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

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended September 30, 1998

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 0-23827

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

DELAWARE	02-0497006
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
ROUTE 101A, 730 MILFORD ROAD MERRIMACK, NEW HAMPSHIRE	03054
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code	(603) 423-2000

528 ROUTE 13, MILFORD, NEW HAMPSHIRE 03055
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark () whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES [X] NO [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of the issuer's Common Stock, $.01 par value, as of November 12, 1998 was 15,561,221.

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PC CONNECTION, INC.

FORM 10-Q

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ITEM 1 - FINANCIAL STATEMENTS
BALANCE SHEETS
(UNAUDITED)
(AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	SEPTEMBER 30, 1998	DECEMBER 31, 1997
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 10,990	$ 758
Accounts receivable, net	45,795	29,921
Inventoriesmerchandise	77,706	63,720
Deferred income taxes	3,928	375
Prepaid expenses and other current assets	3,492	2,205
TOTAL CURRENT ASSETS	141,911	96,979
Property and equipment, net	13,025	8,463
Deferred income taxes	342	-
TOTAL ASSETS	$155,278	$105,442
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term borrowings	$ -	$ 28,318
Current maturities of long-term debt	-	1,250
Amounts payable to stockholders	-	1,185
Accounts payable	81,398	38,174
Accrued expenses and other liabilities	11,023	9,145
TOTAL CURRENT LIABILITIES	92,421	78,072
Term loan, less current maturities	-	3,250
Total liabilities	92,421	81,322
Stockholders' Equity:		
Preferred Stock, $.01 par value, 7,500,000 shares authorized, none issued and outstanding		
Common Stock, $.01 par value, 30,000,000 shares authorized, 15,465,181 and 11,798,793 shares issued and outstanding at September 30, 1998 and December 31, 1997, respectively	154	118
Additional paid-in capital	55,000	4,097
Retained earnings	7,703	19,905
Total Stockholders' Equity	62,857	24,120
Total Liabilities and Stockholders' Equity	$155,278	$105,442

See notes to financial statements.

PC CONNECTION, INC.
PART I - FINANCIAL INFORMATION
ITEM 1 - FINANCIAL STATEMENTS
STATEMENTS OF INCOME
(UNAUDITED)
(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1998	1997	1998	1997
Net sales	$169,089	$139,137	$512,081	$383,460
Cost of sales	147,837	119,841	446,299	330,008
Gross profit	21,252	19,296	65,782	53,452
Selling, general and administrative expenses	16,317	14,537	49,217	40,965
Additional stockholder/officer compensation	-	3,200	2,354	8,630
INCOME FROM OPERATIONS	4,935	1,559	14,211	3,857
Interest expense	(10)	(267)	(267)	(933)
Other, net	233	(37)	532	(43)
Income tax provision	(2,012)	(165)	(837)	(429)
NET INCOME	$ 3,146	$ 1,090	$ 13,639	$ 2,452
Weighted average shares outstanding:				
Basic	15,443			
Diluted	16,000			
Earnings per share:				
Basic	$ .20			
Diluted	$ .20			
PRO FORMA DATA:				
Historical income before income taxes		$ 1,255	$ 14,476	$ 2,881
Pro forma adjustment - stockholder/officer compensation in excess of aggregate base salaries		3,170	2,354	8,540
Pro forma income before income taxes		4,425	16,830	11,421
Pro forma income taxes		1,726	6,563	4,454
Pro forma net income		$ 2,699	$ 10,267	$ 6,967
Pro forma weighted average shares outstanding:				
Basic		13,861	15,036	13,861
Diluted		14,259	15,578	14,181
Pro forma earnings per share:				
Basic		$.20	$.68	$.51
Diluted		$.19	$.66	$.49

See notes to financial statements.

