulent credit card transactions. Negative publicity generated as a result of fraudulent conduct by third parties could damage our reputation and diminish the value of our brand name. Fraudulent activities on our websites could also subject us to losses and could lead to scrutiny from lawmakers and regulators regarding the operation of our websites. We expect to continue to receive requests from customers for reimbursement due to purportedly fraudulent activities or threats of legal action against us if no reimbursement is made.

Breaches of data security could significantly impact our business.

If third parties or our employees are able to penetrate our network security or otherwise misappropriate our customers' personal information or credit card information, or such information for which our customers may be responsible and for which we agree to be responsible in connection with service contracts we may enter, or if we give third parties or our employees improper access to any such personal information or credit card information, we could be subject to liability. This liability could include claims for unauthorized purchases with credit card information, identity theft or other similar fraud-related claims. This liability could also include claims for other misuses of personal information, including for unauthorized marketing purposes. Other liability could include claims alleging misrepresentation or our privacy and data security practices. Any such liability for misappropriation of this information could decrease our profitability. In addition, the Federal Trade Commission and state agencies have been investigating various Internet companies regarding whether they misused or inadequately secured personal information regarding consumers. We could incur additional expenses if new laws or regulations regarding the use of personal information are introduced or if government agencies investigate our privacy practices.

We seek to rely on encryption and authentication technology licensed from third parties to provide the security and authentication necessary to effect secure online transmission of confidential information such as customer credit card numbers. Advances in computer capabilities, new discoveries in the field of cryptography or other events or developments may result in a compromise or breach of the algorithms that we use to protect sensitive customer transaction data. A party who is able to circumvent our security measures could misappropriate proprietary information or cause interruptions in our operations. We may be required to expend significant capital and other resources to protect against such security breaches or to alleviate problems caused by such breaches. Our security measures are designed to protect against security breaches, but our failure to prevent such security breaches could cause us to incur significant expense to investigate and respond to a security breach and correct any problems caused by any breach, subject us to liability, damage our reputation and diminish the value of our brand-name.

Laws or regulations relating to privacy and data protection may adversely affect the growth of our Internet business or our marketing efforts.

We mail catalogs and send electronic messages to names in our proprietary customer database and to potential customers whose names we obtain from rented or exchanged mailing lists. Worldwide public concern regarding personal privacy has subjected the rental and use of customer mailing lists and other customer information to increased scrutiny and regulation. As a result, we are subject to increasing regulation relating to privacy and the use of personal information. For example, we are subject to various telemarketing and anti-spam laws that regulate the manner in which we may solicit future suppliers and customers. Such regulations, along with increased governmental or private enforcement, may increase the cost of operating and growing our business. In addition, several states have proposed legislation that would limit the uses of personal information gathered online or require online services to establish privacy policies. The Federal Trade Commission has adopted regulations regarding the collection and use of personal identifying information obtained from children under 13 years of age. Bills proposed in Congress would expand online privacy protections already provided to adults. Moreover, both in the United States and elsewhere, laws and regulations are becoming increasingly protective of consumer privacy, with a trend toward requiring companies to establish procedures to notify users of privacy and security policies, to obtain consent from users for collection and use of personal information, and to provide users with the ability to access, correct and delete personal information stored by companies. Such privacy and data protection laws and regulations, and efforts to enforce such laws and regulations, may restrict our ability to collect, use or transfer demographic and personal information from users, which could be costly or harm our marketing efforts. Further, any violation of domestic or foreign privacy or data protection laws and regulations, including the national do-not-call list, may subject us to fines, penalties and damages, which could decrease our revenue and profitability.

The growth and demand for online commerce has and may continue to result in more stringent consumer protection laws that impose additional compliance burdens on online companies. These consumer protection laws could result in substantial compliance costs and could decrease our profitability. Further, additional regulation of the Internet may lead to a decrease in Internet usage, which could adversely affect our business. Growing public concern about privacy and the collection, distribution and use of information about individuals may subject us to increased regulatory scrutiny or litigation. In the past, the FTC has investigated companies that have used personally identifiable information without permission or in violation of a stated privacy policy. If we are accused of violating the stated terms of our privacy policy or of data breach violations, we may face a loss of 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.

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

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. Our security measures may not effectively prohibit others from obtaining improper access to our information. Any security breach could expose us to risks of loss, litigation and liability and could seriously damage our reputation, disrupt our operations and require the devotion of significant management, financial and other resources to remedy the breach and comply with applicable notice and other legal requirements in connection therewith.

Credit card fraud could decrease our revenue and profitability.

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

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

Our headquarters, customer service center and a part of our infrastructure, including computer servers, are located near Los Angeles, California and in other areas that are susceptible to earthquakes, floods, severe weather and other natural disasters. Our distribution facilities, which are located in Memphis, Tennessee, Irvine, California and Lewis Center, Ohio, house the product inventory from which a substantial majority of our orders are shipped, and are also in areas that are susceptible to natural disasters and extreme weather conditions such as earthquakes, fire, floods and major storms. Our operations in the Philippines are also in an area that is periodically subject to extreme weather. A natural disaster or other catastrophic event, such as an earthquake, fire, flood, severe storm, break-in, terrorist attack or other comparable events in the areas in which we operate could cause interruptions or delays in our business and loss of data or render us unable to accept and fulfill customer orders in a timely manner, or at all. Our systems, including our management information systems, websites and 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. We currently are in process of developing a formal disaster recovery plan and certain of our subsidiaries have geographical redundancies for web and critical information systems. Our business interruption insurance may not adequately compensate us for losses that may occur.

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

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

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

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

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

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

Furthermore, the manner in which our products, services and solutions are distributed and sold is changing, and new methods of sale and distribution have emerged and serve an increasingly large portion of the market. Computer hardware and software OEM vendors have sold, and may intensify their efforts to sell, their products directly to end users. From time to time, certain OEM vendors, including Apple and HP, have instituted programs for the direct sale of large quantities of hardware and software to certain large business accounts. These types of programs may continue to be developed and used by various OEM 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.

Our success is tied to the continued use of the Internet and the adequacy of the Internet infrastructure.

The level of sales generated from our websites, both in absolute terms and as a percentage of our net sales, continues to be material to our operating results. Our Internet sales are dependent upon customers continuing to use the Internet in addition to traditional means of commerce to purchase products and services. Widespread use of the Internet could decline as a result of disruptions, computer viruses, data security threats, privacy issues or other damage to Internet servers or users' computers. If consumer use of the Internet to purchase products, services or solutions declines in any significant way, our business, financial condition and results of operations could be adversely affected.

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

We maintain a Canadian call center serving the U.S. market, which receives benefit of labor credits under the Investment Quebec Refundable Tax Credit for Major Employment Generating Projects (GPCE) program. In addition to other eligibility requirements under the program, which extends through fiscal year 2016, we are required to maintain a minimum of 317 eligible employees employed by our subsidiary, PCM Sales Canada, Inc., in the province of Quebec. The success of our Canadian call center is dependent, in part, on our receipt of the government labor credits we expect to receive. If we do not receive these expected labor credits, or a sufficient portion of them, the costs of operating our Canadian call center may exceed the benefits it provides us and our operating results would likely suffer.

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

All or portions of certain of the products we sell are produced, or have major components produced, in the Asia Pacific region. We engage in U.S. dollar denominated transactions with U.S. divisions and subsidiaries of companies located in that region as well. As a result, we may be indirectly affected by risks associated with international events, including economic and labor conditions, political instability, tariffs and taxes, availability of products, natural disasters and currency fluctuations in the U.S. dollar versus the regional currencies. In the past, countries in the Asia Pacific region have experienced volatility in their currency, banking and equity markets. Future volatility could adversely affect the supply and price of the products we sell and their components and ultimately, our results of operations.

We maintain an office in the Philippines and we may increase these and other offshore operations in the future. Establishing offshore operations may entail considerable expense before we realize cost savings, if any, from these initiatives. The risks associated with doing business overseas and international events could prevent us from realizing the expected benefits from our Philippines operations or any other offshore operations that we establish.

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

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

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

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

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

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

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

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

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

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

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

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

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

Our stock price may be volatile.

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

At December 31, 2013, we operated in approximately 813,000 square feet of space in the United States, Canada and the Philippines. We lease a total of approximately 688,000 square feet of space primarily used for office, distribution, data center and retail store purposes. We also own approximately 125,000 square feet of space, primarily used for our corporate headquarters, data center and retail store purposes. Each of our facilities is utilized by one or more of our segments. Our MacMall segment uses all of our properties except for the Lewis Center, Ohio office and the Irvine, California office.

Our principal facilities at December 31, 2013 are set forth in the table below:

<u>Description</u>	<u>Sq. Ft.</u>	<u>Location</u>
Main Distribution Center	212,000	Memphis, TN
Midwest Regional Headquarters, Sales Office and Distribution Center	144,000	Lewis Center, OH
Corporate Headquarters and Sales Office (1)	83,864	El Segundo, CA
Irvine Sales Office and Distribution Center	60,072	Irvine, CA
New Albany Data Center(1)(2)	30,850	New Albany, Ohio
Roswell Data Center	23,200	Roswell, Georgia
Retail Store — Santa Monica(1)	9,750	Santa Monica, CA

(1) Owned.

(2) Currently under construction and expected to be completed in the first half of 2014.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Effective January 2, 2013, in conjunction with our corporate name change from PC Mall, Inc. to PCM, Inc., we changed our ticker symbol to PCMI from MALL. Our common stock has been publicly traded on the Nasdaq Global Market (formerly known as Nasdaq National Market) since our initial public offering on April 4, 1995.

The following table sets forth the range of high and low sales price per share for our common stock for the periods indicated, as reported on the Nasdaq Global Market:

	Price Range of Common Stock	
	High	Low
Year Ended December 31, 2013		
First Quarter	\$ 9.11	\$ 6.10
Second Quarter	10.00	6.02
Third Quarter	11.96	8.86
Fourth Quarter	11.49	9.00
Year Ended December 31, 2012		
First Quarter	\$ 6.54	\$ 5.28
Second Quarter	6.52	5.25
Third Quarter	6.30	5.27
Fourth Quarter	6.70	5.06

As of the close of business on March 10, 2014, there were approximately 21 holders of record of our common stock.

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

Information regarding compensation plans under which our equity securities may be issued is included in Item 12 of Part III of this report through incorporation by reference to our definitive Proxy Statement to be filed in connection with our 2014 Annual Meeting of Stockholders.

Issuer Purchases of Equity Securities

In September 2012, our Board of Directors approved a \$10 million increase to our discretionary stock repurchase program, which was originally adopted in October 2008 with an initial authorized maximum of \$10 million. Under the program, 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. No limit was placed on the duration of the repurchase program. There is no guarantee as to the exact number of shares that we will repurchase. Subject to applicable securities laws, repurchases may be made at such times and in such amounts as our management deems appropriate. The program can also be discontinued at any time management feels additional purchases are not warranted.

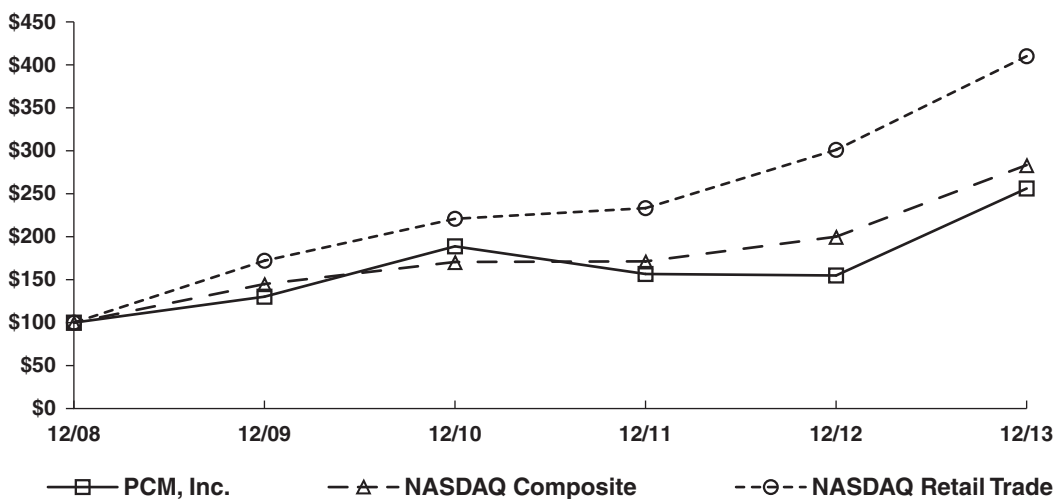
During the year ended December 31, 2013, we repurchased a total of 227,051 shares of our common stock under this program for a cost of approximately \$1.6 million. There were no repurchases of our common stock during the three months ended December 31, 2013. From the inception of the program in October 2008 through December 31, 2013, we have repurchased an aggregate total of 2,837,319 shares of our common stock for a total cost of \$14.3 million. The repurchased shares are held as treasury stock. At December 31, 2013, we had \$5.7 million available in stock repurchases under the program, subject to any limitations that may apply from time to time under our existing credit facility.

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

Stock Performance Graph

The performance graph below compares the cumulative total stockholder return of our company with the cumulative total return of the Nasdaq Stock Market—the Nasdaq Composite Index and the Nasdaq Retail Trade Index. The graph assumes \$100 invested at the per-share closing price of our common stock and each of the indices on December 31, 2008. The stock price performance shown in this graph is neither necessarily indicative of nor intended to suggest future stock price performance.

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



*\$100 invested on 12/31/08 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

	Measurement Period (fiscal years covered)					
	12/08	12/09	12/10	12/11	12/12	12/13
PCM, Inc.	\$ 100.00	\$ 130.17	\$ 188.78	\$ 156.61	\$ 154.86	\$ 256.11
NASDAQ Composite	100.00	144.88	170.58	171.30	199.99	283.39
NASDAQ Retail Trade	100.00	172.03	220.84	233.24	301.08	410.04

ITEM 6. SELECTED FINANCIAL DATA

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

The selected consolidated statements of operations data for the years ended December 31, 2013, 2012 and 2011 and the selected consolidated balance sheet data as of December 31, 2013 and 2012 presented below were derived from our audited consolidated financial statements, which are included elsewhere herein. The selected consolidated statements of operations data for the years ended December 31, 2010 and 2009 along with the consolidated balance sheet data as of December 31, 2011, 2010 and 2009 presented below were derived from our audited consolidated financial statements which are not included elsewhere herein.

	Years Ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands, except per share data)				
Consolidated Statements of Operations Data:					
Net sales	\$ 1,424,199	\$ 1,420,859	\$ 1,421,385	\$ 1,358,749	\$ 1,138,061
Cost of goods sold	1,226,393	1,226,671	1,230,897	1,187,454	985,045
Gross profit	197,806	194,188	190,488	171,295	153,016
Selling, general and administrative expenses	180,473	181,211	181,461	156,827	145,274
Other items (1)(2)	—	393	(429)	—	—
Operating profit	17,333	12,584	9,456	14,468	7,742
Interest expense, net	3,340	3,790	3,284	2,019	1,567
Income before income taxes	13,993	8,794	6,172	12,449	6,175
Income tax expense	5,864	3,700	3,040	4,876	2,818
Net income	<u>\$ 8,129</u>	<u>\$ 5,094</u>	<u>\$ 3,132</u>	<u>\$ 7,573</u>	<u>\$ 3,357</u>
Basic and Diluted Earnings Per Common Share:					
Basic	\$ 0.70	\$ 0.42	\$ 0.26	\$ 0.62	\$ 0.27
Diluted	0.68	0.42	0.25	0.61	0.26

- (1) 2012 includes a \$0.5 million charge related to a customer’s demand for credit for software maintenance for which we had paid the vendor and were not able to obtain reimbursement and a \$0.1 million decrease in the estimated fair value of the contingent consideration liability related to the NSPI acquisition.
- (2) 2011 includes a \$1.2 million decrease in the estimated fair value of the contingent consideration liability related to the NSPI acquisition and a \$0.8 million write-down of indefinite-lived SARCOM trademark based on reassessment of its remaining useful life in 2011.

