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

FORM 10-Q

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from to

Commission File Number: 0-25790

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☒
Non-accelerated filer ☐	Smaller reporting company ☐

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

As of August 5, 2014, the registrant had 12,376,236 shares of common stock outstanding.

PCM, INC.

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PCM, INC.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,669	$ 9,992
Accounts receivable, net of allowances of $566 and $1,408	173,095	195,805
Inventories	49,470	115,261
Prepaid expenses and other current assets	30,523	14,893
Deferred income taxes	2,424	2,583
Current assets of discontinued operations	277	1,973
Total current assets	262,458	340,507
Property and equipment, net	70,134	55,840
Deferred income taxes	135	225
Goodwill	25,510	25,510
Intangible assets, net	4,513	4,684
Other assets	4,612	6,808
Non-current assets of discontinued operations	14	1,248
Total assets	$ 367,376	$ 434,822
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 95,524	$ 130,899
Accrued expenses and other current liabilities	27,718	29,204
Deferred revenue	20,119	9,427
Line of credit	52,652	110,499
Notes payable — current	2,906	1,167
Current liabilities of discontinued operations	981	1,716
Total current liabilities	199,900	282,912
Notes payable and other long-term liabilities	26,657	18,247
Deferred income taxes	7,599	7,901
Total liabilities	234,156	309,060
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; 15,674,622 and 15,053,067 shares issued; and 12,369,363 and 11,790,674 shares outstanding	16	15
Additional paid-in capital	119,677	115,801
Treasury stock, at cost: 3,305,259 and 3,262,393 shares	(15,751)	(15,321)
Accumulated other comprehensive income	1,794	1,816
Retained earnings	27,484	23,451
Total stockholders' equity	133,220	125,762
Total liabilities and stockholders' equity	$ 367,376	$ 434,822

See Notes to the Condensed Consolidated Financial Statements.

PCM, INC.

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

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Net sales	$ 339,624	$ 355,497	$ 670,346	$ 678,107
Cost of goods sold	290,985	305,463	572,189	582,705
Gross profit	48,639	50,034	98,157	95,402
Selling, general and administrative expenses	44,758	43,379	88,168	85,572
Operating profit	3,881	6,655	9,989	9,830
Interest expense, net	750	781	1,693	1,553
Income from continuing operations before income taxes	3,131	5,874	8,296	8,277
Income tax expense	1,293	2,502	3,430	3,496
Income from continuing operations	1,838	3,372	4,866	4,781
Loss from discontinued operations, net of taxes	(692)	(209)	(833)	(382)
Net income	$ 1,146	$ 3,163	$ 4,033	$ 4,399
Basic and Diluted Earnings Per Common Share				
Basic EPS:				
Income from continuing operations	$ 0.15	$ 0.30	$ 0.40	$ 0.41
Loss from discontinued operations, net of taxes	(0.06)	(0.02)	(0.07)	(0.03)
Net income	0.09	0.28	0.33	0.38
Diluted EPS:				
Income from continuing operations	$ 0.14	$ 0.29	$ 0.37	$ 0.40
Loss from discontinued operations, net of taxes	(0.05)	(0.02)	(0.06)	(0.03)
Net income	0.09	0.27	0.31	0.37
Weighted average number of common shares outstanding:				
Basic	12,343	11,488	12,137	11,483
Diluted	12,945	11,771	12,841	11,734

See Notes to the Condensed Consolidated Financial Statements.

PCM, INC.

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

	Three Months Ended June 30,		Six Months Ended June 30	
	2014	2013	2014	2013
Net income	$ 1,146	$ 3,163	$ 4,033	$ 4,399
Comprehensive income:				
Foreign currency translation adjustments	357	(346)	(22)	(579)
Total other comprehensive (loss) income	357	(346)	(22)	(579)
Comprehensive income	$ 1,503	$ 2,817	$ 4,011	$ 3,820

See Notes to the Condensed Consolidated Financial Statements.

PCM, INC.

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

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Cash Flows From Operating Activities		
Net income	$ 4,033	$ 4,399
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,485	5,897
Provision for deferred income taxes	379	726
Excess tax benefit related to stock option exercises	(269)	(37)
Non-cash stock-based compensation	635	783
Change in operating assets and liabilities:		
Accounts receivable	22,872	(27,282)
Inventories	67,326	1,607
Prepaid expenses and other current assets	(15,661)	(8,532)
Other assets	2,256	(1,816)
Accounts payable	(37,623)	410
Accrued expenses and other current liabilities	445	(717)
Deferred revenue	10,676	14,204
Total adjustments	57,521	(14,757)
Net cash provided by (used in) operating activities	61,554	(10,358)
Cash Flows From Investing Activities		
Purchases of property and equipment	(18,432)	(7,447)
Net cash used in investing activities	(18,432)	(7,447)
Cash Flows From Financing Activities		
Net (payments) borrowings under line of credit	(57,847)	12,766
Capital lease proceeds	—	206
Borrowing under note payable	9,060	4,108
Payments under notes payable	(714)	(458)
Change in book overdraft	1,421	8,722
Payments of obligations under capital lease	(1,421)	(1,431)
Net proceeds from stock issued under stock option plans	3,242	1,399
Payment for deferred financing costs	(30)	(752)
Common shares repurchased and held in treasury	(430)	(1,558)
Excess tax benefit related to stock option exercises	269	37
Net cash (used in) provided by financing activities	(46,450)	23,039
Effect of foreign currency on cash flow	5	(391)
Net change in cash and cash equivalents	(3,323)	4,843
Cash and cash equivalents at beginning of the period	9,992	6,535
Cash and cash equivalents at end of the period	$ 6,669	$ 11,378
Supplemental Cash Flow Information		
Interest paid	$ 1,819	$ 1,393
Income taxes paid	5,688	1,820
Supplemental Non-Cash Investing and Financing Activities		
Purchase of property and equipment	$ 979	$ 270
Deferred financing costs	—	228

See Notes to the Condensed Consolidated Financial Statements.

PCM, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation and Description of Company

PCM, Inc. is a leading multi-vendor provider of technology products, services and solutions offered through our dedicated sales force 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, HP, Ingram Micro, 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 have prepared the unaudited condensed consolidated financial statements included herein pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and in conformity with accounting principles generally accepted in the United States of America, or GAAP, which requires us to make estimates and assumptions that affect amounts reported herein. We base our estimates and assumptions on historical experience and on various other factors that we believe to be reasonable under the circumstances. Due to the inherent uncertainty involved in making estimates, our actual results reported in future periods may be affected by changes in those estimates. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations for interim financial reporting. In the opinion of management, all adjustments, consisting only of normal recurring items which are necessary for a fair presentation, have been included. The results for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the full year. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2013 and our Quarterly Report on Form 10-Q for the period ended March 31, 2014 filed with the SEC on March 14, 2014 and May 1, 2014.