PC CONNECTION, INC.
PART I - FINANCIAL INFORMATION
ITEM 1 - FINANCIAL STATEMENTS
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)
(AMOUNTS IN THOUSANDS)

	COMMON STOCK				
	SHARES	AMOUNT	ADDITIONAL PAID IN CAPITAL	RETAINED EARNINGS	TOTAL
Balance, December 31, 1997	11,799	$118	$ 4,097	$ 19,905	$ 24,120
Net proceeds from initial public offering	3,594	36	57,217	-	57,253
Dividend	-	-	(7,196)	(25,841)	(33,037)
Exercise of nonstatutory stock options, including income tax benefits	72	-	588	-	588
Compensation under nonstatutory stock option agreements	-	-	1,235	-	1,235
Recognition of deferred taxes on nonstatutory stock option agreements	-	-	(941)	-	(941)
Net income	-	-	-	13,639	13,639
Balance, September 30, 1998	15,465	$154	$55,000	$ 7,703	$ 62,857

See notes to financial statements.

PC CONNECTION, INC.
PART I - FINANCIAL INFORMATION
ITEM 1 - FINANCIAL STATEMENTS
STATEMENTS OF CASH FLOWS
(UNAUDITED)
(AMOUNTS IN THOUSANDS)

NINE MONTHS ENDED	SEPTEMBER 30, 1998	SEPTEMBER 30, 1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 13,639	$ 2,452
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,989	2,713
Deferred income taxes	(4,317)	(53)
Compensation under nonstatutory stock option agreements	1,235	785
Provision for doubtful accounts	2,003	1,577
Loss on disposal of fixed assets	174	54
Changes in assets and liabilities:		
Accounts receivable	(17,877)	(7,697)
Inventories	(13,986)	(16,326)
Prepaid expenses and other current assets	(1,287)	759
Accounts payable	43,224	18,156
Amounts payable to stockholders	(1,185)	2,958
Accrued expenses and other liabilities	1,218	3,009
Net cash provided by operating activities	24,830	8,387
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(6,065)	(3,399)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term borrowings	20,796	112,476
Repayment of short-term borrowings	(49,114)	(116,653)
Repayment of term loan	(4,500)	(250)
Issuance of stock upon exercise of nonstatutory stock options	69	-
Net proceeds from initial public offering	57,253	-
Payment of dividend	(33,037)	-
Net cash used for financing activities	(8,533)	(4,427)
Increase in cash and cash equivalents	10,232	561
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	758	162
Cash and cash equivalents, end of period	$ 10,990	$ 723
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 439	$ 1,021
Income taxes paid	5,279	175
NON-CASH TRANSACTIONS:		

Computer equipment in the amount of $660 was acquired in April 1998 and financed by means of a capital lease

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1--BASIS OF PRESENTATION

The accompanying financial statements of PC Connection, Inc. ("PCC" or the "Company") have been prepared in accordance with generally accepted accounting principles. Such principles were applied on a basis consistent with those of the financial statements contained in the Company's Registration Statement on Form S-1 (the "Registration Statement") filed with the Securities and Exchange Commission ("SEC") in connection with its initial public offering ("the Offering") (File No. 333-41171). The accompanying financial statements should be read in conjunction with the financial statements contained in the Company's Registration Statement. In the opinion of management, the accompanying unaudited financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation. The operating results for the three and nine month periods ended September 30, 1998 may not be indicative of the results expected for any succeeding quarter or the entire year ending December 31, 1998.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results may differ from those estimates.

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

NOTE 2--CASH AND CASH EQUIVALENTS

The Company considers all highly liquid short-term investments with original maturities of 90 days or less to be cash equivalents.

NOTE 3--RECAPITALIZATION AND STOCK SPLIT

On February 4, 1998, the Company amended its Articles of Incorporation to increase the authorized shares of the Company's Series A Non-Voting Common Stock, $.01 par value per share (the "Series A Non-Voting Common Stock"), and Series B Voting Common Stock, $.01 par value per share (the "Series B Voting Common Stock"), to 22,500,000 and 7,500,000 shares, respectively. The Company also, through a 1.310977-for-one stock split, increased the total number of Series A Non-Voting Common Stock and Series B Voting Common Stock issued and outstanding to 8,849,095 shares and 2,949,698 shares, respectively. The effect of this recapitalization and stock split has been reflected in the Company's financial statements and related notes thereto for all periods presented.