	At December 31,				
	2013	2012	2011	2010	2009
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$ 9,992	\$ 6,535	\$ 9,484	\$ 10,711	\$ 9,215
Working capital	57,595	55,392	45,277	52,638	54,034
Total assets	434,822	365,735	378,536	323,518	290,537
Short-term debt	1,167	812	1,015	783	1,038
Line of credit	110,499	87,630	91,852	50,301	53,127
Long-term debt, excluding current portion	13,742	10,960	8,984	2,666	3,333
Total stockholders’ equity	125,762	116,111	110,826	107,293	97,755

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

BUSINESS OVERVIEW

PCM, Inc. is a leading multi-vendor provider of technology products, services and solutions offered through our dedicated sales force and field service teams, direct marketing channels and a limited number of retail stores. Since our founding in 1987, we have served our customers by offering products and services from leading brands, such as Adobe, Apple, Cisco, Dell, HP, Lenovo, Microsoft and Oracle. We add additional value by incorporating products and services into comprehensive solutions. Our sales and marketing efforts allow our vendor partners to reach multiple customer segments including commercial businesses, state, local and federal governments, educational institutions and individual consumers.

We operate under three reportable operating segments - Commercial, Public Sector and MacMall. Our segments are primarily aligned based upon their respective customer base. Prior to 2013, we had four reportable operating segments: MME, SMB, Public Sector and MacMall/OnSale, which were reorganized in connection with our rebranding strategy discussed below. 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. All historical segment financial information provided herein has been revised to reflect these new reportable operating segments.

We sell primarily to customers in the United States, and maintain offices throughout the United States, as well as in Montreal, Canada and Manila, Philippines. In 2013, we generated approximately 73% of our revenue in our Commercial segment, 14% of our revenue in our MacMall segment and 13% of our revenue in our Public Sector segment.

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

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 MacMall segment consists of sales made under our MacMall brand name via telephone, the Internet and four retail stores to consumers, small businesses and creative professionals, and sales made under our OnSale and eCost brand names via the Internet and inbound phone-based sales forces.

We experience variability in our net sales and operating results on a quarterly basis as a result of many factors. We experience some seasonal trends in our sales of technology products, services and solutions to businesses, government and educational institutions and individual customers. For example, the timing of capital budget authorizations for our commercial customers can affect when these companies can procure IT products and services. The fiscal year-ends of Public Sector customers vary for those in the federal government space and those in the state and local government and educational institution ("SLED") space. We generally see an increase in our second quarter sales related to customers in the SLED sector and in our third quarter sales related to customers in the federal government space as these customers close out their budgets for their fiscal year. Also, consumer holiday spending contributes to variances in our quarterly results. As such, the results of interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the full year.

A substantial portion of our business is dependent on sales of Apple, HP, and products purchased from other vendors including Cisco, Dell, Ingram Micro, Lenovo, Microsoft and Tech Data. Products manufactured by HP represented approximately 21%, 20% and 21% of our net sales in 2013, 2012 and 2011 and products manufactured by Apple represented approximately 18%, 18% and 21% of our net sales in 2013, 2012 and 2011.

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

General economic conditions have an effect on our business and results of operations across all of our segments. If economic growth in the U.S. and other countries' economies slows or declines, government, consumer and business spending rates could be significantly reduced. These developments could also increase the risk of uncollectible accounts receivable from our customers. The economic climate in the U.S. 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 position us for enhanced productivity and future growth.

STRATEGIC DEVELOPMENTS

Rebranding Strategy

Over the past several years, our company has grown in part through the acquisition and internal cultivation of many different brands. We have historically differentiated our brands primarily based on the identity of the customers. After carefully examining the markets we serve and the trends taking shape in the marketplace, we changed our legal corporate name from PC Mall, Inc. to PCM, Inc. in December 2012 and our NASDAQ ticker symbol from MALL to PCMI. In addition, we combined our primary commercial subsidiaries PC Mall Sales, Inc., Sarcom, Inc. and PC Mall Services, Inc. into a single subsidiary operating under the unified commercial brand PCM. Further, in connection with the rebranding, our PC Mall Gov, Inc. subsidiary changed its name to PCMG, Inc. and operates under the PCM-G brand. Our rebranding efforts were undertaken to improve customer experience, operational synergies and benefit our stakeholders providing a brand that better represents the value-added solutions provider we are today.

ERP and Web Infrastructure Upgrades

We are currently upgrading many of our IT systems. We have purchased licenses for Microsoft Dynamics AX (Axapta) and other related tools, such as workflow software, web development tools and other related items and ISVs (Independent Software Vendors), to upgrade our ERP and eCommerce systems. We are currently working on the implementation of the ERP modules and the upgrade of the ERP systems, including additional enhancements and features. We believe the implementation and upgrade should help us to gain further efficiencies across our organization. Additionally, we have completed the initial implementation and upgrade of our eCommerce systems and launched new generation of our public sites and extranet at pcm.com, macmall.com, pcmg.com and onsale.com. While it is difficult to estimate costs and timeframes for completion, based on the complexity of the systems design, customization and implementation and our current estimates, which are subject to change, we currently expect to incur a cost of approximately \$19 million for the major phases of these IT system upgrades and to be complete with all major phases of the implementation of the ERP systems and migration of certain of the legacy systems to the new ERP solution by the end 2014. To date, we have incurred approximately \$16.8 million of such costs. In addition to the above expenditures, we expect to make periodic upgrades to our IT systems on an ongoing basis. In addition to the upgrades to our IT systems, we recently implemented various Cisco solutions to upgrade our communications infrastructure to provide a unified platform for our entire company and to provide a robust and efficient contact center.

Real Estate Transactions

In May 2013, we completed the purchase of real property adjacent to the building we own in Santa Monica, California for \$3.0 million and financed \$1.7 million of the purchase price with a sub-line under our primary revolving credit facility. The loan bears the same interest terms as our revolving credit facility. However, the principal amount is amortized monthly over an 84 month period, with monthly principal amortization of approximately \$24,000 beginning in July 2014.

In December 2012, we completed the purchase of 7.9 acres of land for approximately \$1.1 million and have incurred an additional \$2.8 million towards the construction of a new cloud data center that we currently expect to open in the first half of 2014. The Tier III facility is strategically located in a data center-centric development in New Albany, Ohio. The new facility will complement our two existing data centers and a 24/7 Integrated Operations Center (IOC) located in Atlanta, Georgia, enhancing our managed service offerings, including cloud services, data center hosting and management, remote monitoring and disaster recovery.

In March 2011, we completed the purchase of real property comprising approximately 184,000 square feet of land, which includes approximately 84,000 square feet of office space located at 1940 East Mariposa Avenue, El Segundo, California, which became our new corporate headquarters effective November 14, 2011. We purchased and have improved this building, located strategically adjacent to the Los Angeles International Airport (LAX), because we want it to be a compelling destination for customers who want to experience new and cutting edge IT solutions in person. The new headquarters was designed to drive higher productivity and efficiency for our employees and to provide a state-of-the-art demo center for our customers and vendor partners, as well as increase capacity to support our growth well into the future. In conjunction with the move, we relocated and substantially upgraded our primary data center from Torrance to our own hosting facility in Atlanta, which incorporates state of the art monitoring and disaster recovery capabilities. As a result of this relocation certain of our subsidiaries now have geographically redundant web and information systems. We are in the process of developing a formal disaster recovery plan for our critical systems.

Acquisitions

In February 2011, we acquired certain assets, including approximately \$1 million of inventory, of eCOST.com, a subsidiary of PFSweb, Inc., for \$2.3 million. eCOST.com is an online marketplace featuring an assortment of product categories, including but not limited to computers, networking, electronics and entertainment, TVs, monitors and projectors, cameras and camcorders, memory and storage. The website also features a proprietary and patented shopping format, Bargain Countdown®, which amongst other features, offers limited time, limited quantity deals, and supports its premium online membership shopping club.

In June 2010, we completed the acquisition of substantially all of the assets of Network Services Plus, Inc. (“NSPI”), which was a provider of hosted data center and managed IT services primarily in the southeastern United States. NSPI’s managed services included hosted and remote managed monitoring of data centers, networks and IT environments, software as a service (SaaS), infrastructure as a service (IaaS), and other project-based offerings. The terms of the transaction included an initial purchase price of \$7.8 million, less a customary hold-back to settle possible indemnity claims. In addition, we extinguished substantially all of NSPI’s indebtedness that existed immediately prior to the closing date of our acquisition. At the time of the acquisition, we recorded identifiable intangible assets of \$2.6 million related to customer relationships, \$0.5 million related to trademarks and \$0.3 million related to a non-compete agreement, with estimated useful lives of 10, 10 and 4 years, respectively. In addition, pursuant to the terms of the asset purchase agreement, NSPI’s shareholders could earn additional consideration based on the performance of the NSPI business over two years following the acquisition, up to a total of approximately \$5.2 million. In accordance with ASC 805, “Purchase Price Allocations,” based on a valuation of the fair value of the contingent consideration, we initially recorded additional goodwill and a corresponding liability of \$3.2 million for future earnout payments. Such valuation was based upon management’s initial forecasts of expected profitability of NSPI during the earnout period. In 2012 and 2011, we recorded an adjustment to reduce the earnout liability by \$0.1 million and \$1.2 million, respectively, to reflect the decrease in estimated fair value of the earnout liability, and such adjustment is reflected as “Revaluation of earnout liability” on our Consolidated Statements of Operations for the years ended December 31, 2012 and 2011. All required consideration has been paid as of December 31, 2012. Further, in 2012, in anticipation of the rebranding and restructuring efforts that took place effective December 31, 2012, we began accelerating the amortization of the NSPI trademark such that it became fully amortized as of December 31, 2013, allowing one additional year for its brand transition to PCM.

Common Stock Repurchase Program

In September 2012, our Board of Directors approved a \$10 million increase to our discretionary stock repurchase program, which was originally adopted in October 2008 with an initial authorized maximum of \$10 million. At December 31, 2013, we had \$5.7 million available in stock repurchases under a discretionary stock repurchase program, subject to any limitations that may apply from time to time under our existing credit facility. 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. 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Management considers an accounting estimate to be critical if:

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

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

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

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

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

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

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

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

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

Allowance for Doubtful Accounts Receivable. We maintain an allowance for doubtful accounts receivable based upon estimates of future collection. We extend credit to our customers based upon an evaluation of each customer's financial condition and credit history, and generally do not require collateral. We regularly evaluate our customers' financial condition and credit history in determining the adequacy of our allowance for doubtful accounts. We also maintain an allowance for uncollectible vendor receivables, which arise from vendor rebate programs, price protections and other promotions. We determine the sufficiency of the vendor receivable allowance based upon various factors, including payment history. Amounts received from vendors may vary from amounts recorded because of potential non-compliance with certain elements of vendor programs. If the estimated allowance for uncollectible accounts or vendor receivables subsequently proves to be insufficient, additional allowance may be required.

Inventory. Our inventories consist primarily of finished goods, and are stated at lower of cost or market, which is determined by general market conditions, nature, age and type of each product and assumptions about future demand.

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

Stock-Based Compensation. We account for stock-based compensation in accordance with ASC 718 — *Compensation — Stock Compensation*. ASC 718 addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for either equity instruments of the enterprise or liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. We record compensation expense related to stock-based compensation over the award's requisite service period on a straight-line basis.

We estimate the grant date fair value of each stock option grant awarded using the Black-Scholes option pricing model and management assumptions made regarding various factors, including expected volatility of our common stock, expected life of options granted and estimated forfeiture rates, which require use of accounting judgment and financial estimates. We compute the expected term assumption based upon an analysis of historical exercises of stock options by our employees. We compute our expected volatility using historical prices of our common stock for a period equal to the expected term of the options. The risk free interest rate is determined using the implied yield on U.S. Treasury issues with a remaining term within the contractual life of the award. We estimate an annual forfeiture rate based on our historical forfeiture data, which rate is revised annually based upon the most updated forfeiture information at that time. Any material change in the estimates used in calculating the stock-based compensation expense could result in a material impact on our results of operations.

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

Under ASC 350 — *Intangibles — Goodwill and Other*, 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.

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

We performed our annual impairment analysis of goodwill and indefinite-lived intangible assets for possible impairment as of October 1, 2013. 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, 2013, 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, 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, 2013. All reporting units with goodwill passed the first step of the goodwill evaluation, with the fair values of our Abreon and Commercial without Abreon reporting units exceeding their respective carrying values by 105% and 39% and, accordingly, we were not required to perform the second step of the goodwill evaluation. There is \$7.2 million and \$18.3 million of goodwill residing in our Abreon and Commercial without Abreon 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, 2013, 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 31% as of October 1, 2013. We believe several factors contributed 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, 2013 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, 2014 or prior to that, if any change constitutes a triggering event outside of the quarter from when the annual goodwill and indefinite-lived intangible assets impairment test is performed. It is not possible at this time to determine if any such future impairment charge would result or, if it does, whether such charge would be material.

We amortize other intangible assets with definite lives generally on a straight-line basis over their estimated useful lives.

RESULTS OF OPERATIONS

Consolidated Statements of Operations Data

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

	Years Ended December 31,		
	2013	2012	2011
Net sales	\$ 1,424,199	\$ 1,420,859	\$ 1,421,385
Cost of goods sold	1,226,393	1,226,671	1,230,897
Gross profit	197,806	194,188	190,488
Selling, general and administrative expenses	180,473	181,211	181,461
Revaluation of earnout liability	—	(107)	(1,229)
Impairment of indefinite-lived trademark	—	—	800
Other charge	—	500	—
Operating profit	17,333	12,584	9,456
Interest expense, net	3,340	3,790	3,284
Income before income taxes	13,993	8,794	6,172
Income tax expense	5,864	3,700	3,040
Net income	\$ 8,129	\$ 5,094	\$ 3,132

	As a Percentage of Net Sales For Years Ended December 31,		
	2013	2012	2011
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	86.1	86.3	86.6
Gross profit	13.9	13.7	13.4
Selling, general and administrative expenses	12.7	12.8	12.8
Revaluation of earnout liability	—	—	(0.1)
Impairment of indefinite-lived trademark	—	—	0.1
Other charge	—	—	—
Operating profit	1.2	0.9	0.6
Interest expense, net	0.2	0.3	0.2
Income before income taxes	1.0	0.6	0.4
Income tax expense	0.4	0.2	0.2
Net income	0.6%	0.4%	0.2%

Year Ended December 31, 2013 Compared to the Year Ended December 31, 2012

Net Sales

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

	Year Ended December 31,					
	2013		2012		Dollar Change	Percent Change
	Net Sales	Percentage of Total Net Sales	Net Sales	Percentage of Total Net Sales		
Commercial	\$ 1,034,776	73%	\$ 1,026,222	72%	\$ 8,554	1%
Public Sector	187,142	13	165,828	12	21,314	13
MacMall	202,289	14	228,851	16	(26,562)	(12)
Corporate & Other	(8)	—	(42)	—	34	NM(1)
Consolidated	<u>\$ 1,424,199</u>	<u>100%</u>	<u>\$ 1,420,859</u>	<u>100%</u>	<u>\$ 3,340</u>	<u>0%</u>

(1) Not meaningful.

Consolidated net sales were \$1,424.2 million 2013 compared to \$1,420.9 million in 2012, an increase of \$3.3 million. Consolidated sales of services were \$122.7 million in 2013 compared to \$121.1 million in 2012, an increase of \$1.6 million, or 1%, and represented 9% of net sales in each 2013 and 2012.

Commercial segment net sales were \$1,034.8 million in 2013 compared to \$1,026.2 million in 2012, an increase of \$8.6 million, or 1%. Sales of services in the Commercial segment increased by \$0.2 million to \$116.6 million in 2013 from \$116.4 million in 2012, and represented 11.3% of Commercial segment net sales in 2013 and 11.4% in 2012.

Public Sector net sales were \$187.1 million in 2013 compared to \$165.8 million in 2012, an increase of \$21.3 million, or 13%. This increase was primarily due to an increase of \$31.2 million, or 35%, in our federal government business, partially offset by a decrease of \$8.8 million, or 12%, in our SLED business. The increase in our federal government business was primarily due to sales made under our new or expanded contracts awarded in the fourth quarter of 2012, but was impacted by continued uncertainty around Federal government spending levels. The decrease in our SLED business was primarily due to a higher mix of software maintenance products that are reported on a net basis.

MacMall net sales were \$202.3 million in 2013 compared to \$228.9 million in 2012, a decrease of \$26.6 million, or 12%. This decrease in MacMall net sales was primarily due to what we believe was a negative impact related to customers deferring purchases as they anticipated Apple's major CPU and tablet product releases, which for the first time in recent history took place primarily in a calendar fourth quarter, as well as significant constraints in supply of Apple's new CPUs and tablets.