We operate under three reportable operating segments - Commercial, Public Sector and MacMall. Our segments are primarily aligned based upon their respective customer base. 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.

During the second quarter of 2014, we discontinued the operation of two of our retail stores, located in Huntington Beach, California and Chicago, Illinois and our OnSale and eCost businesses. We reflected the results of these operations, which were reported as a part of our MacMall segment, as discontinued operations for all periods presented herein on our Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Operations. See Note 3 below for more information.

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 the three months ended June 30, 2014, we generated approximately 75% of our revenue in our Commercial segment, 15% of our revenue in our Public Sector segment and 10% of our revenue in our MacMall segment. In the six months ended June 30, 2014, we generated approximately 76% of our revenue in our Commercial segment, 13% of our revenue in our Public Sector segment and 11% of our revenue in our MacMall 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 via telephone, the Internet and two retail stores to consumers, small businesses and creative professionals.

We have restated the consolidated statement of cash flows for the six months ended June 30, 2013 to increase purchases of property and equipment and borrowing under note payable by $1.7 million and decrease non-cash purchase of property and equipment by $1.7 million to correct an immaterial error from netting these amounts.

2. Summary of New Accounting Standards

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"), which provides a comprehensive guidance for revenue recognition. This ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets. The core principle of the guidance provides that a company should recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, using either a full retrospective or modified retrospective method of adoption. We are currently evaluating the transition method we will adopt and the impact of the adoption of ASU 2014-09 on our consolidated financial statements.

In April 2014, the FASB issued ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity ("ASU 2014-08"), which amended guidance on the presentation of financial statements and reporting discontinued operations and disclosures of disposals of components of an entity within property, plant and equipment. ASU 2014-08 amends the definition of a discontinued operation and requires entities to disclose additional information about disposal transactions that do not meet the discontinued-operations criteria. ASU 2014-08 is effective for disposals that occur in annual periods (and interim periods therein) beginning on or after December 15, 2014. We are currently evaluating the impact that ASU 2014-08 will have on our consolidated financial statements.

3. Discontinued Operations

During the second quarter of 2014, we discontinued the operation of two of our retail stores, located in Huntington Beach, California and Chicago, Illinois and our OnSale and eCost businesses. The financial results of these operations, which were historically reported as part of our MacMall segment, have been excluded from our results from continuing operations for all periods presented herein and have been presented as discontinued operations. The revenues, operating and non-operating results of the discontinued operations are reflected in a single line item entitled "Loss from discontinued operations, net of taxes" on our Condensed Consolidated Statements of Operations, and the related assets and liabilities are presented in our Condensed Consolidated Balance Sheets in line items entitled "Current assets of discontinued operations," "Non-current assets of discontinued operations" and "Current liabilities of discontinued operations" for all periods presented herein.

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

	June 30, 2014	December 31, 2013
Accounts receivable, net	$ 111	$ 273
Inventories, net	166	1,700
Current assets of discontinued operations	277	1,973
Fixed assets, net	—	768
Intangible assets, net	—	466
Other non-current assets	14	14
Non-current assets of discontinued operations	14	1,248
Total assets of discontinued operations	$ 291	$ 3,221
Accounts payable	$ 191	$ 130
Accrued expenses and other current liabilities	777	1,557
Deferred revenue	13	29
Current liabilities of discontinued operations	$ 981	$ 1,716

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net sales	$ 6,783	$ 10,924	$ 15,114	$ 25,482
Loss before income taxes	$ (1,179)	$ (365)	$ (1,421)	$ (662)
Income tax benefit	(487)	(156)	(588)	(280)
Loss from discontinued operations, net of taxes	$ (692)	$ (209)	$ (833)	$ (382)

4. Goodwill and Intangible Assets

Goodwill

There was no change in goodwill during the six months ended June 30, 2014. Goodwill totaled $25.5 million as of June 30, 2014 and December 31, 2013, all of which related to our Commercial segment.

Intangible Assets

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

	Weighted Average Estimated Useful Lives (years)	At June 30, 2014			At December 31, 2013		
		Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Patent, trademarks & URLs	12	$ 3,286(1)	$ 288	$ 2,998	$ 3,286(1)	$ 271	$ 3,015
Customer relationships	10	2,550	1,035	1,515	2,550	908	1,642
Non-compete agreements	4	—	—	—	250	223	27
Total intangible assets		$ 5,836	$ 1,323	$ 4,513	$ 6,086	$ 1,402	$ 4,684

(1) Included in the gross amounts for “Patent, trademarks & URLs” at June 30, 2014 and December 31, 2013 are $2.9 million of trademarks with indefinite useful lives that are not amortized.

Amortization expense for intangible assets was approximately $0.1 million and $0.5 million for the three months ended June 30, 2014 and 2013 and $0.2 million and $0.9 million for the six months ended June 30, 2014 and 2013. Estimated amortization expense for intangible assets in each of the next five years and thereafter is as follows: $0.1 million in the remainder of 2014, $0.3 million in 2015, $0.3 million in 2016, $0.3 million in 2017, $0.3 million in 2018 and $0.4 million thereafter.

5. 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 June 30, 2014, 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 June 30, 2014, we had $52.7 million of net working capital advances outstanding under the line of credit. At June 30, 2014, the maximum credit line was $200 million and we had $53.4 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 June 30, 2014, we had $3.6 million outstanding under the term note. The remaining balance of our term note matures as follows: $0.3 million in the reminder of 2014, $0.6 million annually in each of the years 2015 through 2018, and $0.8 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 June 30, 2014, $0.3 million and $1.4 million were included in our "Notes Payable — current" and "Notes payable and other long-term liabilities" on our Condensed Consolidated Balance Sheets.

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 June 30, 2014, we had $9.1 million outstanding under this credit agreement, which matures as follows: $0.2 million in the remainder of 2014, $0.4 million in 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 and have incurred additional costs of $9.3 million through June 30, 2014 towards the construction of a new cloud data center that we opened in late June 2014. The Tier III facility is strategically located in a data center-centric development in New Albany, Ohio. The new facility complements 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 during the construction period 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%. At June 30, 2014, we had $4.3 million outstanding under this loan agreement.