Gross Profit and Gross Profit Margin

Consolidated gross profit was \$197.8 million in 2013, an increase of \$3.6 million, or 2%, from \$194.2 million in 2012. Consolidated gross profit margin grew to 13.9% in 2013 from 13.7% in 2012. The increase in consolidated gross profit is primarily due to the increase in net sales discussed above and a \$1.1 million benefit related to an LCD flat panel class action settlement during the third quarter of 2013. The increase in consolidated gross profit margin was primarily due to a higher mix of solution sales, including a higher mix of sales reported on a net basis.

Selling, General & Administrative Expenses

Consolidated SG&A expenses decreased by \$1.1 million, or 1%, to \$180.5 million in 2013 from \$181.6 million in 2012 primarily due to a \$1.3 million decrease in telecommunications costs, a \$0.9 million decrease in amortization expense, a \$0.7 million decrease in credit card related fees, and a non-recurring \$0.5 million charge in 2012 related to unreimbursed software maintenance costs, partially offset by a \$0.7 million increase in advertising expenditures, a \$0.4 million increase in travel related expenses and a \$0.3 million decrease in professional consulting fees. Consolidated SG&A expenses as a percentage of net sales decreased to 12.7% in 2013 from 12.8% in 2012.

Operating Profit

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

	Year Ended December 31,				Change in		Change in Operating Profit Margin
	2013		2012		Operating Profit		
	Operating Profit	Operating Profit Margin(1)	Operating Profit	Operating Profit Margin(1)	\$	%	
Commercial	\$ 63,486	6.1%	\$ 59,571	5.8%	\$ 3,915	7%	0.3%
Public Sector	3,714	2.0	2,554	1.5	1,160	45	0.5
MacMall	2,081	1.0	3,014	1.3	(933)	(31)	(0.3)
Corporate & Other	(51,948)	(3.6)(1)	(52,555)	(3.7)(1)	607	(1)	0.1(1)
Consolidated	<u>\$ 17,333</u>	1.2%	<u>\$ 12,584</u>	0.9%	<u>\$ 4,749</u>	38%	0.3%

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

Consolidated operating profit was \$17.3 million in 2013 compared to \$12.6 million in 2012, an increase of \$4.7 million, or 38%.

Commercial operating profit was \$63.5 million in 2013 compared to \$59.6 million in 2012, an increase of \$3.9 million, or 7%, primarily due to increased Commercial net sales and a \$6.4 million increase in Commercial gross profit, partially offset by a \$2.5 million increase in personnel costs.

Public Sector operating profit was \$3.7 million in 2013 compared to \$2.6 million in 2012, an increase of \$1.1 million, primarily due to a \$1.1 million decrease in personnel costs and a \$0.5 million increase in Public Sector gross profit, partially offset by a \$0.3 million increase in bad debt expense and a \$0.2 million increase in advertising expenditures.

MacMall operating profit was \$2.1 million in 2013 compared to \$3.0 million in 2012, a decrease of \$0.9 million, or 31%, primarily due to a \$2.9 million decrease in MacMall gross profit and a \$0.5 million increase in advertising expenses, partially offset by a \$1.5 million decrease in personnel costs, a \$0.5 million decrease in credit card related expenses and a \$0.5 million decrease in variable fulfillment expenses.

Corporate & Other operating expenses were \$51.9 million in 2013 compared to \$52.6 million in 2012, a decrease of \$0.7 million, or 1%, primarily due to a \$0.9 million decrease in telecommunications costs, partially offset by a \$0.2 million increase in depreciation expense.

Net Interest Expense

Total net interest expense for 2013 decreased to \$3.3 million compared with \$3.8 million in 2012. The \$0.5 million decrease in net interest expense was primarily due to lower average interest rates in 2013, partially offset by higher average total outstanding borrowings during 2013 compared to the same period in the prior year.

Income Tax Expense

We recorded an income tax expense of \$5.9 million in 2013 compared to an income tax expense of \$3.7 million in 2012, an increase of \$2.2 million primarily due to an increase in pre-tax income. Our effective tax rate was 41.9% and 42.1% for 2013 and 2012, respectively.

Year Ended December 31, 2012 Compared to the Year Ended December 31, 2011

Net Sales

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

	Year Ended December 31,					
	2012		2011		Dollar Change	Percent Change
	Net Sales	Percentage of Total Net Sales	Net Sales	Percentage of Total Net Sales		
Commercial	\$ 1,026,222	72%	\$ 1,016,231	72%	\$ 9,991	1%
Public Sector	165,828	12	171,631	12	(5,803)	(3)
MacMall	228,851	16	233,544	16	(4,693)	(2)
Corporate & Other	(42)	—	(21)	—	(21)	NM(1)
Consolidated	<u>\$ 1,420,859</u>	<u>100%</u>	<u>\$ 1,421,385</u>	<u>100%</u>	<u>\$ (526)</u>	<u>0%</u>

(1) Not meaningful.

Consolidated net sales were \$1,420.9 million in 2012 compared to \$1,421.4 million in 2011, a decrease of \$0.5 million. Consolidated sales of services were \$121.1 million in 2012 compared to \$103.3 million in 2011, an increase of \$17.8 million, or 17%, and represented 9% of net sales in 2012 compared to 7% of net sales in 2011.

Commercial net sales were \$1,026.2 million in 2012 compared to \$1,016.2 million in 2011, an increase of \$10.0 million, or 1%. Sales of services in the Commercial segment increased by \$17.4 million, or 18%, to \$116.4 million 2012 from \$99.0 million in 2011, and represented 11% and 10% of Commercial net sales in 2012 and 2011, respectively. Commercial net sales were impacted by a \$45.3 million decline in sales to promotional companies as a result of a program change by a large vendor in late 2011.

Public Sector net sales decreased by \$5.8 million, or 3%, to \$165.8 million in 2012 from \$171.6 million in 2011. This decrease in Public Sector net sales was due to a decrease of \$8.6 million, or 9%, in our federal government business, which was partially offset by an increase of \$2.8 million, or 4%, in sales to SLED customers resulting primarily from increased account executive headcount focused on our SLED business.

MacMall net sales decreased by \$4.6 million, or 2%, to \$228.9 million in 2012 compared to \$233.5 million in 2011. The decrease in MacMall net sales was primarily due to a \$3.1 million decrease related to the vendor program change discussed above. In addition, the decrease in MacMall net sales was affected by soft demand resulting from market anticipation of major product releases which did not occur until the fourth quarter of 2012, as compared to new product releases in the prior year which occurred in the third quarter of 2011. These reductions were partially offset by a \$6.1 million, or 20%, increase in retail sales driven by our two new retail stores.

Gross Profit and Gross Profit Margin

Consolidated gross profit for 2012 was \$194.2 million compared to \$190.5 million in 2011, a \$3.7 million or 2% increase. Consolidated gross profit margin was 13.7% in 2012 compared to 13.4% in 2011.

Selling, General & Administrative Expenses

Consolidated SG&A expenses increased by \$0.6 million to \$181.6 million in 2012 from \$181.0 million in 2011 primarily due to a \$2.5 million increase in depreciation and amortization expenses and a \$1.1 million increase in net personnel costs, partially offset by a \$1.7 million decrease in legal costs and a \$1.5 million decrease in lease related costs. Consolidated SG&A expenses as a percentage of net sales increased slightly to 12.8% in 2012 from 12.7% in 2011.

Operating Profit

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

	Year Ended December 31,				Change in		Change in Operating Profit Margin
	2012		2011		Operating Profit		
	Operating Profit	Operating Profit Margin(1)	Operating Profit	Operating Profit Margin(1)	\$	%	
Commercial	\$ 59,571	5.8%	\$ 57,408	5.6%	\$ 2,163	4%	0.2%
Public Sector	2,554	1.5	1,748	1.0	806	46	0.5
MacMall	3,014	1.3	279	0.1	2,735	NM(2)	1.2
Corporate & Other	(52,555)	(3.7)(1)	(49,979)	(3.5)(1)	(2,576)	5	(0.2)
Consolidated	<u>\$ 12,584</u>	<u>0.9%</u>	<u>\$ 9,456</u>	<u>0.7%</u>	<u>\$ 3,128</u>	<u>33%</u>	<u>0.2%</u>

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

(2) Not meaningful.

Consolidated operating profit for 2012 increased by \$3.1 million, or 33%, to \$12.6 million compared to \$9.5 million in 2011. Consolidated operating profit margin for 2012 was 0.9% compared to 0.7% in 2011, an increase of 20 basis points.

Commercial operating profit was \$59.6 million in 2012 compared to \$57.4 million in 2011, an increase of \$2.2 million, or 4%, primarily due to increased Commercial net sales discussed above and a \$3.2 million increase in Commercial gross profit, partially offset by a \$0.9 million increase in personnel costs, a non-recurring \$0.5 million charge related to unreimbursed software maintenance costs and a \$1.1 million difference in the 2012 reduction, compared to the 2011 reduction, of the estimated fair value of contingent consideration liability related to our NSPI acquisition. The liability reduction, which reduced SG&A, was \$0.1 million in 2012 compared to \$1.2 million in 2011.

Public Sector operating profit was \$2.6 million in 2012 compared to \$1.7 million in 2011, an increase of \$0.9 million, or 46%. The increase in Public Sector operating profit was primarily due to a \$0.8 million decrease in personnel costs.

MacMall operating profit increased by \$2.7 million to \$3.0 million in 2012 compared to \$0.3 million in 2011. The increase in MacMall operating profit was primarily due to a \$1.0 million decrease in MacMall personnel costs, a \$0.5 million decrease in legal costs, a \$0.5 million decrease in outside services and a \$0.5 million increase in MacMall gross profit, partially offset by a \$0.5 million increase in advertising expenditures.

Corporate & Other expenses increased by \$2.6 million, or 5%, to \$52.6 million in 2012 from \$50.0 million in 2011. This increase was primarily due to a \$2.7 million increase in net personnel costs, which includes an increase of \$0.8 million of severance and restructuring related costs, a \$1.4 million increase in depreciation expense associated with the completed portions of our on-going systems upgrades, a \$0.5 million increase in professional consulting fees, and a \$0.4 million increase in outside services, partially offset by a \$1.5 million decrease in litigation costs primarily related to defending in the prior year what we believe was a meritless lawsuit which was settled in January 2012 without liability to us.

Net Interest Expense

Total net interest expense in 2012 increased to \$3.8 million compared with \$3.3 million in 2011. The increase in interest expense of \$0.5 million resulted primarily from the increase in our outstanding borrowings primarily related to the financing of our new El Segundo headquarters office building, the capital leases for various furniture and equipment at our El Segundo headquarters, our data center in Atlanta and our Midwest headquarters, partially offset by a decrease in our average effective borrowing rate.

Income Tax Expense

We recorded an income tax expense of \$3.7 million in 2012 compared to an income tax expense of \$3.0 million in 2011. Our effective tax rates for 2012 and 2011 were 42% and 49%. The increase in income tax expense is primarily attributable to the increase in pre-tax book income in 2012 as compared to 2011. The decrease in our effective tax rate in 2012 compared to 2011 was primarily due to the significant impact on the rate in the prior year due to the recording of valuation allowances associated with certain state net operating loss carryforwards.

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 planned Columbus data center, 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, including the execution of our rebranding strategy 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 current working capital, including our existing cash balance, together with our expected future cash flows from operations and available borrowing capacity under our line of credit, will be adequate to support our current operating plans for at least the next 12 months. However, the current uncertainty in the macroeconomic environment may limit our cash resources that could otherwise be available to fund capital investments, future strategic opportunities or growth beyond our current operating plans. We are also unable to quantify any expected future synergies or costs related to our ongoing rebranding and restructuring efforts.

There has been ongoing uncertainty in the global economic environment, which could cause disruptions in the capital and credit markets. While our revolving credit facility does not mature until September 2017, 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 \$10.0 million at December 31, 2013 and \$6.5 million at December 31, 2012. Our working capital increased by \$2.3 million to \$57.6 million at December 31, 2013 from \$55.4 million at December 31, 2012.

In September 2012, our Board of Directors approved a \$10 million increase to our discretionary stock repurchase program, which was originally adopted in October 2008 with an initial authorized maximum of \$10 million. 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. No limit was placed on the duration of the repurchase program. There is no guarantee as to the exact number of shares that we will repurchase. Subject to applicable securities laws, repurchases may be made at such times and in such amounts as our management deems appropriate. The program can also be discontinued at any time management feels additional purchases are not warranted.

During the year ended December 31, 2013, we repurchased a total of 227,051 shares of our common stock under this program for a cost of approximately \$1.6 million. From the inception of the program in October 2008 through December 31, 2013, we have repurchased an aggregate total of 2,837,319 shares of our common stock for a total cost of \$14.3 million. The repurchased shares are held as treasury stock. At December 31, 2013, we had \$5.7 million available in stock repurchases under the program, subject to any limitations that may apply from time to time under our existing credit facility.

We maintain a Canadian call center serving the U.S. market, which receives the benefit of labor credits under the Investment Quebec Refundable Tax Credit for Major Employment Generating Projects (GPCE) program. In addition to other eligibility requirements under the program, which extends through fiscal year 2016, we are required to maintain a minimum of 317 eligible employees employed by our subsidiary PCM Sales Canada in the province of Quebec at all times to remain eligible to apply annually for these labor credits. As a result of this certification, we are eligible to make annual labor credit claims for eligible employees equal to 25% of eligible salaries, but not to exceed \$15,000 (Canadian) per eligible employee per year, continuing through fiscal year 2016. As of December 31, 2013, we had a total accrued receivable of \$7.0 million related to 2012 and 2013. We expect to file our 2013 claim in 2014 and we expect to receive full payment under our remaining accrued labor credits receivable.

Cash Flows from Operating Activities. Net cash provided by operating activities was \$0.9 million in 2013 compared to \$13.6 million in 2012, and net cash used in operating activities of \$22.1 million in 2011.

The \$0.9 million of net cash provided by operating activities in 2013 was primarily related to a \$31.0 million increase in accounts payable and net income before non-cash adjustments, partially offset by a \$48.0 million increase in inventory due to the timing of large strategic purchases made near the end of the year, a majority of which we have already sold through so far in the first quarter of 2014.

The \$13.6 million of net cash provided by operating activities in 2012 was primarily related to net income before non-cash adjustments and a \$10.5 million decrease in inventory mostly reflecting a sell-through of seasonal purchases made in late 2011, partially offset by a \$17.6 million reduction in accounts payable due to the timing of payments to our largest vendors.

The \$22.1 million of net cash used in operating activities in 2011 was primarily due to a \$23.2 million increase in accounts receivable and a \$14.9 million increase in inventory, partially offset by net income and non-cash adjustments to net income such as \$10.0 million in depreciation and amortization. The increase in accounts receivable in 2011 reflects our increased focus on sales to commercial companies and also was impacted by large sales near the end of 2011 that did not occur at the end of 2010. The increase in inventory in 2011 was due to a strategic purchase made near the end of 2011 of a large supply of inventory from a single vendor.

Cash Flows from Investing Activities. Net cash used in investing activities during the years ended December 31, 2013, 2012 and 2011 was \$15.5 million, \$9.4 million and \$30.3 million, respectively.

The \$15.5 million of net cash used in investing activities in 2013 was primarily related to capital expenditure relating to investments in our IT infrastructure, the creation of enhanced electronic tools for our account executives and sales support staff, \$1.3 million related to the unfinanced portion of a building we acquired that is adjacent to the building we own in Santa Monica, California, and approximately \$2.8 million of construction and related costs to build out the new data center in New Albany, Ohio. We expect to incur approximately an incremental \$7.5 million of construction and related costs to build out the new data center primarily during 2014.

The \$9.4 million of net cash used in investing activities in 2012 was primarily related to capital expenditure relating to investments in our IT infrastructure and the creation of enhanced electronic tools for our account executives and sales support staff as well as the purchase of 7.9 acres of land in New Albany, Ohio on which we commenced construction of a new cloud data center that we expect to open in the first half of 2014.

The \$30.3 million of net cash used in investing activities in 2011 was primarily due to capital expenditures totaling \$17.2 million related to the purchase of our headquarters office building in El Segundo and related furniture, equipment and improvements, a \$10.9 million capital expenditure related to investments in our IT infrastructure and the creation of enhanced electronic tools for our account executives and sales support staff, and a \$2.3 million acquisition of certain assets of eCost.