At June 30, 2014, our effective weighted average annual interest rate on outstanding amounts under the credit facility, term note and notes payable was 2.1%.

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

6. Income Taxes

We determine our interim income tax provision by estimating our effective income tax rate expected to be applicable for the full fiscal year.

Accounting for Uncertainty in Income Taxes

At June 30, 2014, we had no unrecognized tax positions. For the three months and six months ended June 30, 2014 and 2013, we did not recognize any interest or penalties for uncertain tax positions. There were also no accrued interest and penalties at June 30, 2014 and 2013. 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 June 30, 2014, we do not 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.

7. 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. The repurchased shares are held as treasury stock. No limit was placed on the duration of the repurchase program. There is no guarantee as to the exact number of shares that we will repurchase. Subject to applicable securities laws, repurchases may be made at such times and in such amounts as our management deems appropriate. The program can also be discontinued at any time management feels additional purchases are not warranted.

During the three months ended June 30, 2014, we repurchased a total of 42,866 shares of our common stock under this program for a total cost of approximately $0.4 million. From the inception of the program in October 2008 through June 30, 2014, we have repurchased an aggregate total of 2,888,581 shares of our common stock for a total cost of $14.7 million. The repurchased shares are held as treasury stock. At June 30, 2014, we had $5.3 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.

8. Earnings Per Share

Basic earnings per share ("EPS") 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. Approximately 439,000 and 912,000 shares of common stock for the three months ended June 30, 2014 and 2013, and approximately 400,000 and 1,051,000 shares of common stock for the six months ended June 30, 2014 and 2013 underlying stock options 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):

	Net Income	Shares	Per Share Amounts
Three Months Ended June 30, 2014:			
Basic EPS			
Income from continuing operations	$ 1,838	12,343	$ 0.15
Effect of dilutive securities			
Dilutive effect of stock options	—	602	
Diluted EPS			
Adjusted income from continuing operations	$ 1,838	12,945	$ 0.14
Three Months Ended June 30, 2013:			
Basic EPS			
Income from continuing operations	$ 3,372	11,488	$ 0.30
Effect of dilutive securities			
Dilutive effect of stock options	—	283	
Diluted EPS			
Adjusted income from continuing operations	$ 3,372	11,771	$ 0.29
Six Months Ended June 30, 2014:			
Basic EPS			
Income from continuing operations	$ 4,866	12,137	$ 0.40
Effect of dilutive securities			
Dilutive effect of stock options	—	704	
Diluted EPS			
Adjusted income from continuing operations	$ 4,866	12,841	$ 0.37
Six Months Ended June 30, 2013:			
Basic EPS			
Income from continuing operations	$ 4,781	11,483	$ 0.41
Effect of dilutive securities			
Dilutive effect of stock options	—	251	
Diluted EPS			
Adjusted income from continuing operations	$ 4,781	11,734	$ 0.40

9. Segment Information

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

	Commercial	Public Sector	MacMall	Corporate & Other	Consolidated
Three Months Ended June 30, 2014					
Net sales	$ 256,385	$ 50,883	$ 32,363	$ (7)	$ 339,624
Gross profit	39,804	5,262	3,581	(8)	48,639
Depreciation and amortization expense(1)	603	13	67	2,038	2,721
Operating profit	14,215	2,046	274	(12,654)	3,881
Three Months Ended June 30, 2013					
Net sales	$ 257,374	$ 61,190	$ 36,934	$ (1)	$ 355,497
Gross profit	40,375	5,313	4,513	(167)	50,034
Depreciation and amortization expense(1)	1,015	14	30	1,689	2,748
Operating profit	16,989	1,757	1,032	(13,123)	6,655
Six Months Ended June 30, 2014					
Net sales	$ 508,506	$ 87,303	$ 74,547	$ (10)	$ 670,346
Gross profit	81,338	8,804	8,026	(11)	98,157
Depreciation and amortization expense(1)	1,215	26	99	3,964	5,304
Operating profit	31,873	2,620	1,076	(25,580)	9,989
Six Months Ended June 30, 2013					
Net sales	$ 508,741	$ 92,216	$ 77,216	$ (66)	$ 678,107
Gross profit	78,271	8,208	8,938	(15)	95,402
Depreciation and amortization expense(1)	2,060	29	59	3,380	5,528
Operating profit	31,756	1,881	1,755	(25,562)	9,830

(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 June 30, 2014 and December 31, 2013, we had total consolidated assets of $367.4 million and $434.8 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.

10. Commitments and Contingencies

Total rent expense under our operating leases, net of sublease income, was $1.3 million and $1.4 million in the three month periods ended June 30, 2014 and 2013, respectively, and $2.6 million and $2.7 million in the six month periods ended June 30, 2014 and 2013. Some of our leases contain renewal options and escalation clauses, and require us to pay taxes, insurance and maintenance costs.

Legal Proceedings

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

11. Subsequent Event

On August 6, 2014, we entered into a definitive agreement for the sale of real property located in Santa Monica, California, upon which we currently operate one of our retail stores, for $20.2 million, subject to diligence and closing conditions. The property has a net book value of approximately $4.4 million. We intend to shut down the operations of this retail store upon consummation of the sale.

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

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

BUSINESS OVERVIEW

PCM, Inc. is a leading multi-vendor provider of technology products, services and solutions offered through our dedicated sales force 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, HP, Ingram Micro, 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. 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.

During the second quarter of 2014, we discontinued the operation of two of our retail stores, located in Huntington Beach, California and Chicago, Illinois and our OnSale and eCost businesses. We reflected the results of these operations, which were reported as a part of our MacMall segment, as discontinued operations for all periods presented herein on our Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Operations.

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 the three months ended June 30, 2014, we generated approximately 75% of our revenue in our Commercial segment, 15% of our revenue in our Public Sector segment and 10% of our revenue in our MacMall segment. In the six months ended June 30, 2014, we generated approximately 76% of our revenue in our Commercial segment, 13% of our revenue in our Public Sector segment and 11% of our revenue in our MacMall 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 via telephone, the Internet and two retail stores to consumers, small businesses and creative professionals.

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. We may also experience variability in our gross profit and gross profit margin as a result of changes in the various vendor programs we participate in and its effect on the amount of vendor consideration we receive from a particular vendor, which may be impacted by a number of events outside of our control. 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 17% and 21% of our net sales in the three months ended June 30, 2014 and 2013, respectively, and products manufactured by Apple represented approximately 16% and 15% of our net sales in the three months ended June 30, 2014 and 2013, respectively. Products manufactured by HP represented approximately 19% and 21% of our net sales in the six months ended June 30, 2014 and 2013, respectively, and products manufactured by Apple represented approximately 17% of our net sales in each of the six months ended June 30, 2014 and 2013, respectively.

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

Real Estate Transactions

On August 6, 2014, we entered into a definitive agreement for the sale of real property located in Santa Monica, California, upon which we currently operate one of our retail stores, for $20.2 million, subject to diligence and closing conditions. The property has a net book value of approximately $4.4 million. We intend to shut down the operations of this retail store upon consummation of the sale. We also expect to effectuate a tax deferred exchange under Section 1031 of the Internal Revenue Code of 1986, as amended, through one or more purchases of real property to be used in connection with our company's business and operations. We will evaluate potential exchanges and purchases, but would expect that any exchanges or purchases we make would benefit us through direct ownership of facilities that are strategic to our operations, reductions in our lease obligations, or other ancillary benefits. In conjunction with this transaction, we will be required to pay off our outstanding real estate related debt at the time of closing, which was $5.3 million as of June 30, 2014.

In December 2012, we completed the purchase of 7.9 acres of land for approximately $1.1 million and have incurred additional costs of $9.3 million through June 30, 2014 towards the construction of a new cloud data center that we opened in late June 2014. The Tier III facility is strategically located in a data center-centric development in New Albany, Ohio. The new facility complements 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.

ERP and Web Infrastructure Upgrades

We are currently upgrading many of our IT systems. We have purchased licenses for Microsoft Dynamics AX and other related ISV (Independent Software Vendor) modules (Tax, EDI, Freight, Pricing and Rebates) to provide a complete and robust solution. 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. While it is difficult to estimate costs and time frames 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 $24 million for the major phases of the ERP upgrade and to be complete with all major phases of the design, configuration and customization by the end of 2014. We expect to complete the implementation and migration of certain of the legacy systems to the new ERP solution by the end of 2015. To date, we have incurred approximately $21 million of such costs. In addition to the above expenditures, we expect to make periodic upgrades to our IT systems on an ongoing basis. As part of the upgrades to our IT systems, we recently upgraded our eCommerce systems and launched a new generation of our public website and extranet at pcm.com, macmall.com, and pcmg.com, which are included in the amounts above. We also 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.

Common Stock Repurchase Program

At June 30, 2014, we had $5.3 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. During the three months ended June 30, 2014, we repurchased a total of 42,866 shares of our common stock under this program for a total cost of approximately $0.4 million. From the inception of the program in October 2008 through June 30, 2014, we have repurchased an aggregate total of 2,888,581 shares of our common stock for a total cost of $14.7 million. The repurchased shares are held as treasury stock.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Management considers an accounting estimate to be critical if:

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

Management has discussed the development and selection of these critical accounting policies and estimates with the audit committee of our board of directors. We believe the critical accounting policies described below affect the more significant judgments and estimates used in the preparation of our consolidated financial statements. For a summary of our significant accounting policies, including those discussed below, see Note 2 of the Notes to the Consolidated Financial Statements in Item 8, Part II, of our Annual Report on Form 10-K for the year ended December 31, 2013.

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

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

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

Some of our larger customers are offered the opportunity by certain of our vendors to purchase software licenses and SA under enterprise agreements (“EAs”). Under EAs, customers are considered to be compliant with applicable license requirements for the ensuing year, regardless of changes to their employee base. Customers are charged an annual true-up fee for changes in the number of users over the year. With most EAs, our vendors will transfer the license and invoice the customer directly, paying us an agency fee or commission on these sales. We record these fees as a component of net sales as earned and there is no corresponding cost of sales amount. In certain instances, we invoice the customer directly under an EA and 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 periods indicated, our Condensed Consolidated Statements of Operations (in thousands, unaudited, except per share amounts) and information derived from our Condensed Consolidated Statements of Operations expressed as a percentage of net sales. There can be no assurance that trends in our net sales, gross profit or operating results will continue in the future.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net sales	$ 339,624	$ 355,497	$ 670,346	$ 678,107
Cost of goods sold	290,985	305,463	572,189	582,705
Gross profit	48,639	50,034	98,157	95,402
Selling, general and administrative expenses	44,758	43,379	88,168	85,572
Operating profit	3,881	6,655	9,989	9,830
Interest expense, net	750	781	1,693	1,553
Income from continuing operations before income taxes	3,131	5,874	8,296	8,277
Income tax expense	1,293	2,502	3,430	3,496
Income from continuing operations	1,838	3,372	4,866	4,781
Loss from discontinued operations, net of taxes	(692)	(209)	(833)	(382)
Net income	$ 1,146	$ 3,163	$ 4,033	$ 4,399
Basic and Diluted Earnings Per Common Share				
Basic EPS:				
Income from continuing operations	$ 0.15	$ 0.30	$ 0.40	$ 0.41
Loss from discontinued operations, net of taxes	(0.06)	(0.02)	(0.07)	(0.03)
Net income	0.09	0.28	0.33	0.38
Diluted EPS:				
Income from continuing operations	$ 0.14	$ 0.29	$ 0.37	$ 0.40
Loss from discontinued operations, net of taxes	(0.05)	(0.02)	(0.06)	(0.03)
Net income	0.09	0.27	0.31	0.37
Weighted average number of common shares outstanding:				
Basic	12,343	11,488	12,137	11,483
Diluted	12,945	11,771	12,841	11,734

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net sales	100%	100%	100%	100%
Cost of goods sold	85.7	85.9	85.4	85.9
Gross profit	14.3	14.1	14.6	14.1
Selling, general and administrative expenses	13.2	12.2	13.1	12.7
Operating profit	1.1	1.9	1.5	1.4
Interest expense, net	0.2	0.2	0.3	0.2
Income from continuing operations before income taxes	0.9	1.7	1.2	1.2
Income tax expense	0.4	0.7	0.5	0.5
Income from continuing operations	0.5	1.0	0.7	0.7
Loss from discontinued operations, net of taxes	(0.2)	(0.1)	(0.1)	(0.1)
Net income	0.3%	$ 0.9%	0.6%	$ 0.6%

Three Months Ended June 30, 2014 Compared to the Three Months Ended June 30, 2013

Net Sales

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

	Three Months Ended June 30,					
	2014		2013			
	Net Sales	Percentage of Total Net Sales	Net Sales	Percentage of Total Net Sales	Dollar Change	Percent Change
Commercial	$ 256,385	75%	$ 257,374	73%	$ (989)	(0)%
Public Sector	50,883	15	61,190	17	(10,307)	(17)
MacMall	32,363	10	36,934	10	(4,571)	(12)
Corporate & Other	(7)	—	(1)	—	(6)	NM(1)
Consolidated	$ 339,624	100%	$ 355,497	100%	$ (15,873)	(4)%

(1) Not meaningful.