Cash Flows from Financing Activities. Net cash provided by financing activities was \$18.4 million in 2013 compared to net cash used in financing activities of \$7.3 million in 2012 and net cash provided by financing activities of \$51.2 million in 2011.

The \$18.4 million of net cash provided by financing activities in 2013 was primarily related to the \$22.9 million increase in our outstanding borrowings on our line of credit, partially offset by \$2.9 million of payments on our capital lease obligations.

The \$7.3 million of net cash used in financing activities in 2012 was primarily related to \$4.2 million of net payments on our line of credit, \$3.9 million related to repurchases of our common stock, a \$2.6 million change in book overdraft and \$2.4 million of payments on our capital lease obligations, partially offset by \$4.4 million of proceeds resulting from capital leases entered into during 2012 but relating to assets acquired in the prior year.

The \$51.2 million of net cash provided by financing activities in 2011 was primarily due to \$41.2 million of net borrowings on our line of credit, \$7.2 million of borrowings under a new note payable to finance a part of the purchase price of the building in El Segundo and a \$7.0 million change in book overdraft, partially offset by \$2.6 million of repurchases of our common stock under a repurchase program, \$1.2 million of capital lease payments and a \$1.1 million payment of NSPI's earnout liability.

Line of Credit and Notes Payable. We maintain an asset-based revolving credit facility that provides for, among other things, (i) a credit limit of \$200 million; (ii) LIBOR interest rate options that we can enter into with no limit on the maximum outstanding principal balance which may be subject to a LIBOR interest rate option; and (iii) a maturity date of September 30, 2017. The credit facility, which functions as a working capital line of credit with a borrowing base of inventory and accounts receivable, including certain credit card receivables, and a portion of the value of certain real estate, also includes a monthly unused line fee of 0.25% per year on the amount, if any, by which the Maximum Credit, as defined in the agreement, then in effect, exceeds the average daily principal balance of the outstanding borrowings during the immediately preceding month.

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 December 31, 2013, 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 December 31, 2013, we had \$110.5 million of net working capital advances outstanding under the line of credit. At December 31, 2013, the maximum credit line was \$200 million and we had \$33.8 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 term note with a principal balance of \$4.34 million, payable in equal monthly principal installments, amortized over 84 months, beginning on April 1, 2013, plus interest at the prime rate with a LIBOR option. In the event of a default, termination or non-renewal of the revolving credit facility upon the maturity thereof, the term loan is payable in its entirety upon demand by the lenders. At December 31, 2013, we had \$3.9 million outstanding under the term note. The remaining balance of our term note matures as follows: \$620,000 annually in each of the years 2014 through 2017, and \$1.4 million thereafter.

In May 2013, we completed the purchase of real property adjacent to the building we own in Santa Monica, California for \$3.0 million and financed \$1.7 million of the purchase price with a sub-line under our revolving credit facility. The loan bears the same interest terms as our revolving credit facility. However, the principal amount is amortized monthly over an 84 month period similar to our term note, with monthly principal amortization of approximately \$24,000 beginning in July 2014. Accordingly, at December 31, 2013, \$145,000 and \$1.6 million was included in our "Notes Payable — current" and "Notes payable and other long-term liabilities," respectively, on our Consolidated Balance Sheets.

At December 31, 2013, our effective weighted average annual interest rate on outstanding amounts under the credit facility and term note was 1.99%.

In June 2011, we entered into a credit agreement to finance the acquisition and improvement of the real property we purchased in March 2011 in El Segundo, California. The credit agreement provides for a five year term and a 25 year straight-line, monthly principal repayment amortization period with a balloon payment at maturity. Interest is variable, indexed to Prime plus a spread of 0.375% or LIBOR plus a spread of 2.375% at our option, payable monthly. At December 31, 2013, we had \$9.3 million outstanding under this credit agreement, which matures as follows: \$0.4 million annually in each of the years 2014 through 2015 and \$8.5 million in 2016. 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 with the intent to commence construction on a new cloud data center that we currently expect to open in the first half of 2014. The Tier III facility is strategically located in a data center-centric development in New Albany, Ohio. The new facility will complement our two existing data centers and a 24/7 Integrated Operations Center (IOC) located in Atlanta, Georgia, enhancing our managed service offerings, including cloud services, data center hosting and management, remote monitoring and disaster recovery. In July 2013, we entered into a loan agreement for up to \$7.725 million to finance the build out of the new data center. The loan agreement provides for draws during a construction period subsequent to reaching certain expenditure thresholds. Any outstanding borrowing will bear interest at the prime rate plus 0.25%, followed by a five year term and a 25 year straight-line, monthly principal repayment amortization period with a balloon payment at maturity. Interest during the amortization period is variable, indexed to LIBOR plus a spread of 2.25%. There was no outstanding balance on this loan as of December 31, 2013.

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

Inflation

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

Dividend Policy

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

CONTRACTUAL OBLIGATIONS, OFF-BALANCE SHEET ARRANGEMENTS AND CONTINGENCIES

Contractual Obligations

The following tables set forth our future contractual obligations and other commercial commitments as of December 31, 2013 (in thousands), including the future periods in which payments are expected. Additional details regarding these obligations are provided in the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report.

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Contractual obligations:					
Long-term debt obligations (a) (Note 8)	\$ 14,910	\$ 1,167	\$ 10,737	\$ 1,820	\$ 1,186
Purchase obligations (b) (Note 10)	10,015	8,405	1,610	—	—
Operating lease obligations (Note 10)	22,535	5,744	9,528	2,974	4,289
Capital lease obligations (Note 10)	7,006	2,490	3,910	606	—
Total contractual obligations	<u>\$ 54,466</u>	<u>\$ 17,806</u>	<u>\$ 25,785</u>	<u>\$ 5,400</u>	<u>\$ 5,475</u>
Other commercial commitments (c):					
Line of credit (a) (Note 8)	\$ 110,499	\$ 110,499	\$ —	\$ —	\$ —

- (a) Long-term debt obligations and line of credit exclude interest, which is based on a variable rate tied to the prime rate or LIBOR plus a variable spread, at our option.
- (b) Purchase obligations consist of minimum commitments under non-cancelable contracts for services relating to telecommunications, IT maintenance, financial services and employment contracts with certain employees (which consist of severance arrangements that, if exercised, would become payable in less than one year).
- (c) We had \$10.1 million of standby letters of credits (LOCs) under which there were no minimum payment requirements at December 31, 2013. LOCs are commitments issued to third party beneficiaries, underwritten by a third party bank, representing funding responsibility in the event of third party demands or contingent events. The outstanding balance of our standby LOCs reduces the amount available to us from our revolving credit facility. There were no claims made against any standby LOCs during the year ended December 31, 2013.

Other Planned Capital Projects

ERP and Web Infrastructure Upgrades

We are currently upgrading many of our IT systems. We have purchased licenses for Microsoft Dynamics AX (Axapta) and other related tools, such as workflow software, web development tools and other related items and ISVs (Independent Software Vendors), to upgrade our ERP and eCommerce systems. We are currently working on the implementation of the ERP modules and the upgrade of the ERP systems, including additional enhancements and features. We believe the implementation and upgrade should help us to gain further efficiencies across our organization. Additionally, we have completed the initial implementation and upgrade of our eCommerce systems and launched new generation of our public sites and extranet at pcm.com, macmall.com, pcmg.com and onsale.com. While it is difficult to estimate costs and timeframes for completion, based on the complexity of the systems design, customization and implementation and our current estimates, which are subject to change, we currently expect to incur a cost of approximately \$19 million for the major phases of these IT system upgrades and to be complete with all major phases of the implementation of the ERP systems and migration of certain of the legacy systems to the new ERP solution by the end 2014. To date, we have incurred approximately \$16.8 million of such costs. In addition to the above expenditures, we expect to make periodic upgrades to our IT systems on an ongoing basis. In addition to the upgrades to our IT systems, we recently implemented various Cisco solutions to upgrade our communications infrastructure to provide a unified platform for our entire company and to provide a robust and efficient contact center.

New Data Center

In December 2012, we completed the purchase of 7.9 acres of land with the intent to commence construction on a new cloud data center that we currently expect to open in the first half of 2014. The Tier III facility is strategically located in a data center-centric development in New Albany, Ohio. The new facility will complement our two existing data centers and a 24/7 Integrated Operations Center (IOC) located in Atlanta, Georgia, enhancing our managed service offerings, including cloud services, data center hosting and management, remote monitoring and disaster recovery. As of December 31, 2013, we expect to incur and pay approximately \$7.5 million of incremental construction and related costs to build out the new data center primarily during 2014.

Off-Balance Sheet Arrangements

As of December 31, 2013, we did not have any off-balance sheet arrangements.

Contingencies

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

RELATED-PARTY TRANSACTIONS

There were no material related-party transactions during the year ended December 31, 2013 other than compensation arrangements in the ordinary course of business.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In February 2013, the FASB issued ASU 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (Topic 220)" (ASU 2013-02), that expanded disclosures for items reclassified out of accumulated other comprehensive income. The standard requires presentation of information about reclassification adjustments from accumulated other comprehensive income in a single note or on the face of the financial statements. ASU 2013-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. We adopted ASU 2013-02 during the quarter ended March 31, 2013, which did not have any effect on our consolidated financial position or results of operations.

In July 2012, the FASB issued ASU 2012-02, "Goodwill and Other - Testing Indefinite-Lived Intangible Assets for Impairment" (ASU 2012-02), which provides companies the option to perform a qualitative assessment to determine whether further impairment testing of indefinite-lived intangible assets is necessary. ASU 2012-02 prescribes an entity to perform a quantitative impairment test if qualitative factors indicate that it is more likely than not that its indefinite-lived intangible assets are impaired. The qualitative factors are similar to the guidance established for goodwill impairment testing and include identifying and assessing events and circumstances that would most significantly impact, individually or in the aggregate, the carrying value of the indefinite-lived intangible assets. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. We adopted this new standard on January 1, 2013, which did not have any effect on our consolidated financial position or results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our financial instruments include cash and cash equivalents and long-term debt. At December 31, 2013, the carrying values of our financial instruments approximated their fair values based on current market prices and rates.

We have not entered into derivative financial instruments as of December 31, 2013. However, from time-to-time, we contemplate and may enter into derivative financial instruments related to interest rate, foreign currency, and other market risks.

Interest Rate Risk

We have exposure to the risks of fluctuating interest rates on our line of credit and note payable. The variable interest rates on our line of credit and note payable are tied to the prime rate or the LIBOR, at our discretion. At December 31, 2013, we had \$110.5 million outstanding under our line of credit and \$14.9 million outstanding under our note payable. As of December 31, 2013, the hypothetical impact of a one percentage point increase in interest rate related to the outstanding borrowings under our line of credit and note payable would be to increase our annual interest expense by approximately \$1.3 million.

Foreign Currency Exchange Risk

We have operation centers in Canada and the Philippines that provide back-office administrative support and customer service support. In each of these countries, transactions are primarily conducted in the respective local currencies. In addition, our two foreign subsidiaries that operate the operation centers have intercompany accounts with our U.S. subsidiaries that eliminate upon consolidation. However, transactions resulting in such accounts expose us to foreign currency rate fluctuations. We record gains and losses resulting from exchange rate fluctuations on our short-term intercompany accounts in "Selling, general and administrative expenses" in our Consolidated Statements of Operations and translation gains and losses resulting from exchange rate fluctuations on local currency based assets and liabilities in "Accumulated other comprehensive income," a separate component of stockholders' equity on our Consolidated Balance Sheets. As such, we have foreign currency translation exposure for changes in exchange rates for these currencies. As of December 31, 2013, we did not have material foreign currency or overall currency exposure. Significant changes in exchange rates between foreign currencies in which we transact business and the U.S. dollar may adversely affect our Consolidated Statements of Operations and Consolidated Balance Sheets.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of PCM, Inc.:

We have audited the accompanying consolidated balance sheet of PCM, Inc. and subsidiaries (the “Company”) as of December 31, 2013, and the related consolidated statements of operations, comprehensive income, stockholders’ equity, and cash flows for the year ended December 31, 2013. Our audits also included the financial statement schedule for the year ended December 31, 2013 listed in the index at Item 15. We also have audited the Company’s internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for these financial statements and the financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting appearing in Item 9A. Our responsibility is to express an opinion on these financial statements and the financial statement schedule and an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PCM, Inc. and subsidiaries as of December 31, 2013, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule for the year ended December 31, 2013, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Deloitte & Touche LLP

Los Angeles, California

March 14, 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of PCM, Inc.:

In our opinion, the consolidated balance sheet as of December 31, 2012 and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the two years in the period ended December 31, 2012 present fairly, in all material respects, the financial position of PCM, Inc. and its subsidiaries at December 31, 2012, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule for each of the two years in the period ended December 31, 2012 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, the Company changed the timing of its annual goodwill impairment assessment in 2012.

/s/ PricewaterhouseCoopers LLP

Los Angeles, California

March 18, 2013

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

	At December 31,	
	2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,992	\$ 6,535
Accounts receivable, net of allowances of \$1,413 and \$1,459	196,078	190,079
Inventories	116,961	68,942
Prepaid expenses and other current assets	14,893	14,028
Deferred income taxes	2,583	3,004
Total current assets	340,507	282,588
Property and equipment, net	56,607	48,180
Deferred income taxes	225	380
Goodwill	25,510	25,510
Intangible assets, net	5,150	7,098
Other assets	6,823	1,979
Total assets	\$ 434,822	\$ 365,735
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 131,030	\$ 102,972
Accrued expenses and other current liabilities	30,760	30,371
Deferred revenue	9,456	5,411
Line of credit	110,499	87,630
Notes payable — current	1,167	812
Total current liabilities	282,912	227,196
Notes payable and other long-term liabilities	18,247	16,750
Deferred income taxes	7,901	5,678
Total liabilities	309,060	249,624
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; 15,053,067 and 14,560,801 shares issued; and 11,790,674 and 11,525,459 shares outstanding, respectively	15	14
Additional paid-in capital	115,801	111,952
Treasury stock, at cost: 3,262,393 and 3,035,342 shares, respectively	(15,321)	(13,688)
Accumulated other comprehensive income	1,816	2,511
Retained earnings	23,451	15,322
Total stockholders' equity	125,762	116,111
Total liabilities and stockholders' equity	\$ 434,822	\$ 365,735

See Notes to the Consolidated Financial Statements.

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

	Years Ended December 31,		
	2013	2012	2011
Net sales	\$ 1,424,199	\$ 1,420,859	\$ 1,421,385
Cost of goods sold	1,226,393	1,226,671	1,230,897
Gross profit	197,806	194,188	190,488
Selling, general and administrative expenses	180,473	181,211	181,461
Revaluation of earnout liability	—	(107)	(1,229)
Impairment of indefinite-lived trademark	—	—	800
Other charge	—	500	—
Operating profit	17,333	12,584	9,456
Interest expense, net	3,340	3,790	3,284
Income before income taxes	13,993	8,794	6,172
Income tax expense	5,864	3,700	3,040
Net income	<u>\$ 8,129</u>	<u>\$ 5,094</u>	<u>\$ 3,132</u>
Basic and Diluted Earnings Per Common Share			
Basic	\$ 0.70	\$ 0.42	\$ 0.26
Diluted	0.68	0.42	0.25
Weighted average number of common shares outstanding:			
Basic	11,583	11,989	12,225
Diluted	11,923	12,160	12,476

See Notes to the Consolidated Financial Statements.

PCM, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Years Ended December 31,		
	2013	2012	2011
Net income	\$ 8,129	\$ 5,094	\$ 3,132
Other comprehensive income (loss):			
Foreign currency translation adjustments	(695)	255	(209)
Total other comprehensive income (loss)	(695)	255	(209)
Comprehensive income	\$ 7,434	\$ 5,349	\$ 2,923

See Notes to the Consolidated Financial Statements.