Consolidated net sales were $339.6 million in the three months ended June 30, 2014 compared to $355.5 million in the three months ended June 30, 2013, a decrease of $15.9 million, or 4%. Consolidated sales of services were $29.1 million in the three months ended June 30, 2014 compared to $32.5 million in the three months ended June 30, 2013, a decrease of $3.4 million, or 10%, and represented 9% of net sales in each of the three months ended June 30, 2014 and 2013, respectively.

Commercial net sales were $256.4 million in the three months ended June 30, 2014 compared to $257.4 million in the three months ended June 30, 2013, a decrease of $1.0 million. The decrease in Commercial net sales in the three months ended June 30, 2014 was primarily due to the non-recurrence of projects for certain large enterprise customers as compared to the same period in the prior year. Sales of services in the Commercial segment decreased by $3.5 million, or 11%, to $27.4 million in the three months ended June 30, 2014 from $30.9 million in the three months ended June 30, 2013, and represented 11% and 12% of Commercial net sales in the three months ended June 30, 2014 and 2013, respectively.

Public Sector net sales were $50.9 million in the three months ended June 30, 2014 compared to $61.2 million in the three months ended June 30, 2013, a decrease of $10.3 million, or 17%. This decrease in Public Sector net sales was due to a $11.5 million decrease in sales in our federal government business, primarily related to a reduction in sales made under our Social Security Administration and FBI contracts due to its unseasonably strong sales made during the three months ended June 30, 2013, which at the time grew 218% over the three months ended June 30, 2012, partially offset by an increase of $1.2 million in our state and local government and educational institutions business (SLED) resulting from increased account executive productivity in part related to the Common Core standards initiatives in the education sector.

MacMall net sales were $32.4 million in the three months ended June 30, 2014 compared to $36.9 million in the three months ended June 30, 2013, a decrease of $4.6 million, or 12%. The decrease in MacMall net sales was primarily due to a reduction in sales of MacBook Pro units, which were negatively impacted by pricing pressure from large online and retail competitors, partially offset by increases in Apple iMacs and MacBook Airs.

Gross Profit and Gross Profit Margin

Consolidated gross profit was $48.6 million in the three months ended June 30, 2014, a decrease of $1.4 million, or 3%, from $50.0 million in the three months ended June 30, 2013. Consolidated gross profit margin grew to 14.3% in the three months ended June 30, 2014 from 14.1% in the three months ended June 30, 2013. The decrease in gross profit was primarily related to the decreased sales. The increase in gross profit margin in the three months ended June 30, 2014 was primarily due to an improved solution sales mix, which contributed to an increase in vendor consideration, and increased agent fees associated with sales of enterprise software agreements.

Selling, General & Administrative Expenses

Consolidated SG&A expenses were $44.8 million in the three months ended June 30, 2014 compared to $43.4 million in the three months ended June 30, 2013, an increase of $1.4 million, or 3%. Consolidated SG&A expenses as a percentage of net sales increased to 13.2% in the three months ended June 30, 2014 from 12.2% in the three months ended June 30, 2013. The increase in consolidated SG&A expenses in Q2 2014 was primarily due to a $0.4 million increase in personnel costs and a $0.3 million increase in professional services fees.

Operating Profit

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

	Three Months Ended June 30, 2014		2013				Change in Operating Profit Margin
	Operating Profit	Operating Profit Margin(1)	Operating Profit	Operating Profit Margin(1)	Change in Operating Profit $	%	%
Commercial	$ 14,215	5.5%	$ 16,989	6.6%	$ (2,774)	(16)%	(1.1)%
Public Sector	2,046	4.0	1,757	2.9	289	16	1.1
MacMall	274	0.8	1,032	2.8	(758)	(73)	(2.0)
Corporate & Other	(12,654)	(3.7)(1)	(13,123)	(3.7)(1)	469	(4)	0.0
Consolidated	$ 3,881	1.1%	$ 6,655	1.9%	$ (2,774)	(42)%	(0.8)%

(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 $3.9 million in the three months ended June 30, 2014 compared to $6.7 million in the three months ended June 30, 2013, a decrease of $2.8 million or 42%.

Commercial operating profit was $14.2 million in the three months ended June 30, 2014 compared to $17.0 million in the three months ended June 30, 2013, a decrease of $2.8 million, or 16%, primarily due to a $0.6 million decrease in Commercial gross profit and increased personnel costs of $1.6 million, which was primarily due to investments including software, technical solutions and sales personnel supporting our future growth initiatives, including our new office in Austin, Texas.

Public Sector operating profit was $2.0 million in the three months ended June 30, 2014 compared to $1.8 million in the three months ended June 30, 2013, an increase of $0.2 million, or 16%. This increase in Public Sector operating profit in the three months ended June 30, 2014 was primarily due to lower variable fulfillment costs.

MacMall operating profit was $0.3 million in the three months ended June 30, 2014 compared to $1.0 million in the three months ended June 30, 2013, a decrease of $0.7 million, or 73%, primarily due to a decrease in MacMall gross profit associated with the reduction in sales.

Corporate & Other operating expenses includes corporate related expenses such as legal, accounting, information technology, product management and certain other administrative costs that are not otherwise included in our reportable operating segments. Corporate & Other operating expenses were $12.7 million in the three months ended June 30, 2014 compared to $13.1 million in the three months ended June 30, 2013, a decrease of $0.4 million, or 4%, primarily due to reduced personnel costs of $0.9 million, partially offset by a $0.3 million increase in depreciation expense.

Net Interest Expense

Total net interest expense for each of the three months ended June 30, 2014 and 2013 was $0.8 million.

Income Tax Expense

We recorded an income tax expense of $1.3 million in the three months ended June 30, 2014 compared to an income tax expense of $2.5 million in the three months ended June 30, 2013. Our effective tax rate was 41% and 43% for the three months ended June 30, 2014 and 2013, respectively. The decrease in income tax expense was primarily due to a decrease in our pre-tax income. The decrease in our effective tax rate in the three months ended June 30, 2014 was primarily due to the revaluation of federal deferred tax assets and liabilities from 34% to 35% in the three months ended June 30, 2013, which was recorded as a discrete item, and the impact of higher permanent differences during 2013.