PCM, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income	Retained Earnings (Deficit)	Total
	Outstanding	Amount					
Balance at December 31, 2010	12,149	14	\$ 104,894	\$ (7,176)	\$ 2,465	\$ 7,096	\$ 107,293
Stock option exercises and related income tax benefit	279	—	763	—	—	—	763
Stock-based compensation expense	—	—	2,404	—	—	—	2,404
Purchases of common stock under a stock repurchase program	(432)	—	—	(2,557)	—	—	(2,557)
Subtotal	—	—	—	—	—	—	107,903
Net income	—	—	—	—	—	3,132	3,132
Translation adjustments, net of taxes	—	—	—	—	(209)	—	(209)
Comprehensive income	—	—	—	—	—	—	2,923
Balance at December 31, 2011	11,996	14	108,061	(9,733)	2,256	10,228	110,826
Stock option exercises and related income tax benefit	183	—	1,991	(45)	—	—	1,946
Stock-based compensation expense . expense	—	—	1,900	—	—	—	1,900
Purchases of common stock under a stock repurchase program	(654)	—	—	(3,910)	—	—	(3,910)
Subtotal	—	—	—	—	—	—	110,762
Net income	—	—	—	—	—	5,094	5,094
Translation adjustments, net of taxes	—	—	—	—	255	—	255
Comprehensive income	—	—	—	—	—	—	5,349
Balance at December 31, 2012	11,525	\$ 14	111,952	(13,688)	2,511	15,322	116,111
Stock option exercises and related income tax benefit	493	1	2,332	—	—	—	2,333
Stock-based compensation expense	—	—	1,517	—	—	—	1,517
Purchases of common stock under a stock repurchase program	(227)	—	—	(1,633)	—	—	(1,633)
Subtotal	—	—	—	—	—	—	118,328
Net income	—	—	—	—	—	8,129	8,129
Translation adjustments, net of taxes	—	—	—	—	(695)	—	(695)
Comprehensive income	—	—	—	—	—	—	7,434
Balance at December 31, 2013	11,791	\$ 15	\$ 115,801	\$ (15,321)	\$ 1,816	\$ 23,451	\$ 125,762

See Notes to the Consolidated Financial Statements.

PCM, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended December 31,		
	2013	2012	2011
Cash Flows From Operating Activities			
Net income	\$ 8,129	\$ 5,094	\$ 3,132
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	11,830	12,496	10,044
Provision for deferred income taxes	1,539	2,565	2,634
Net tax benefit related to stock option exercises	—	1,387	1
Excess tax benefit related to stock option exercises	(291)	(193)	(668)
Non-cash stock-based compensation	1,517	1,900	2,404
Decrease in earnout liability	—	(1,100)	(1,229)
Impairment of indefinite-lived trademark	—	—	800
Gain on sale of fixed assets	—	—	(7)
Change in operating assets and liabilities:			
Accounts receivable	(5,999)	1,584	(18,988)
Inventories	(48,019)	10,514	(14,889)
Prepaid expenses and other current assets	(1,119)	(4,037)	178
Other assets	(3,913)	315	217
Accounts payable	31,042	(17,649)	(9,425)
Accrued expenses and other current liabilities	2,161	(1,370)	2,033
Deferred revenue	4,045	2,068	1,710
Total adjustments	(7,207)	8,480	(25,185)
Net cash provided by (used in) operating activities	922	13,574	(22,053)
Cash Flows From Investing Activities			
Purchases of property and equipment	(15,498)	(9,446)	(10,865)
Purchase of El Segundo building	—	—	(17,174)
Acquisition of eCost	—	—	(2,284)
Proceeds from sale of fixed assets	—	—	25
Net cash used in investing activities	(15,498)	(9,446)	(30,298)
Cash Flows From Financing Activities			
Net (payments) borrowings under line of credit	22,869	(4,222)	41,205
Capital lease proceeds	206	4,356	—
Borrowings under notes payable	2,884	2,859	7,198
Payments under notes payable	(1,461)	(1,087)	(757)
Change in book overdraft	(3,034)	(2,640)	7,034
Payment of earnout liability	—	(993)	(1,121)
Payments of obligations under capital leases	(2,932)	(2,440)	(1,203)
Proceeds from stock issued under stock option plans	2,362	604	762
Payments for deferred financing costs	(1,163)	—	(25)
Excess tax benefit related to stock option exercises	291	193	668
Common shares repurchased and held in treasury	(1,633)	(3,910)	(2,557)
Net cash provided by (used in) financing activities	18,389	(7,280)	51,204
Effect of foreign currency on cash flow	(356)	203	(80)
Net change in cash and cash equivalents	3,457	(2,949)	(1,227)
Cash and cash equivalents at beginning of the period	6,535	9,484	10,711
Cash and cash equivalents at end of the period	\$ 9,992	\$ 6,535	\$ 9,484
Supplemental Cash Flow Information			
Interest paid	\$ 3,228	\$ 3,305	\$ 2,797
Income taxes paid	2,974	2,470	4,157
Supplemental Non-Cash Investing and Financing Activities (Notes 5 and 8)			
Financed purchase of property and equipment	\$ 2,821	\$ 1,988	\$ 2,779
Deferred financing costs	—	—	346

See Notes to the Consolidated Financial Statements.

PCM, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Company

PCM, Inc. is a leading multi-vendor provider of technology products, services and solutions offered through our dedicated sales force and field service teams, direct marketing channels and a limited number of retail stores. Since our founding in 1987, we have served our customers by offering products and services purchased from vendors such as Apple, Cisco, Dell, Ingram Micro, HP, Lenovo, Microsoft and Tech Data. We add additional value by incorporating products and services into comprehensive solutions. Our sales and marketing efforts allow our vendor partners to reach multiple customer segments including commercial businesses, state, local and federal governments, educational institutions and individual consumers.

We operate under three reportable operating segments - Commercial, Public Sector and MacMall. Our segments are primarily aligned based upon their respective customer base. Prior to 2013, we had four reportable operating segments: MME, SMB, Public Sector and MacMall/OnSale, which were reorganized in connection with our rebranding strategy. 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. All historical segment financial information provided herein has been revised to reflect these new reportable operating segments.

We sell primarily to customers in the United States, and maintain offices throughout the United States, as well as in Montreal, Canada and Manila, Philippines. In 2013, we generated approximately 73% of our revenue in our Commercial segment, 14% of our revenue in our MacMall segment and 13% of our revenue in our Public Sector segment.

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

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 MacMall segment consists of sales made under our MacMall brand name via telephone, the Internet and four retail stores to consumers, small businesses and creative professionals, and sales made under our OnSale and eCost brand names via the Internet and inbound phone-based sales forces.

2. Basis of Presentation and Summary of Significant Accounting Policies

We have revised our Consolidated Balance Sheet as of December 31, 2012 to reduce accounts receivable and deferred revenue by \$12.2 million to correct for an immaterial error resulting from the timing of the recognition of the related amounts. We had previously recognized deferred revenue when the related amounts had been billed rather than when the cash had been received in advance of product delivery. Also, we have revised the Consolidated Statements of Cash Flows for the years ended December 31, 2012 and 2011 to reflect the correction related to the accounts receivable and deferred revenues as discussed above. The revisions represent immaterial errors not deemed material to the prior period consolidated financial statements.

Principles of Consolidation

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

Use of Estimates in the Preparation of the Consolidated Financial Statements

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

Revenue Recognition

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

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

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

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

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

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

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

Cost of Goods Sold

Cost of goods sold includes product costs, outbound and inbound shipping costs and costs of delivered services, offset by certain market development funds, volume incentive rebates and other consideration from vendors.

We receive vendor consideration from our vendors in the form of cooperative marketing allowances, volume incentive rebates and other programs to support our marketing of their products. Most of our vendor consideration is accrued, when performance required for recognition is completed, as an offset to cost of sales in accordance with ASC 605-50, *Revenue Recognition — Customer Payments and Incentives*, since such funds are not a reimbursement of specific, incremental, identifiable costs incurred by us in selling the vendors' products. For costs that are considered to be a reimbursement of specific, incremental, identifiable costs incurred by us in selling the vendors' products, we accrue the vendor consideration as an offset to such costs in selling, general and administrative expenses. At the end of any given period, unbilled receivables related to our vendor consideration are included in "Accounts receivable, net of allowances" in our Consolidated Balance Sheets.

Cash and Cash Equivalents

All highly liquid investments with initial maturities of three months or less and credit card receivables with settlement terms less than 5 days are considered cash equivalents. Amounts due from credit card processors classified as cash totaled \$2.8 million and \$3.3 million at December 31, 2013 and 2012. Checks issued but not presented for payment to the bank, net of available cash subject to a right of offset, totaling \$2.0 million and \$5.1 million as of December 31, 2013 and 2012 were included in "Accounts payable" in our Consolidated Balance Sheets. Our cash management programs result in utilizing available cash to pay down our line of credit.

Accounts Receivable

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

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

	<u>At December 31,</u>	
	<u>2013</u>	<u>2012</u>
Trade receivables	\$ 164,832	\$ 153,973
Vendor receivables	30,241	35,368
Other receivables	2,418	2,197
Total gross accounts receivable	197,491	191,538
Less: Allowance for doubtful accounts receivable	(1,413)	(1,459)
Accounts receivable, net	<u>\$ 196,078</u>	<u>\$ 190,079</u>

For the years ended December 31, 2013 and 2012, "Vendor receivables" presented above included \$15.2 million and \$15.5 million, respectively, of unbilled receivables relating to vendor consideration, which is described above under "Cost of Goods Sold."

Accounts receivable potentially subject us to credit risk. We extend credit to our customers based upon an evaluation of each customer's financial condition and credit history, and generally do not require collateral. No customer accounted for more than 10% of trade accounts receivable at December 31, 2013 and 2012. We maintain an allowance for doubtful accounts receivable based upon estimates of future collection. We regularly evaluate our customers' financial condition and credit history in determining the adequacy of our allowance for doubtful accounts. We have historically incurred credit losses within management's expectations. We also maintain an allowance for uncollectible vendor receivables, which arise from vendor rebate programs, price protections and other promotions. We determine the sufficiency of the vendor receivable allowance based upon various factors, including payment history. Amounts received from vendors may vary from amounts recorded because of potential non-compliance with certain elements of vendor programs. If the estimated allowance for uncollectible accounts or vendor receivables subsequently proves to be insufficient, additional allowance may be required.

Inventories

Inventories consist primarily of finished goods, and are stated at the lower of cost (determined under the first-in, first-out method) or market. As discussed under "Revenue Recognition" above, we do not record revenue and related cost of goods sold until there is persuasive evidence of an arrangement for sale, delivery has occurred, the sales price is fixed and determinable and collectability is reasonably assured. As such, inventories include goods-in-transit to customers at December 31, 2013 and 2012.

A substantial portion of our business is dependent on sales of Apple, HP, and products purchased from other vendors including Cisco, Dell, Ingram Micro, Lenovo, Microsoft and Tech Data. Products manufactured by HP represented 21%, 20% and 21% of our net sales in 2013, 2012 and 2011. Products manufactured by Apple represented approximately 18%, 18% and 21% of our net sales in 2013, 2012 and 2011.

Advertising Costs

Our advertising expenditures are expensed in the period incurred. Total net advertising expenditures, which were included in “Selling, general and administrative expenses” in our Consolidated Statements of Operations, were \$8.1 million, \$7.5 million and \$7.4 million in the years ended December 31, 2013, 2012 and 2011, respectively.

Property and Equipment

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

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

We had \$13.2 million and \$11.2 million of unamortized internally developed software at December 31, 2013 and 2012, respectively.

Disclosures About Fair Value of Financial Instruments

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

Goodwill and Intangible Assets

Goodwill and indefinite-lived intangible assets are carried at historical cost, subject to write-down, as needed, based upon an impairment analysis that we perform annually, or sooner if an event occurs or circumstances change that would more likely than not result in an impairment loss. Historically, we performed our annual impairment test for goodwill and indefinite-lived intangible assets as of December 31 of each year. In 2012, we determined that it is preferable to perform our annual impairment test for goodwill and indefinite-lived intangible assets as of October 1 of each year, and performed our 2012 and 2013 annual impairment tests as of October 1, 2012 and October 1, 2013, respectively. We believe that an October 1 testing date for our annual goodwill impairment test is preferable because it aligns and ensures the completion of the annual goodwill impairment test prior to the end of our annual financial reporting period. Accordingly, our management considers this accounting change preferable. This change in testing date does not accelerate, delay, avoid, or cause an impairment charge, nor does this change result in adjustments to any of our previously issued financial statements.

Under ASC 350 — *Intangibles — Goodwill and Other*, 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. Our Commercial operating segment consists of the following reporting units: Abreon and Commercial without Abreon.

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

We performed our annual impairment analysis of goodwill and indefinite-lived intangible assets for possible impairment as of October 1, 2013. 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, 2013, 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, 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, 2013. All reporting units with goodwill passed the first step of the goodwill evaluation, with the fair values of our Abreon and Commercial without Abreon reporting units exceeding their respective carrying values by 105% and 39% and, accordingly, we were not required to perform the second step of the goodwill evaluation. There is \$7.2 million and \$18.3 million of goodwill residing in our Abreon and Commercial without Abreon 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, 2013, 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 31% as of October 1, 2013. 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.

For the year ended December 31, 2011, as a result of our annual impairment analysis performed for that period, we had determined that a SARCOM trademark was impaired as a result of a reassessment of its remaining useful life and recorded a non-cash impairment charge of \$0.8 million as "Impairment of indefinite-lived trademark" in our Consolidated Financial Statements for the year ended December 31, 2011. We determined that no other impairment of goodwill and other indefinite-lived intangible assets existed as of December 31, 2011.

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, 2013 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, 2014 or prior to that, if any change constitutes a triggering event outside of the quarter from when the annual goodwill and indefinite-lived intangible assets impairment test is performed. It is not possible at this time to determine if any such future impairment charge would result or, if it does, whether such charge would be material.

We amortize other intangible assets with definite lives generally on a straight-line basis over their estimated useful lives.

Valuation of Long-Lived Assets

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

Debt Issuance Costs

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

Income Taxes

We account for income taxes under the assets and liability method as prescribed in accordance with ASC 740 — *Income Taxes*. Under this method, deferred tax assets and liabilities are recognized by applying enacted statutory tax rates applicable to future years to differences between the tax basis and financial reporting amounts of existing assets and liabilities. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. We make certain estimates and judgments in determining income tax provisions and benefits, in assessing the likelihood of recovering our deferred tax assets and in evaluating our tax positions. A valuation allowance is provided when it is more likely than not that all or some portion of deferred tax assets will not be realized. In making such a determination, all available positive and negative evidence is considered, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations.

We account for uncertainty in income taxes recognized in financial statements in accordance with ASC 740, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Only tax positions that meet the more-likely-than-not recognition threshold may be recognized. We have elected to classify interest and penalties related to income tax liabilities, when applicable, as part of “Interest expense, net” in our Consolidated Statements of Operations.

Sales Taxes

We present sales tax we collect from our customers on a net basis (excluded from our revenues), a presentation which is prescribed as one of two methods available under ASC 605-45-50-3 (Taxes Collected from Customers and Remitted to Governmental Authorities).

Stock-Based Compensation

We account for stock-based compensation in accordance with ASC 718 — *Compensation — Stock Compensation*. ASC 718 addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for either equity instruments of the enterprise or liabilities that are based on the fair value of the enterprise’s equity instruments or that may be settled by the issuance of such equity instruments. We record compensation expense related to stock-based compensation over the award’s requisite service period on a straight-line basis.

We estimate the grant date fair value of each stock option grant awarded using the Black-Scholes option pricing model and management assumptions made regarding various factors, including expected volatility of our common stock, expected life of options granted and estimated forfeiture rates, which require use of accounting judgment and financial estimates. We compute the expected term based upon an analysis of historical exercises of stock options by our employees. We compute our expected volatility using historical prices of our common stock for a period equal to the expected term of the options. The risk free interest rate is determined using the implied yield on U.S. Treasury issues with a remaining term within the contractual life of the award. We estimate an annual forfeiture rate based on our historical forfeiture data, which rate will be revised, if necessary, in future periods if actual forfeitures differ from those estimates. Any material change in the estimates used in calculating the stock-based compensation expense could result in a material impact on our results of operations.

Foreign Currency Translation

The local currency of our foreign operations is their functional currency. The financial statements of our foreign subsidiaries are translated into U.S. dollars in accordance with ASC 830-30. Accordingly, the assets and liabilities of our Canadian and Philippine subsidiaries are translated into U.S. dollars at the exchange rate in effect at the balance sheet dates. Income and expense items are translated at the average exchange rate for each month within the year. The resulting translation adjustments are recorded in “Accumulated other comprehensive income (loss),” a separate component of stockholders’ equity on our Consolidated Balance Sheets. All transaction gains or losses are recorded in “Selling, general and administrative expenses” on our Consolidated Statements of Operations. These gains or losses were not material in any of the years presented in our consolidated financial statements.