Loss from Discontinued Operations

Loss from discontinued operations, net of taxes, which represents the results of operations of the two closed retail stores and the OnSale and eCost businesses, was $0.7 million in the three months ended June 30, 2014 and $0.2 million in the three months ended June 30, 2013.

Six Months Ended June 30, 2014 Compared to the Six Months Ended June 30, 2013

Net Sales

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

	Six Months Ended June 30,					
	2014		2013			
	Net Sales	Percentage of Total Net Sales	Net Sales	Percentage of Total Net Sales	Dollar Change	Percent Change
Commercial	$ 508,506	76%	$ 508,741	75%	$ (235)	(0)%
Public Sector	87,303	13	92,216	14	(4,913)	(5)
MacMall	74,547	11	77,216	11	(2,669)	(3)
Corporate & Other	(10)	—	(66)	—	56	NM(1)
Consolidated	$ 670,346	100%	$ 678,107	100%	$ (7,761)	(1)%

(1) Not meaningful.

Consolidated net sales were $670.3 million in the six months ended June 30, 2014 compared to $678.1 million in the six months ended June 30, 2013, a decrease of $7.8 million, or 1%. Consolidated sales of services were $58.1 million in the six months ended June 30, 2014 compared to $62.0 million in the six months ended June 30, 2013, a decrease of $3.9 million, or 6%, and represented 9% of net sales in each of the six months ended June 30, 2014 and 2013.

Commercial segment net sales were $508.5 million in the six months ended June 30, 2014 compared to $508.7 million in the six months ended June 30, 2013, a decrease of $0.2 million. The decrease in Commercial net sales in the six months ended June 30, 2014 was primarily due to the non-recurrence of projects for certain large enterprise customers as compared to the prior year. Sales of services in the Commercial segment decreased by $3.9 million, or 7%, to $55.3 million in the six months ended June 30, 2014 from $59.2 million in the six months ended June 30, 2013, and represented 11% and 12% of Commercial segment net sales in the six months ended June 30, 2014 and 2013 respectively.

Public Sector net sales were $87.3 million in the six months ended June 30, 2014 compared to $92.2 million in the six months ended June 30, 2013, a decrease of $4.9 million, or 5%. This decrease was primarily due to a decrease of $9.9 million, or 16%, in our federal government business, partially offset by an increase of $5.0 million, or 16%, in our SLED business. The decrease in our federal government business was primarily due to a reduction in sales made under certain of our new Federal contracts and continued Federal budgetary headwinds. The increase in our SLED business was primarily due to increased account executive productivity in part related to the Common Core standards initiatives in the education sector.

MacMall net sales were $74.5 million in the six months ended June 30, 2014 compared to $77.2 million in the six months ended June 30, 2013, a decrease of $2.7 million, or 3%. We believe MacMall net sales were negatively impacted by pricing pressure from large online and retail competitors.

Gross Profit and Gross Profit Margin

Consolidated gross profit was $98.2 million in the six months ended June 30, 2014, an increase of $2.8 million, or 3%, from $95.4 million in the six months ended June 30, 2013. Consolidated gross profit margin grew to 14.6% in the six months ended June 30, 2014 from 14.1% in the six months ended June 30, 2013. The increase in consolidated gross profit was primarily due to an increase in vendor consideration of $1.8 million. The increase in consolidated gross profit margin was primarily due to an improved solution sales mix, which contributed to an increase in vendor consideration, and increased agent fees associated with sales of enterprise software agreements.

Selling, General & Administrative Expenses

Consolidated SG&A expenses increased by $2.6 million, or 3%, to $88.2 million in the six months ended June 30, 2014 from $85.6 million in the six months ended June 30, 2013 primarily due to a $1.8 million increase in net personnel costs, a $0.4 million increase in professional fees, a $0.2 million increase in travel and entertainment expenses, and a $0.2 million increase in legal settlement costs, partially offset by reduction in bad debt expense of $0.5 million.

Operating Profit

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

	Six Months Ended June 30, 2014		2013				
	Operating Profit	Operating Profit Margin(1)	Operating Profit	Operating Profit Margin(1)	Change in Operating Profit $	Change in Operating Profit %	Change in Operating Profit Margin %
Commercial	$ 31,873	6.3%	$ 31,756	6.2%	$ 117	0%	0.1%
Public Sector	2,620	3.0	1,881	2.0	739	39	1.0
MacMall	1,076	1.4	1,755	2.3	(679)	(39)	(0.9)
Corporate & Other	(25,580)	(3.8)(1)	(25,562)	(3.8)(1)	(18)	0	0.0
Consolidated	$ 9,989	1.5%	$ 9,830	1.4%	$ 159	2%	0.1%

(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 $10.0 million in the six months ended June 30, 2014 compared to $9.8 million in the six months ended June 30, 2013, an increase of $0.2 million, or 2%.

Commercial operating profit was $31.9 million in the six months ended June 30, 2014 compared to $31.8 million in the six months ended June 30, 2013, an increase of $0.1 million, primarily due to the $3.1 million increase in Commercial gross profit, partially offset by a $2.9 million increase in personnel costs, which was primarily due to investments including software, technical solutions and sales personnel supporting our future growth initiatives, including our new office in Austin, Texas.

Public Sector operating profit was $2.6 million in the six months ended June 30, 2014 compared to $1.9 million in the six months ended June 30, 2013, an increase of $0.7 million or 39%, primarily due to a $0.6 million increase in Public Sector gross profit and $0.2 million decrease in variable fulfillment costs, partially offset by a $0.1 million increase in personnel costs.

MacMall operating profit was $1.1 million in the six months ended June 30, 2014 compared to $1.8 million in the six months ended June 30, 2013, a decrease of $0.7 million, primarily due to a $0.9 million decrease in MacMall gross profit associated with the reduction in sales and a $0.3 million legal settlement in the first quarter of 2014, partially offset by a $0.4 million decrease in personnel costs.

Corporate & Other operating expenses remained relatively flat at $25.6 million in each of the six months ended June 30, 2014 and 2013.

Net Interest Expense

Total net interest expense for the six months ended June 30, 2014 increased to $1.7 million compared with $1.6 million in the six months ended June 30, 2013. The $0.1 million increase in net interest expense was primarily due to higher average total outstanding borrowings during the six months ended June 30, 2014 compared to the same period in the prior year.

Income Tax Expense

We recorded an income tax expense of $3.4 million in the six months ended June 30, 2014 compared to an income tax expense of $3.5 million in the six months ended June 30, 2013. Our effective tax rate was 41% and 42% for the six months ended June 30, 2014 and 2013, respectively.