Recent Accounting Pronouncements

In February 2013, the FASB issued ASU 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (Topic 220)" (ASU 2013-02), that expanded disclosures for items reclassified out of accumulated other comprehensive income. The standard requires presentation of information about reclassification adjustments from accumulated other comprehensive income in a single note or on the face of the financial statements. ASU 2013-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. We adopted ASU 2013-02 during the quarter ended March 31, 2013, which did not have any effect on our consolidated financial position or results of operations.

In July 2012, the FASB issued ASU 2012-02, "Goodwill and Other - Testing Indefinite-Lived Intangible Assets for Impairment" (ASU 2012-02), which provides companies the option to perform a qualitative assessment to determine whether further impairment testing of indefinite-lived intangible assets is necessary. ASU 2012-02 prescribes an entity to perform a quantitative impairment test if qualitative factors indicate that it is more likely than not that its indefinite-lived intangible assets are impaired. The qualitative factors are similar to the guidance established for goodwill impairment testing and include identifying and assessing events and circumstances that would most significantly impact, individually or in the aggregate, the carrying value of the indefinite-lived intangible assets. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. We adopted this new standard on January 1, 2013, which did not have any effect on our consolidated financial position or results of operations.

3. Stock-Based Compensation

Stock-Based Benefit Plans

PCM, Inc. 2012 Equity Incentive Plan

In April 2012, the Compensation Committee of our Board of Directors approved and adopted our 2012 Equity Incentive Plan (the "2012 Plan"). In June 2012, the Plan was approved by our stockholders at our 2012 annual stockholders meeting. Upon the adoption of the 2012 Plan, our 1994 Stock Incentive Plan (the "1994 Plan") was terminated, canceling the shares that remained available for grant under the 1994 Plan. Outstanding awards granted under the 1994 Plan continue unaffected following the termination of the 1994 Plan.

The 2012 Plan authorizes our Board and the Compensation Committee to grant equity-based compensation awards in the form of stock options, SARs, restricted stock, RSUs, performance shares, performance units, and other awards for the purpose of providing our directors, officers and other employees incentives and rewards for performance. The 2012 Plan does not contain an evergreen provision. The 2012 Plan is administered by the Compensation Committee under delegated authority from the Board. The Board or Compensation Committee may delegate its authority under the 2012 Plan to a subcommittee. The Compensation Committee or the subcommittee may delegate to one or more of its members or to one or more of our officers, or to one or more agents or advisors, administrative duties, and the Compensation Committee may also delegate powers to one or more of our officers to designate employees to receive awards under the 2012 Plan and determine the size of any such awards (subject to certain limitations described in the 2012 Plan).

At December 31, 2013, a total of 664,767 shares of authorized and unissued shares were available for future grants. All options granted through December 31, 2013 have been Nonstatutory Stock Options. We satisfy stock option exercises with newly issued shares.

Stock-Based Compensation

For the years ended December 31, 2013, 2012 and 2011, we recognized stock-based compensation expense of \$1.5 million, \$1.9 million and \$2.4 million, respectively, in "Selling, general and administrative expenses" in our Consolidated Statements of Operations, and related deferred income tax benefits of \$0.6 million, \$0.7 million and \$0.9 million, respectively.

Valuation Assumptions

We estimated the grant date fair value of each stock option grant awarded during the years ended December 31, 2013, 2012 and 2011 using the Black-Scholes option pricing model and management assumptions made regarding various factors which require extensive use of accounting judgment and financial estimates. We compute the expected term based upon an analysis of historical exercises of stock options by our employees. We computed our expected volatility using historical prices of our common stock for a period equal to the expected term of the options. The risk free interest rate was determined using the implied yield on U.S. Treasury issues with a remaining term within the contractual life of the award. Each year, we estimated an annual forfeiture rate based on our historical forfeiture data, which rate is revised, if necessary, in future periods if actual forfeitures differ from those estimates.

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

	Years Ended December 31,		
	2013	2012	2011
Risk free interest rate	1.13%	0.97%	1.84%
Expected volatility	74%	75%	75%
Expected term (in years)	6	6	6
Expected dividend yield	None	None	None

Stock-Based Payment Award Activity

Stock Options

The following table summarizes our stock option activity during the year ended December 31, 2013 and stock options outstanding and exercisable at December 31, 2013 for the above plans:

	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2012	3,508,486	\$ 6.38		
Granted	257,000	8.02		
Exercised	(527,732)	5.01		
Forfeited	(294,109)	7.22		
Expired/cancelled	(5,493)	4.08		
Outstanding at December 31, 2013	<u>2,938,152</u>	6.69	4.89	\$ 10,763
Exercisable at December 31, 2013	<u>2,256,577</u>	6.75	4.41	8,190

The aggregate intrinsic value is calculated for in-the-money options based on the difference between the exercise price of the underlying awards and the closing price of our common stock on December 31, 2013, which was \$10.27.

	Years Ended December 31,		
	2013	2012	2011
Weighted average grant-date fair value of options granted during the period ...	\$ 5.19	\$ 3.68	\$ 5.16
Total intrinsic value of options exercised during the period (in thousands)	2,001	515	1,821
Total fair value of shares vested during the period (in thousands).....	1,505	1,876	2,387

As of December 31, 2013, there was \$2.5 million of unrecognized compensation cost related to unvested outstanding stock options. We expect to recognize these costs over a weighted average period of 2.88 years.

Restricted Stock Units

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2013.....	—	—
Granted	88,300	\$ 7.58
Vested and distributed.....	—	—
Forfeited.....	(3,300)	5.80
Non-vested at December 31, 2013	<u>85,000</u>	7.65

There were no restricted stock units issued during the years ended December 31, 2012 and 2011.

4. Acquisitions

In February 2011, we acquired certain assets, including approximately \$1 million of inventory, of eCOST.com, a subsidiary of PFSweb, Inc., for \$2.3 million. eCOST.com is an online marketplace featuring an assortment of product categories, including but not limited to computers, networking, electronics and entertainment, TVs, monitors and projectors, cameras and camcorders, memory and storage. The website also features a proprietary and patented shopping format, Bargain Countdown®, which amongst other features, offers limited time, limited quantity deals, and supports its premium online membership shopping club.

In June 2010, we completed the acquisition of substantially all of the assets of Network Services Plus, Inc. (“NSPI”), which was a provider of hosted data center and managed IT services primarily in the southeastern United States. NSPI’s managed services included hosted and remote managed monitoring of data centers, networks and IT environments, software as a service (SaaS), infrastructure as a service (IaaS), and other project-based offerings. The terms of the transaction included an initial purchase price of \$7.8 million, less a customary hold-back to settle possible indemnity claims. In addition, we extinguished substantially all of NSPI’s indebtedness that existed immediately prior to the closing date of our acquisition. At the time of the acquisition, we recorded identifiable intangible assets of \$2.6 million related to customer relationships, \$0.5 million related to trademarks and \$0.3 million related to a non-compete agreement, with estimated useful lives of 10, 10 and 4 years, respectively. In addition, pursuant to the terms of the asset purchase agreement, NSPI’s shareholders could earn additional consideration based on the performance of the NSPI business over two years following the acquisition, up to a total of approximately \$5.2 million. In accordance with ASC 805, “Purchase Price Allocations,” based on a valuation of the fair value of the contingent consideration, we initially recorded additional goodwill and a corresponding liability of \$3.2 million for future earnout payments. Such valuation was based upon management’s initial forecasts of expected profitability of NSPI during the earnout period. In 2012 and 2011, we recorded an adjustment to reduce the earnout liability by \$0.1 million and \$1.2 million, respectively, to reflect the decrease in estimated fair value of the earnout liability, and such adjustment is reflected as “Revaluation of earnout liability” on our Consolidated Statements of Operations for the years ended December 31, 2012 and 2011. All required consideration has been paid as of December 31, 2012. Further, in 2012, in anticipation of the rebranding and restructuring efforts that took place effective December 31, 2012, we began accelerating the amortization of the NSPI trademark such that it became fully amortized as of December 31, 2013, allowing one additional year for its brand transition to PCM.

5. Property and Equipment

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

	At December 31,	
	2013	2012
Computers, software, machinery and equipment	\$ 64,853	\$ 61,940
Leasehold improvements	7,128	7,919
Furniture and fixtures	5,253	4,316
Building and improvements	10,401	7,258
Land	12,007	9,413
Software development and other equipment in progress	12,085	7,479
Subtotal	111,727	98,325
Less: Accumulated depreciation and amortization	(55,120)	(50,145)
Property and equipment, net	<u>\$ 56,607</u>	<u>\$ 48,180</u>

We capitalized interest costs of \$0.3 million in 2013 primarily relating to internally developed software costs during development. Depreciation and amortization expense for property and equipment, including fixed assets under capital leases, for the years ended December 31, 2013, 2012 and 2011 totaled \$9.9 million, \$9.7 million and \$7.8 million.

In May 2013, we completed the purchase of real property adjacent to the building we own in Santa Monica, California for \$3.0 million and financed \$1.7 million of the purchase price with a sub-line under our primary revolving credit facility. For more information on this financing arrangement, see Note 8 below.

In December 2012, we completed the purchase of 7.9 acres of land for approximately \$1.1 million and have incurred an additional \$2.8 million towards the construction of a new cloud data center that we currently expect to open in the first half of 2014. The Tier III facility is strategically located in a data center-centric development in New Albany, Ohio. The new facility will complement our two existing data centers and a 24/7 Integrated Operations Center (IOC) located in Atlanta, Georgia, enhancing our managed service offerings, including cloud services, data center hosting and management, remote monitoring and disaster recovery.

In March 2011, we completed the purchase of the real property comprising approximately 82,000 square feet of office space located at 1940 East Mariposa Avenue, El Segundo, California, which became our new corporate headquarters. We moved into this building in November 2011. The total purchase price was \$9.6 million. Based on the proportionate appraised values, we allocated \$7.4 million of the purchase price to land and \$2.2 million to building. We made certain improvements to the property and made purchases of additional furniture and equipment totaling approximately \$7.6 million as of December 31, 2011, at which time the improvements were substantially completed.

In June 2011, we entered into a credit agreement to finance the purchase and improvement of the real property discussed above. The credit agreement provides a commitment for a loan up to \$10.9 million of which there was \$9.3 million outstanding at December 31, 2013. See Note 8 below for more information.

Throughout 2013 and 2012, we entered into additional capital lease schedules with a bank totaling approximately \$1.3 million and \$5.3 million, respectively. The 2013 capital leases related primarily to the data center we are construction in New Albany, Ohio and various furniture and equipment at our El Segundo, California corporate headquarters office. The 2012 capital leases related to various furniture and equipment at our El Segundo, California corporate headquarters office, our data center in Roswell, Georgia and our Commercial segment's headquarter office in Lewis Center, Ohio. Each of the capital lease schedules entered into 2013 and 2012 has a five year term.

6. Goodwill and Intangible Assets

Goodwill

There were no changes in the carrying amounts of goodwill during each of the years ended December 31, 2013, 2012 and 2011. Goodwill totaled \$25.5 million as of December 31, 2013, 2012 and 2011, all of which related to our Commercial segment.

Intangible Assets

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

	Weighted Average Estimated Useful Lives (years)	At December 31, 2013			At December 31, 2012		
		Gross	Accumulated	Net	Gross	Accumulated	Net
		Amount	Amortization	Amount	Amount	Amortization	Amount
Patent, trademarks & URLs	8	\$ 3,858(1)	\$ 594	\$ 3,264	\$ 5,808(1)	\$ 1,436	\$ 4,372
Customer relationships	9	3,050	1,191	1,859	6,349	3,713	2,636
Non-compete agreements	4	250	223	27	250	160	90
Total intangible assets		<u>\$ 7,158</u>	<u>\$ 2,008</u>	<u>\$ 5,150</u>	<u>\$ 12,407</u>	<u>\$ 5,309</u>	<u>\$ 7,098</u>

(1) Included in the total amount for "Patent, trademarks & URLs" at December 31, 2013 and 2012 are \$2.9 million of trademarks with indefinite useful lives acquired in the SARCOM acquisition that are not amortized.

Amortization expense for intangible assets was \$1.9 million, \$2.8 million and \$2.2 million in each of the years ended December 31, 2013, 2012 and 2011.

Estimated amortization expense for intangible assets in each of the next five years and thereafter, as applicable, as of December 31, 2013 is as follows: \$0.5 million in 2014, \$0.5 million in 2015, \$0.3 million in 2016, \$0.3 million in 2017, \$0.3 million in 2018 and \$0.4 million thereafter.

7. Rebranding Strategy and Cost Reduction Initiatives

Over the past several years, our company has grown into approximately a \$1.4 billion enterprise in part through our acquisition and internal cultivation of different brands. We have historically differentiated those brands primarily based on the identity of the customers they serve. After careful examination of the trends taking shape in the markets we serve, we have determined that going forward, our commercial customers can benefit from a more unified and streamlined brand strategy. We consolidated our commercial brands and realigned our customer segments in an effort to realize significant growth and to achieve a more efficient cost structure. We believe this unification will lead to an improved customer experience, operational synergies and benefits to all of our stakeholders, providing a brand that better represents the technology solutions provider we are today.

Effective December 31, 2012, we changed our corporate name from PC Mall, Inc. to PCM, Inc. and combined our primary commercial subsidiaries PC Mall Sales, Inc., Sarcom, Inc. and PC Mall Services, Inc. into a single subsidiary. The combined subsidiary now operates under the unified commercial brand PCM and generally includes our SMB, MME and portions of our Corporate & Other segments. Additionally, in connection with the rebranding, our PC Mall Gov, Inc. subsidiary changed its name to PCMG, Inc. and now operates under the brand PCM-G.

An important part of these initiatives is a focused reduction of our overhead expenses. These and other related actions resulted in severance and restructuring related expenses of approximately \$2.3 million and \$2.9 million, respectively, in the years ended December 31, 2013 and 2012.

A summary of our total restructuring costs, which are included in “Selling, general and administrative expenses” on our Consolidated Statements of Operations, is as follows by each of our reportable operating segments and no such costs were incurred in 2011 related to these efforts (in thousands):

	<u>Commercial</u>	<u>Public Sector</u>	<u>MacMall</u>	<u>Corporate & Other</u>	<u>Consolidated</u>
Year Ended December 31, 2013					
Employee termination costs	\$ 214	\$ 34	\$ 16	\$ 430	\$ 694
Accelerated trademark amortization costs ...	916	—	—	—	916
Other costs	200	351	5	117	673
Total	<u>\$ 1,330</u>	<u>\$ 385</u>	<u>\$ 21</u>	<u>\$ 547</u>	<u>\$ 2,283</u>
Year Ended December 31, 2012.....					
Employee termination costs	\$ 566	\$ 19	\$ 137	\$ 953	\$ 1,675
Accelerated trademark amortization costs	874	—	—	—	874
Other costs	—	—	—	349	349
Total	<u>\$ 1,440</u>	<u>\$ 19</u>	<u>\$ 137</u>	<u>\$ 1,302</u>	<u>\$ 2,898</u>

Employee termination costs include costs of severance and other discretionary payments upon employee terminations, and include estimated taxes and benefits associated with such payments. Trademark amortization costs include accelerated amortization of the Sarcom and NSPI trademarks compared to the previous year resulting from the anticipated consolidation of our commercial brands to PCM in January 2013. Such trademarks became fully amortized in December 2013. Other costs in the table above represent legal and other costs related to various restructuring and related activities.

A summary rollforward of our restructuring costs, which are recorded as part of “Accrued expenses and other current liabilities” on our Consolidated Balance Sheets, is as follows (in thousands):

	<u>Balance as of December 31, 2012</u>	<u>Costs Charged to Expense</u>	<u>Payments</u>	<u>Adjustments</u>	<u>Balance as of December 31, 2013</u>
Employee termination costs	\$ 212	\$ 694	\$ (766)	\$ —	\$ 140
Other costs	43	673	(716)	—	—
	<u>Balance as of December 31, 2011</u>	<u>Costs Charged to Expense</u>	<u>Payments</u>	<u>Adjustments</u>	<u>Balance as of December 31, 2012</u>
Employee termination costs	\$ —	\$ 1,675	\$ (1,463)	\$ —	\$ 212
Other costs	—	349	(306)	—	43

8. Line of Credit and Note Payable

We maintain an asset-based revolving credit facility that provides for, among other things, (i) a credit limit of \$200 million; (ii) LIBOR interest rate options that we can enter into with no limit on the maximum outstanding principal balance which may be subject to a LIBOR interest rate option; and (iii) a maturity date of September 30, 2017. The credit facility, which functions as a working capital line of credit with a borrowing base of inventory and accounts receivable, including certain credit card receivables, and a portion of the value of certain real estate, also includes a monthly unused line fee of 0.25% per year on the amount, if any, by which the Maximum Credit, as defined in the agreement, then in effect, exceeds the average daily principal balance of the outstanding borrowings during the immediately preceding month.