Loss from Discontinued Operations

Loss from discontinued operations, net of taxes, was $0.8 million in the six months ended June 30, 2014 and $0.4 million in the six months ended June 30, 2013.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital. Our primary capital needs have been and are expected to continue to be the funding of our existing working capital requirements, capital expenditures for which we expect to include substantial investments in our new ERP system, eCommerce platform and other upgrades of our current IT infrastructure over the next several years, which are discussed further below in “Other Planned Capital Projects,” possible sales growth, possible acquisitions and new business ventures, 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 $6.7 million at June 30, 2014 and $10.0 million at December 31, 2013. Our working capital was $62.6 million as of June 30, 2014 and $57.6 million as of December 31, 2013.

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 three months ended June 30, 2014, we repurchased a total of 42,866 shares of our common stock under this program for a total cost of approximately $0.4 million. From the inception of the program in October 2008 through June 30, 2014, we have repurchased an aggregate total of 2,888,581 shares of our common stock for a total cost of $14.7 million. The repurchased shares are held as treasury stock. At June 30, 2014, we had $5.3 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 June 30, 2014, we had a total accrued receivable of $8.6 million related to 2012, 2013 and the first half of 2014. Our 2012 claim has been processed and we are awaiting payment. We expect to file our 2013 claim in 2014 and we expect to receive full payment under our remaining accrued labor credits receivable. In June 2014, the province of Quebec passed a budget that modified the annual labor credit, prospectively reducing the claim percentage from 25% to 20% of eligible salaries, and reducing the annual amount from $15,000 to $12,000 (Canadian) per eligible employee per year.

Cash Flows from Operating Activities. Net cash provided by operating activities was $61.6 million in the six months ended June 30, 2014 compared to $10.4 million of net cash used in operating activities in the six months ended June 30, 2013.

The $61.6 million of net cash provided by operating activities in the six months ended June 30, 2014 was primarily due to a decrease in inventory of $67.3 million due to the sell through of a majority of the inventory purchased for specific customer contracts and large strategic purchases made near the end of the year and a decrease in accounts receivable of $22.9 million, partially offset by a decrease in accounts payable of $37.6 million.

The $10.4 million of net cash used in operating activities in the six months ended June 30, 2013 was primarily due to a $27.3 million increase in accounts receivable due to increased sales, especially to certain federal government customers, partially offset by a $14.2 million increase in deferred revenue related to a deferred maintenance contract.

Cash Flows from Investing Activities. Net cash used in investing activities was $18.4 million in the six months ended June 30, 2014 compared to $7.4 million in the six months ended June 30, 2013.

The $18.4 million of net cash used in investing activities in the six months ended June 30, 2014 was primarily related to capital expenditures relating to our ERP upgrade, the construction of our new cloud data center in New Albany, Ohio, the expenditures relating to leasehold improvements and other build-out costs related to our new Chicago and Austin offices, and investments in our IT infrastructure and the creation of enhanced electronic tools for our account executives and sales support staff. The $7.4 million of net cash used in investing activities in the six months ended June 30, 2013 was primarily related to capital expenditures relating to investments in our IT infrastructure and the creation of enhanced electronic tools for our account executives and sales support staff. In addition, we incurred approximately $1.3 million of capital expenditures in the six months ended June 30, 2013 related to the unfinanced portion of a building we acquired that is adjacent to the building we own in Santa Monica, California.

Cash Flows from Financing Activities. Net cash used in financing activities in the six months ended June 30, 2014 was $46.5 million compared to net cash provided by financing activities of $23.0 million in the six months ended June 30, 2013.

The $46.5 million of net cash used in financing activities in the six months ended June 30, 2014 was primarily related to $57.8 million of net payments on the outstanding balance of our line of credit, partially offset by $9.1 million of borrowings under our notes payable related to the ERP upgrade and new cloud data center construction. The $23.0 million of net cash provided by financing activities in the six months ended June 30, 2013 was primarily related to a $12.8 million net increase in the outstanding balance of our line of credit and an $8.7 million change in book overdraft related to outstanding checks at June 30, 2013 compared to the prior year end.

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 June 30, 2014, 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 June 30, 2014, we had $52.7 million of net working capital advances outstanding under the line of credit. At June 30, 2014, the maximum credit line was $200 million and we had $53.4 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 June 30, 2014, we had $3.6 million outstanding under the term note. The remaining balance of our term note matures as follows: $0.3 million in the reminder of 2014, $0.6 million annually in each of the years 2015 through 2018, and $0.8 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 June 30, 2014, $0.3 million and $1.4 million were included in our “Notes Payable — current” and “Notes payable and other long-term liabilities” on our Condensed Consolidated Balance Sheets.

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 June 30, 2014, we had $9.1 million outstanding under this credit agreement, which matures as follows: $0.2 million in the remainder of 2014, $0.4 million in 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, where we built a new cloud data center that we opened in late June 2014. The Tier III facility is strategically located in a data center-centric development in New Albany, Ohio. The new facility complements 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 during the construction period 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%. At June 30, 2014, we had $4.3 million outstanding under this loan agreement.

At June 30, 2014, our effective weighted average annual interest rate on outstanding amounts under the credit facility, term note and notes payable was 2.1%.

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

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

Other Planned Capital Projects

ERP and Web Infrastructure Upgrades

We are currently upgrading many of our IT systems. We have purchased licenses for Microsoft Dynamics AX and other related ISV (Independent Software Vendor) modules (Tax, EDI, Freight, Pricing and Rebates) to provide a complete and robust solution. 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. While it is difficult to estimate costs and time frames 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 $24 million for the major phases of the ERP upgrade and to be complete with all major phases of the design, configuration and customization by the end of 2014. We expect to complete the implementation and migration of certain of the legacy systems to the new ERP solution by the end of 2015. To date, we have incurred approximately $21 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 for approximately $1.1 million and have incurred an additional cumulative $9.3 million through June 30, 2014 towards the construction of a new cloud data center that we opened in late June 2014. The Tier III facility is strategically located in a data center-centric development in New Albany, Ohio. The new facility complements 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. While the site is now fully operational, we expect a limited amount of capital expenditures to continue into the third quarter of 2014.

Inflation

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

Dividend Policy

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

Off-Balance Sheet Arrangements

Our off-balance sheet arrangements are fully described in our Annual Report on Form 10-K for the year ended December 31, 2013. As of June 30, 2014, there has been no material change in any off-balance sheet arrangements since December 31, 2013.

Contingencies

For a discussion of contingencies, see Part I, Item 1, Note 10 of the Notes to the Condensed Consolidated Financial Statements of this report, which is incorporated herein by reference.

RELATED-PARTY TRANSACTIONS

There were no material related-party transactions during the three and six months ended June 30, 2014 other than compensation arrangements in the ordinary course of business.

FORWARD-LOOKING STATEMENTS

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

- our ability to execute and benefit from our business strategies; including but not limited to, business strategies related to and strategic investments in our 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 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 expectations regarding key personnel and our ability to hire new and retain such individuals;
- our competitive advantages and growth opportunities;
- our ability to increase revenues and profitability;
- our expectation regarding general economic uncertainties and the related potential negative impact on our profit and profit margins, as well as our financial condition, liquidity and future cash flows;
- our expectations to continue our efforts to increase the productivity of our sales force and reduce costs;
- our plans to invest in and enhance programs and training to align us with our key vendor partners;
- our ability to generate vendor supported marketing;

- our expectations regarding our future capital needs and the availability of working capital, liquidity, cash flows from operations and borrowings under our credit facility and other long-term debt;
- the expected results or profitability of any of our individual business units in future periods;
- the impact on accounts receivable from our efforts to focus on sales in our Commercial and Public Sector segments;
- our ability to penetrate the public sector market;
- our beliefs relating to the benefits to be received from our 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; and
- the likelihood that new laws and regulations will be adopted with respect to the Internet, privacy and data security that may impose additional restrictions or burdens on our business.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our financial instruments include cash and cash equivalents, accounts receivable, accounts payable, and short-term and long-term debt. At June 30, 2014, 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 June 30, 2014. However, from time-to-time, we contemplate and may enter into derivative financial instruments related to interest rate, foreign currency, and other market risks.

Interest Rate Risk

We have exposure to the risks of fluctuating interest rates on our line of credit and notes payable. The variable interest rates on our line of credit and notes payable are tied to the prime rate or the LIBOR, at our discretion. At June 30, 2014, we had $52.7 million outstanding under our line of credit and $23.3 million outstanding under our notes payable. As of June 30, 2014, the hypothetical impact of a one percentage point increase in interest rate related to the outstanding borrowings under our line of credit and notes payable would be to increase our annual interest expense by approximately $0.8 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 Condensed 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 Condensed Consolidated Balance Sheets. As such, we have foreign currency translation exposure for changes in exchange rates for these currencies. As of June 30, 2014, 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 Condensed Consolidated Statements of Operations and Condensed Consolidated Balance Sheets.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2014.

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 second quarter of 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

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

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

Our success is dependent on the accuracy and proper utilization of our management information systems and our communications systems. In addition to the costs associated with system upgrades, the transition to and implementation of new or upgraded solutions can result in system delays or failures. We currently operate one of our management information systems using an HP3000 Enterprise System, which was supported by HP until December 2010. We currently contract with a third party service provider specializing in maintenance and support of this system to provide us adequate support until we finalize the upgrade of this system to 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 represented approximately 19% and 21% of our net sales in the six months ended June 30, 2014 and 2013, respectively, and products manufactured by Apple represented approximately 17% of our net sales in each of the six months ended June 30, 2014 and 2013, respectively. A decline in sales of any of our key manufacturers' products, whether due to decreases in supply of or demand for their products, termination of any of our agreements with them, or otherwise, could have a material adverse impact on our sales and operating results.

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

Certain of our vendors, including 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.

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

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 three months ended June 30, 2014, we repurchased a total of 42,866 shares of our common stock under this program for a total cost of approximately $0.4 million. From the inception of the program in October 2008 through June 30, 2014, we have repurchased an aggregate total of 2,888,581 shares of our common stock for a total cost of $14.7 million. The repurchased shares are held as treasury stock. At June 30, 2014, we had $5.3 million available in stock repurchases under the program, subject to any limitations that may apply from time to time under our existing credit facility.

A summary of the repurchase activity for the three months ended June 30, 2014 is as follows (dollars in thousands, except per share amounts):

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value that May Yet Be Purchased Under the Plans or Programs
April 1, 2014 to April 30, 2014	33,366	$ 9.94	33,366	$ 5,747
May 1, 2014 to May 31, 2014	9,500	10.42	9,500	5,316
June 1, 2014 to June 30, 2014	—	—	—	
Total	42,866		42,866	

ITEM 5. OTHER INFORMATION

Effective June 1, 2014, the cash compensation for our Board of Directors was revised such that non-employee members of the Board will receive an annual Board retainer of $50,000, plus an annual retainer of $10,000 for service on the Audit Committee and an annual retainer of $7,500 for service on the Compensation Committee. The chairperson of each of our Audit and Compensation Committees will also receive an additional annual retainer of $15,000 and $7,500, respectively.

ITEM 6. EXHIBITS

Exhibit Number	Description
10.1	Third Amendment to Third Amended and Restated Loan and Security Agreement, dated as of April 24, 2014, 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 of the Company's Current Report on Form 8-K filed with the Commission on April 8, 2014)
10. 2	Purchase and Sale Agreement dated August 6, 2014 by and between M2 Marketplace, Inc. and The Regents of the University of California (incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Commission on August 8, 2014)
31.1	Certification of the Chief Executive Officer of the Registrant pursuant to Exchange Act Rule 13a-14(a)
31.2	Certification of the Chief Financial Officer of the Registrant pursuant to Exchange Act Rule 13a-14(a)
32.1	Certification of the Chief Executive Officer of Registrant furnished pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer of Registrant furnished pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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PCM, INC.

SIGNATURE

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

	PCM, INC. (Registrant)
Date: August 11, 2014	By: /s/Brandon H. LaVerne Brandon H. LaVerne Chief Financial Officer

PCM, INC.

EXHIBIT LIST

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

EXHIBIT 31.1

PCM, INC.

CERTIFICATION

I, Frank F. Khulusi, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 11, 2014

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

EXHIBIT 31.2

PCM, INC.

CERTIFICATION

I, Brandon H. LaVerne, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 11, 2014

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

EXHIBIT 32.1

PCM, INC.

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

In connection with the Quarterly Report of PCM, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended June 30, 2014 as filed with the Securities and Exchange Commission (the "Report"), I, Frank F. Khulusi, Chief Executive Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

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

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

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

August 11, 2014

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

EXHIBIT 32.2

PCM, INC.

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

In connection with the Quarterly Report of PCM, Inc. (the “Company”) on Form 10-Q for the fiscal quarter ended June 30, 2014 as filed with the Securities and Exchange Commission (the “Report”), I, Brandon H. LaVerne, Chief Financial Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

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

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

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

August 11, 2014

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