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 December 31, 2013, 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 December 31, 2013, we had \$110.5 million of net working capital advances outstanding under the line of credit. At December 31, 2013, the maximum credit line was \$200 million and we had \$33.8 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 term note with a principal balance of \$4.34 million, payable in equal monthly principal installments, amortized over 84 months, beginning on April 1, 2013, plus interest at the prime rate with a LIBOR option. In the event of a default, termination or non-renewal of the revolving credit facility upon the maturity thereof, the term loan is payable in its entirety upon demand by the lenders. At December 31, 2013, we had \$3.9 million outstanding under the term note. The remaining balance of our term note matures as follows: \$620,000 annually in each of the years 2014 through 2017, and \$1.4 million thereafter.

In May 2013, we completed the purchase of real property adjacent to the building we own in Santa Monica, California for \$3.0 million and financed \$1.7 million of the purchase price with a sub-line under our revolving credit facility. The loan bears the same interest terms as our revolving credit facility. However, the principal amount is amortized monthly over an 84 month period similar to our term note, with monthly principal amortization of approximately \$24,000 beginning in July 2014. Accordingly, at December 31, 2013, \$145,000 and \$1.6 million was included in our "Notes Payable — current" and "Notes payable and other long-term liabilities," respectively, on our Consolidated Balance Sheets.

At December 31, 2013, our effective weighted average annual interest rate on outstanding amounts under the credit facility and term note was 1.99%.

In June 2011, we entered into a credit agreement to finance the acquisition and improvement of the real property we purchased in March 2011 in El Segundo, California. The credit agreement provides for a five year term and a 25 year straight-line, monthly principal repayment amortization period with a balloon payment at maturity. Interest is variable, indexed to Prime plus a spread of 0.375% or LIBOR plus a spread of 2.375% at our option, payable monthly. At December 31, 2013, we had \$9.3 million outstanding under this credit agreement, which matures as follows: \$0.4 million annually in each of the years 2014 through 2015 and \$8.5 million in 2016. 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 with the intent to commence construction on a new cloud data center that we currently expect to open in the first half of 2014. The Tier III facility is strategically located in a data center-centric development in New Albany, Ohio. The new facility will complement our two existing data centers and a 24/7 Integrated Operations Center (IOC) located in Atlanta, Georgia, enhancing our managed service offerings, including cloud services, data center hosting and management, remote monitoring and disaster recovery. In July 2013, we entered into a loan agreement for up to \$7.725 million to finance the build out of the new data center. The loan agreement provides for draws during a construction period subsequent to reaching certain expenditure thresholds. Any outstanding borrowing will bear interest at the prime rate plus 0.25%, followed by a five year term and a 25 year straight-line, monthly principal repayment amortization period with a balloon payment at maturity. Interest during the amortization period is variable, indexed to LIBOR plus a spread of 2.25%. There was no outstanding balance on this loan as of December 31, 2013.

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.

9. Income Taxes

“Income before income taxes” in the Consolidated Statements of Operations included the following components for the periods presented (in thousands):

	Years Ended December 31,		
	2013	2012	2011
U.S. income	\$ 12,886	\$ 7,196	\$ 5,064
Foreign income	1,107	1,598	1,108
Income before income taxes	<u>\$ 13,993</u>	<u>\$ 8,794</u>	<u>\$ 6,172</u>

“Income tax expense” in the Consolidated Statements of Operations consisted of the following for the periods presented (in thousands):

	Years Ended December 31,		
	2013	2012	2011
Current			
Federal	\$ 2,609	\$ 252	\$ (377)
State	887	779	697
Foreign	829	104	86
Total — Current	<u>4,325</u>	<u>1,135</u>	<u>406</u>
Deferred			
Federal	1,595	2,044	1,916
State	287	216	245
Foreign	(343)	305	473
Total — Deferred	<u>1,539</u>	<u>2,565</u>	<u>2,634</u>
Income tax expense	<u>\$ 5,864</u>	<u>\$ 3,700</u>	<u>\$ 3,040</u>

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

	Years Ended December 31,		
	2013	2012	2011
Expected taxes at federal statutory tax rate	35.0%	34.0%	34.0%
State income taxes, net of federal income tax benefit	4.4	8.1	3.8
Change in valuation allowance	1.8	0.2	7.8
Non-deductible business expenses	0.9	2.7	5.6
Other	(0.2)	(2.9)	(2.0)
Total	<u>41.9%</u>	<u>42.1%</u>	<u>49.2%</u>

The U.S. statutory rate applied in the effective tax rate reconciliation increased from 34% in years ended December 31, 2012 and 2011 to 35% in the year ended December 31, 2013 as a result of projected increases in taxable income in future years resulting from both higher levels of projected pre-tax book income as well as anticipated reversals of deferred taxable items.

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

	At December 31,	
	2013	2012
Deferred tax assets :		
Accounts receivable	\$ 549	\$ 566
Inventories	305	140
Deferred revenue	325	81
Accrued expenses and reserves	2,135	2,002
Stock based compensation	3,790	4,000
Tax credits and loss carryforwards	2,431	3,742
Other	—	37
Total gross deferred tax assets	9,535	10,568
Less: Valuation allowance	(987)	(737)
Total deferred tax assets	8,548	9,831
Deferred tax liabilities:		
Intangibles	(2,050)	(2,067)
Property and equipment	(9,792)	(8,836)
Prepaid expenses	(659)	(615)
Foreign employment tax subsidy	(1,887)	(2,940)
Other	(200)	—
Total deferred tax liabilities	(14,588)	(14,458)
Net deferred tax liabilities	\$ (6,040)	\$ (4,627)

The valuation allowance relates entirely to certain state deferred tax assets of subsidiaries which are in a cumulative loss position. The valuation allowance increased by \$0.2 million during the tax year ended December 31, 2013 due to an increase in the state deferred tax assets of these loss subsidiaries.

Current deferred tax liabilities relating primarily to foreign employment tax subsidy of \$1.0 million and \$2.3 million at December 31, 2013 and 2012, respectively, included in the table above, were included as part of “Accrued expenses and other current liabilities” on our Consolidated Balance Sheets.

At December 31, 2013, we had state net operating loss carryforwards of \$32.8 million, of which \$1.1 million expires between 2014 and 2018, and the remainder expires between 2019 and 2028. At December 31, 2013, we had federal net operating loss carryforwards of \$2.7 million, which begin to expire at the end of 2024. All of the federal net operating loss carryforwards and \$1.3 million of the state net operating loss carryforwards relate to pre-acquisition losses from an acquired subsidiary and, accordingly, are subject to annual limitations as to their use. As such, the extent to which these losses may offset future taxable income may be limited.

Cumulative undistributed earnings of our Canadian subsidiary for which no U.S. deferred taxes have been provided approximated \$12.8 million at December 31, 2013. Deferred U.S. income taxes on these earnings have not been provided as these amounts are considered to be permanently reinvested. At the present time it is not practicable to estimate the amount of tax that may be payable if these earnings were repatriated.

Accounting for Uncertainty in Income Taxes

ASC 740 clarifies the accounting for uncertainty in tax positions by prescribing the recognition threshold a tax position is required to meet before being measured and then recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We have elected to classify interest and penalties related to income tax liabilities, when applicable, as part of interest and penalty expense in our consolidated statement of income rather than as a component of income tax expense.

At December 31, 2013, we had no unrecognized tax positions. For the years ended December 31, 2013, 2012 and 2011, we did not recognize any interest or penalties for uncertain tax positions. There were also no accrued interest and penalties at December 31, 2013 and December 31, 2012. We do not anticipate any significant increases in our unrecognized tax benefits within the next twelve months. Further, since we did not have any unrecognized tax benefits at December 31, 2013, we do not, accordingly, anticipate any significant decreases within the next twelve months.

We are subject to U.S. and foreign income tax examinations for years subsequent to 2009, and state income tax examinations for years following 2008. 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.

10. Commitments and Contingencies

Commitments

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

As of December 31, 2013, minimum payments over the terms of applicable contracts were payable as follows (in thousands):

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Thereafter</u>	<u>Total</u>
Operating lease obligations	\$ 5,744	\$ 5,274	\$ 4,254	\$ 1,724	\$ 1,250	\$ 4,289	\$ 22,535
Capital lease obligations	2,490	2,215	1,695	576	30	—	7,006
Other commitments (a)(b)	8,405	1,004	606	—	—	—	10,015
Total minimum payments	<u>\$ 16,639</u>	<u>\$ 8,493</u>	<u>\$ 6,555</u>	<u>\$ 2,300</u>	<u>\$ 1,280</u>	<u>\$ 4,289</u>	<u>\$ 39,556</u>

- (a) Other commitments consist of minimum commitments under non-cancelable contracts for services relating to telecommunications, IT maintenance, financial services and employment contracts with certain employees (which consist of severance arrangements that, if exercised, would become payable in less than one year).
- (b) We had \$10.1 million of standby letters of credits (LOCs) under which there were no minimum payment requirements at December 31, 2013. LOCs are commitments issued to third party beneficiaries, underwritten by a third party bank, representing funding responsibility in the event of third party demands or contingent events. The outstanding balance of our standby LOCs reduces the amount available to us from our revolving credit facility. There were no claims made against any standby LOCs during the year ended December 31, 2013.

For the years ended December 31, 2013, 2012 and 2011, total rent expense, net of sublease income, totaled \$5.4 million, \$5.3 million and \$6.6 million, respectively. Some of the leases contain renewal options and escalation clauses, and require us to pay taxes, insurance and maintenance costs.

Legal Proceedings

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

11. Stockholders' Equity

In September 2012, our Board of Directors approved a \$10 million increase to our discretionary stock repurchase program, which was originally adopted in October 2008 with an initial authorized maximum of \$10 million. 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. No limit was placed on the duration of the repurchase program. There is no guarantee as to the exact number of shares that we will repurchase. Subject to applicable securities laws, repurchases may be made at such times and in such amounts as our management deems appropriate. The program can also be discontinued at any time management feels additional purchases are not warranted.

During the year ended December 31, 2013, we repurchased a total of 227,051 shares of our common stock under this program for a cost of approximately \$1.6 million. From the inception of the program in October 2008 through December 31, 2013, we have repurchased an aggregate total of 2,837,319 shares of our common stock for a total cost of \$14.3 million. The repurchased shares are held as treasury stock. At December 31, 2013, we had \$5.7 million available in stock repurchases under the program, subject to any limitations that may apply from time to time under our existing credit facility.

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

12. Earnings Per Common Share

Basic earnings per share (“EPS”) excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding during the reported periods. Diluted EPS reflects the potential dilution that could occur under the treasury stock method if stock options and other commitments to issue common stock were exercised, except in loss periods where the effect would be antidilutive. Potential common shares of approximately 657,000, 1,775,000 and 1,110,000 for the years ended December 31, 2013, 2012 and 2011 have been excluded from the calculation of diluted EPS because the effect of their inclusion would be antidilutive.

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

	<u>Income</u>	<u>Shares</u>	<u>Per Share Amounts</u>
Year Ended December 31, 2013:			
Basic EPS.....			
Net income	\$ 8,129	11,583	<u>\$ 0.70</u>
Effect of dilutive securities			
Dilutive effect of stock options	—	340	
Diluted EPS			
Adjusted net income	<u>\$ 8,129</u>	<u>11,923</u>	<u>\$ 0.68</u>
Year Ended December 31, 2012:			
Basic EPS.....			
Net income	\$ 5,094	11,989	<u>\$ 0.42</u>
Effect of dilutive securities			
Dilutive effect of stock options	—	171	
Diluted EPS			
Adjusted net income	<u>\$ 5,094</u>	<u>12,160</u>	<u>\$ 0.42</u>
Year Ended December 31, 2011:			
Basic EPS.....			
Net income	\$ 3,132	12,225	<u>\$ 0.26</u>
Effect of dilutive securities			
Dilutive effect of stock options	—	251	
Diluted EPS			
Adjusted net income	<u>\$ 3,132</u>	<u>12,476</u>	<u>\$ 0.25</u>

13. Employee & Non-Employee Benefits

401(k) Savings Plan

We maintain a 401(k) Savings Plan which covers substantially all full-time employees who meet the plan’s eligibility requirements. Participants are allowed to make tax-deferred contributions up to limitations specified by the Internal Revenue Code. We make 25% matching contributions for amounts that do not exceed 4% of the participants’ compensation. The matched contributions to the employees are subject to a 5 year vesting provision, with credit given towards vesting for employment during prior years. We made matching contributions to the plan totaling approximately \$530,000, \$519,000 and \$493,000 in 2013, 2012 and 2011, respectively.

Stock Options Issued to Non-Employees

On June 25, 2012 our Compensation Committee approved and granted, under our 2012 Plan, the award of options to purchase 10,000 shares of common stock to each of our non-employee members of our board. These options were issued at an exercise price of \$5.44, vest quarterly over a two-year term, and have a ten-year life. On September 15, 2011, our Compensation Committee approved and granted, under our 1994 Plan, the award of options to purchase 10,000 shares of common stock to each of our non-employee members of our board. These options were issued at an exercise price of \$6.24, vest quarterly over a two-year term, and have a seven-year life. See Note 3 for more information on our accounting for stock-based compensation.

Restricted Stock Units Issued to Non-Employees

On May 20, 2013, our Compensation Committee approved and granted, under our 2012 Plan, the award of 6,000 shares of restricted stock units to each of our non-employee members of the board for a total award of 18,000 restricted stock units. The restricted stock units each vest annually in equal amounts over a two year period from the date of grant. See Note 3 for more information on our accounting for stock-based compensation.

14. Segment Information

Our three reportable operating segments - Commercial, Public Sector and MacMall - are primarily aligned based upon their respective customer base. We include corporate related expenses such as legal, accounting, information technology, product management and certain other administrative costs that are not otherwise included in our reportable operating segments in Corporate & Other. We allocate our resources to and evaluate the performance of our segments based on operating income. For more information on our reportable operating segments, see Note 1 above.

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

	<u>Commercial</u>	<u>Public Sector</u>	<u>MacMall</u>	<u>Corporate & Other</u>	<u>Consolidated</u>
<u>Year Ended December 31, 2013</u>					
Net sales	\$ 1,034,776	\$ 187,142	\$ 202,289	\$ (8)	\$ 1,424,199
Gross profit	158,157	16,995	22,651	3	197,806
Depreciation and amortization expense(1)	3,911	73	866	6,980	11,830
Operating profit	63,486	3,714	2,081	(51,948)	17,333
<u>Year Ended December 31, 2012</u>					
Net sales	\$ 1,026,222	\$ 165,828	\$ 228,851	\$ (42)	\$ 1,420,859
Gross profit	151,783	16,514	25,564	327	194,188
Depreciation and amortization expense(1)	4,630	106	991	6,769	12,496
Operating profit	59,571	2,554	3,014	(52,555)	12,584
<u>Year Ended December 31, 2011</u>					
Net sales	\$ 1,016,231	\$ 171,631	\$ 233,544	\$ (21)	\$ 1,421,385
Gross profit	148,617	16,908	25,144	(181)	190,488
Depreciation and amortization expense(1)	3,712	179	832	5,321	10,044
Operating profit	57,408	1,748	279	(49,979)	9,456

(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 December 31, 2013 and 2012, we had total consolidated assets of \$434.8 million and \$365.7 million. Our management does not have available to them and does not use total assets measured at the segment level in allocating resources. Therefore, such information relating to segment assets is not provided herein.

Sales of our products and services are made to customers primarily within the U.S. During the years ended December 31, 2013, 2012 and 2011, less than 1% of our total net sales were made to customers outside of the continental U.S. No single customer accounted for more than 10% of our total net sales in each of the years ended December 31, 2013, 2012 and 2011.

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

Location:	At December 31,		
	2013	2012	2011
U.S.	\$ 56,031	\$ 47,238	\$ 43,638
Philippines	365	595	668
Canada	211	347	439
Property and equipment, net	<u>\$ 56,607</u>	<u>\$ 48,180</u>	<u>\$ 44,745</u>

15. Supplementary Quarterly Financial Information (Unaudited)

The following tables summarize supplementary quarterly financial information (in thousands, except per share data):

	2013			
	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
Net sales	\$ 337,169	\$ 366,420	\$ 348,519	\$ 372,091
Gross profit	46,954	51,135	49,585	50,132
Net income	1,236	3,163	1,924	1,806
Basic and diluted earnings per common share:				
Basic	\$ 0.11	\$ 0.28	\$ 0.17	\$ 0.15
Diluted	0.11	0.27	0.16	0.15
	2012			
	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
Net sales	\$ 334,697	\$ 351,674	\$ 352,526	\$ 381,962
Gross profit	46,772	48,505	48,392	50,519
Net income (loss)	(470)	1,431	1,813	2,320
Basic and diluted earnings (loss) per common share:				
Basic	\$ (0.04)	\$ 0.12	\$ 0.15	\$ 0.19
Diluted	(0.04)	0.12	0.15	0.19

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of our most recent fiscal year. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2013.

Changes in Internal Control Over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fourth quarter of 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Report on Internal Control Over Financial Reporting

Management's Report on Internal Control Over Financial Reporting

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

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

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

Our management, with the participation of our principal executive officer and principal financial officers, has assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. In making its assessment of internal control over financial reporting, management used the criteria described in "Internal Control — Integrated Framework (1992)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment and those criteria, management believes that, as of December 31, 2013, our internal control over financial reporting was effective.

The effectiveness of our internal control over financial reporting has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which appears in Part II Item 8 of this Form 10-K.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Our executive officers as of March 10, 2014 and their respective ages and positions were as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Frank F. Khulusi	47	Chairman of the Board, Chief Executive Officer and President
Brandon H. LaVerne.....	42	Chief Financial Officer, Treasurer, Chief Accounting Officer and Assistant Secretary
Robert I. Newton.....	48	Executive Vice President, Chief Legal Officer and Secretary
Simon M. Abuyounes	60	President, PCM Logistics, LLC
Joseph B. Hayek	41	President, PCM Sales, Inc.

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

Frank F. Khulusi is one of our co-founders and has served as our Chairman of the Board and Chief Executive Officer since our inception in 1987, served as President until July 1999, and resumed the office of President in March 2001 through March 2012. Mr. Khulusi attended the University of Southern California.

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

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

Simon M. Abuyounes was appointed as President of PCM Logistics in June 2005. Prior to his appointment, Mr. Abuyounes has served as Senior Vice President of Operations since July 1998 and Vice President of Internet Engineering from May 1996 until July 1998. Mr. Abuyounes served as Director of Distribution from June of 1995 until May 1996. Prior to joining the company, Mr. Abuyounes has held various Engineering/managerial positions with over 10 years of experience in Engineering and management responsibilities. He is a graduate of Ohio State University with a M.S. degree in Engineering. Mr. Abuyounes is the brother-in-law of Mr. Khulusi.

Joseph B. Hayek was appointed as President of PCM Sales effective July 2012. Mr. Hayek previously served as Executive Vice President, Corporate Development and Investor Relations when he joined the company in March 2008 until June 2012. From August of 2000 to March 2008, Mr. Hayek worked in corporate finance at Raymond James & Associates, an investment banking firm, where he most recently served as a Senior Vice President and headed the firm's Supply Chain Technologies Practice. Before joining Raymond James, Mr. Hayek was an investment banker in the technology group at Wachovia Securities. Mr. Hayek also worked for the Eastman Kodak Company. Mr. Hayek holds an MBA from Duke University's Fuqua School of Business and a B.S. in Business from Miami University in Oxford, Ohio.

Information regarding our board of directors, audit committee, audit committee financial expert, code of business conduct and ethics, our nominating and corporate governance committee as well as other corporate governance matters is set forth under the caption "Election of Directors" in our definitive Proxy Statement to be filed in connection with our 2014 Annual Meeting of Stockholders and such information is incorporated herein by reference.

Information regarding Section 16(a) beneficial ownership compliance is set forth under the caption "Executive Compensation — Section 16(a) Beneficial Ownership Reporting Compliance" in our definitive Proxy Statement to be filed in connection with our 2014 Annual Meeting of Stockholders and such information is incorporated herein by reference.

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

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is set forth under the caption “Executive Compensation” and “Election of Directors - Director Compensation” in our definitive Proxy Statement to be filed in connection with our 2014 Annual Meeting of Stockholders and such information is incorporated herein by reference.

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

The information required by this item is set forth under the caption “Security Ownership of Certain Beneficial Owners” and “Executive Compensation — Equity Compensation Plan Information” in our definitive Proxy Statement to be filed in connection with our 2014 Annual Meeting of Stockholders and such information is incorporated herein by reference.

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

The information required by this item is set forth under the captions “Certain Relationships and Related Transactions,” “Election of Directors — Director Independence” and “Executive Compensation — Compensation Committee Interlocks and Insider Participation” in our definitive Proxy Statement to be filed in connection with our 2014 Annual Meeting of Stockholders and such information is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is set forth under the caption “Ratification of the Appointment of Independent Registered Public Accounting Firm” in our definitive Proxy Statement to be filed in connection with our 2014 Annual Meeting of Stockholders and such information is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

	<u>Page Number</u>
(1) Financial Statements	See Part II, Item 8, beginning on page 49
(2) Financial Statement Schedule II — Valuation and Qualifying Accounts for the Years Ended December 31, 2013, 2012 and 2011	See Part IV, Item 15, beginning on page 78
(3) Exhibits	See Part IV, Item 15, beginning on page 79

PCM, INC.

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended December 31, 2013, 2012 and 2011
(in thousands)

	<u>Balance at Beginning of Year</u>	<u>Additions Charged to Operations</u>	<u>Deduction from Reserves</u>	<u>Balance at End of Year</u>
Allowance for doubtful accounts for the years ended:				
December 31, 2013	\$ 1,459	\$ 1,363	\$ (1,409)(a)	\$ 1,413
December 31, 2012	1,642	833	(1,016)(a)	1,459
December 31, 2011	1,802	2,213	(2,373)(a)	1,642
Valuation allowance for deferred tax assets for the years ended:				
December 31, 2013	\$ 737	\$ 293(b)	\$ (43)(b)	\$ 987
December 31, 2012	719	131(b)	(113)(b)	737
December 31, 2011	237	497(b)	(15)(b)	719

(a) Relates primarily to accounts written-off.

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

EXHIBIT LIST

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3.1(C) to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003 filed with the Commission on November 14, 2002)
3.2	Amended and Restated Bylaws (incorporated herein by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012 filed with the Commission on March 18, 2013)
3.3	Certificate of Ownership and Merger merging PCM, Inc. with and into PC Mall, Inc. effective December 31, 2012 (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Commission on January 2, 2013)
3.4	Certificate of Secretary certifying amendment of Bylaws effective December 31, 2012 (incorporated herein by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the Commission on January 2, 2013)
10.1*	Amended and Restated 1994 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2010 filed with the Commission on August 9, 2010)
10.2*	Employment Agreement, dated January 1, 1995, between Creative Computers, Inc. and Frank F. Khulusi (incorporated herein by reference to the Company's Registration Statement on Form S-1, declared effective on April 4, 1995 (the "1995 Form S-1"))
10.3*	Amendment to Employment Agreement made and entered into as of December 28, 2005, by and between PC Mall, Inc. and Frank F. Khulusi (incorporated herein by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005 filed with the Commission on March 31, 2006 (the "December 31, 2005 Form 10-K"))
10.4*	Second Amendment to Employment Agreement made and entered into as of December 28, 2005, by and between PC Mall, Inc. and Frank F. Khulusi (incorporated herein by reference to Exhibit 10.33 to the December 31, 2005 Form 10-K)
10.5*	Employment Agreement, dated June 8, 2004, between PC Mall, Inc. and Rob Newton (incorporated herein by reference to Exhibit 10.54 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 filed with the Commission on August 11, 2004 (the "June 30, 2004 Form 10-Q"))
10.6*	Amendment to Employment Agreement, dated March 22, 2005, between PC Mall, Inc. and Rob Newton (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on form 8-K filed with the commission on March 25, 2005)
10.7*	Severance Agreement between AF Services, LLC and Brandon LaVerne (incorporated herein by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007 filed with the Commission on November 14, 2007 (the "September 30, 2007 Form 10-Q"))
10.8*	Form of Executive Non-Qualified Stock Option Agreement under 1994 Stock Incentive Plan (full acceleration upon change in control) (incorporated herein by reference to Exhibit 10.61 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 filed with the Commission on November 15, 2004 (the "September 30, 2004 Form 10-Q"))
10.9*	Form of Executive Non-Qualified Stock Option Agreement under 1994 Stock Incentive Plan (partial acceleration upon change in control) (incorporated herein by reference to Exhibit 10.62 to the September 30, 2004 Form 10-Q)
10.10*	Form of Indemnification Agreement between PC Mall, Inc. and each of its directors and executive officers (incorporated herein by reference to Exhibit 10.48 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002 filed with the Commission on March 31, 2003)

Exhibit Number	Description
10.11*	Form of Director Restricted Stock Bonus Award Agreement under 1994 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.3 to the September 30, 2007 Form 10-Q)
10.12	Lease Agreement, dated September 1, 2003, between PC Mall, Inc. and Anderson Tully Company for the premises located at 4715 E. Shelby Drive, Memphis, TN (incorporated herein by reference to Exhibit 10.63 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004 filed with the Commission on March 31, 2005 (the "December 31, 2004 Form 10-K"))
10.13	Renewal Letter for lease of property in Memphis, Tennessee, entered into on October 2, 2006 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on October 6, 2006)
10.14	Lease Agreement, dated June 11, 2003, among PC Mall, Inc., PC Mall Canada, Inc. and Canaprev, Inc. for the premises located at 1100, University, 2nd Floor, Montreal (Quebec) Canada (incorporated herein by reference to Exhibit 10.64 to the December 31, 2004 Form 10-K)
10.15	Addendum to Lease Agreement, dated January 26, 2004, between PC Mall, Inc., PC Mall Canada, Inc. and Canaprev, Inc. for premises located at 1100 University, Montreal, Quebec, Canada, dated January 26, 2004 (incorporated herein by reference to Exhibit 10.70 to the December 31, 2004 Form 10-K)
10.16	Addendum No. 2, by and between Complexe Rue Universite S.E.C., PC Mall Canada, Inc. and PC Mall, Inc., dated January 10, 2008 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on January 15, 2008)
10.17	Agreement for Purchase and Sale of Real Estate and Joint Escrow Instructions by and between PC Mall, Inc. and Citibank N.A., dated as of January 7, 2011 (incorporated herein by reference to Exhibit 10.30 to the December 31, 2010 Form 10-K)
10.18	First Amendment to Agreement for Purchase and Sale of Real Estate and Joint Escrow Instructions, dated as of February 7, 2011 (incorporated herein by reference to Exhibit 10.31 to the December 31, 2010 Form 10-K)
10.19	Second Amendment to Agreement for Purchase and Sale of Real Estate and Joint Escrow Instructions, dated as of February 22, 2011 (incorporated herein by reference to Exhibit 10.32 to the December 31, 2010 Form 10-K)
10.20	Lease Agreement, Executed By and Between SARCOM Properties, Inc. and AF Services, LLC, effective January 1, 2010 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on February 26, 2010)
10.21*	Summary of Executive Incentive Plan
10.22*	Summary of Executive Salary and Bonus Arrangements
10.24*	Employment Agreement, by and between PC Mall, Inc. and Joseph B. Hayek, dated March 17, 2008 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on March 19, 2008)
10.25*	Amendment to Employment Agreement made and entered into as of December 30, 2008, by and between PC Mall, Inc. and Frank F. Khulusi (incorporated herein by reference to Exhibit 10.37 to the Company's Annual Report on Form 10-K filed with the Commission on March 16, 2009)
10.26	Renewal Letter, by and between WNI/Tennessee, L.P. and AF Services, LLC, dated September 30, 2009 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on October 6, 2009)
10.27	Agreement of Purchase and Sale and Joint Escrow Instructions dated February 10, 2012 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on February 16, 2012)

Exhibit Number	Description
10.28	Purchase Agreement, dated as of March 16, 2012, by and between Sarcom Properties, Inc. and M2 Marketplace, Inc. (incorporated herein by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 filed with the Commission on May 10, 2012)
10.29*	PC Mall, Inc. 2012 Equity Incentive Plan (incorporated herein by reference to Appendix A to the Definitive Proxy Statement on Schedule 14A for the Company's 2012 Annual Meeting of Stockholders filed with the Commission on April 30, 2012)
10.30*	Form of Grant Notice and Option Agreement under the 2012 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 filed with the Commission on August 9, 2012)
10.31	Amendment to Purchase and Sale Agreement and Joint Escrow Instructions between M2 Marketplace, Inc. and Nautilus Group, Inc., dated June 26, 2012 (incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 filed with the Commission on August 9, 2012)
10.32	Third Amendment to Lease Agreement by and between G&I VII Southpoint I and II LLC and AF Services, LLC, effective October 3, 2012 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on October 4, 2012)
10.33	Second Amendment to Lease Agreement By and Between Sarcom Properties, Inc. and PCM Logistics, LLC (fka AF Services, LLC) effective February 1, 2013 (incorporated herein by reference to Exhibit 10.39 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012 filed with the Commission on March 18, 2013)
10.34+	Third Amended and Restated Loan and Security Agreement, dated as of March 22, 2013, by and among PCM, Inc. and all of its domestic subsidiaries, certain lenders and Wells Fargo Capital Finance, LLC (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the Commission on May 10, 2013)
10.35*	Form of Restricted Stock Unit Agreement under the PCM, Inc. 2012 Equity Incentive Plan (full acceleration upon change of control) (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on May 24, 2013)
10.36*	Form of Restricted Stock Unit Agreement under the PCM, Inc. 2012 Equity Incentive Plan (partial acceleration upon change of control) (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Commission on May 24, 2013)
10.37	First Amendment to Third Amended and Restated Loan and Security Agreement, dated May 17, 2013 (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the Commission on August 9, 2013)
10.38	Second Amendment to Third Amended and Restated Loan and Security Agreement, dated as of September 10, 2013, by and among PCM, Inc. and all of its domestic subsidiaries, certain lenders and Wells Fargo Capital Finance, LLC (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on September 11, 2013)
16.1	Letter to Securities and Exchange Commission from PricewaterhouseCoopers LLP dated April 10, 2013 (incorporated herein by reference to Exhibit 16.1 to the Company's Current Report on Form 8-K filed with the Commission on April 10, 2013)
21.1	Subsidiaries of the Registrant as of December 31, 2013
23.1	Consent of Deloitte & Touche LLP
23.2	Consent of PricewaterhouseCoopers LLP
31.1	Certification of the Chief Executive Officer of PCM, Inc. pursuant to Exchange Act Rule 13a-14(a)
31.2	Certification of the Chief Financial Officer of PCM, Inc. pursuant to Exchange Act Rule 13a-14(a)

Exhibit Number	Description
32.1	Certification of the Chief Executive Officer of PCM, Inc. pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer of PCM, Inc. 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

* Management contract, or compensatory plan or arrangement.

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

SIGNATURES

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

PCM, INC.
(Registrant)

Date: March 14, 2014

By: /s/ FRANK F. KHULUSI

Frank F. Khulusi
Chief Executive Officer

POWER OF ATTORNEY

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

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ FRANK F. KHULUSI</u> Frank F. Khulusi	Chairman and Chief Executive Officer (Principal Executive Officer)	March 14, 2014
<u>/s/ BRANDON H. LAVERNE</u> Brandon H. LaVerne	Chief Financial Officer, Chief Accounting Officer, Treasurer and Assistant Secretary (Principal Financial and Accounting Officer)	March 14, 2014
<u>/s/ THOMAS A. MALOOF</u> Thomas A. Maloof	Director	March 14, 2014
<u>/s/ RONALD B. RECK</u> Ronald B. Reck	Director	March 14, 2014
<u>/s/ PAUL C. HEESCHEN</u> Paul C. Heeschen	Director	March 14, 2014