NOTE 4--REINCORPORATION OF THE COMPANY

On February 27, 1998, the Company changed its state of incorporation from New Hampshire to Delaware (the "Reincorporation"). Pursuant to the Reincorporation, the Company converted all of the issued and outstanding shares of Series A Non-Voting Common Stock, and Series B Voting Common Stock of the New Hampshire corporation into 11,798,793 shares of Common Stock, $.01 par value of the "Common Stock", of the Delaware corporation on a one-for-one basis.

NOTE 5--INITIAL PUBLIC OFFERING

On March 6, 1998, the Company completed its offering of 3,593,750 shares of Common Stock (including 468,750 shares issued upon the exercise of an underwriters' overallotment option) at a price of $17.50 per share, raising $57.3 million in net proceeds. The Company used the net proceeds from the Offering for repayment of bank indebtedness ($12.9 million) and to pay a dividend to stockholders of record as of February 27, 1998 ($33.0 million) equal to substantially all previously taxed, but undistributed, S Corporation earnings of the Company. The remaining net proceeds ($11.4 million) have been invested in short-term investment securities and will be used for general corporate purposes.

NOTE 6--TERMINATION OF S CORPORATION ELECTION

For periods prior to March 6, 1998, the Company elected to be treated as an S Corporation under Subchapter S of the Internal Revenue Code ("the Code"), and applicable state laws. Effective with the consummation of the Offering, the Company's S Corporation election was automatically terminated and the Company became subject to federal and state income taxes as a C Corporation from that date forward.

Effective with the termination of the Company's S Corporation election, the Company recorded a tax benefit of approximately $4.2 million relating to the establishment of additional net deferred tax assets for future tax deductions resulting from such termination.

NOTE 7--COMPENSATION UNDER NON-STATUTORY STOCK OPTION AGREEMENTS

Effective upon the consummation of the Offering, certain restrictions as to the exercise of options granted under the Company's 1993 Incentive and Non-Statutory Stock Option Plan expired. Prior to the consummation of the Offering, the Company recorded compensation expense for certain options granted at prices less than their fair market value ratably over seven years from the dates granted, because such options were not exercisable except upon the occurrence of certain events, including a public offering of the Company's Common Stock. Effective upon the consummation of the Offering, the Company recorded a one-time charge for stock-option compensation expense of approximately $870,000, relating to the acceleration of the vesting period of certain of the Company's stock options from seven years to four years.

NOTE 8--PRO FORMA INCOME STATEMENT DATA

The following pro forma adjustments have been made to the historical results of operations to make the pro forma presentation comparable to what would have been reported had the Company operated as a C Corporation for the periods prior to the quarter ended June 30, 1998:

1. Elimination of stockholder/officer compensation in excess of aggregate established 1998 base salaries ($150,000) for all periods prior to the quarter ended June 30, 1998. These amounts generally represented Company-related S Corporation tax obligations payable by the stockholder/officers for periods prior to March 6, 1998. Effective upon the closing of the Offering, these stockholder/officers are being paid annual base salaries aggregating $600,000.

2. Elimination of the historical income tax benefit/provision for all periods prior to the quarter ended June 30, 1998 (including elimination of the $4.2 million income tax benefit related to the establishment of additional deferred tax assets for future tax deductions resulting from the termination of the Company's Subchapter S Corporation status) and establishment of a provision for federal and state income taxes that would have been payable by the Company if taxed under Subchapter C of the Code, assuming an effective tax rate of 39% after an adjustment for stockholder/officer compensation described in Paragraph 1 above.

NOTE 9--EARNINGS PER SHARE

NET INCOME PER SHARE

In 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share". SFAS No. 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Basic earnings per common share is computed using the weighted average number of shares outstanding. Diluted earnings per common share is computed using the weighted average number of shares outstanding adjusted for the incremental shares attributed to outstanding options to purchase common stock. All earnings per share amounts for all periods have been presented in accordance with SFAS No. 128 requirements.

NOTE 9--PRO FORMA EARNINGS PER SHARE - CONT'D.

The denominator used to determine pro forma basic earnings per share for all periods prior to the quarter ended June 30, 1998 includes the weighted average shares required to pay the S Corporation dividend (assuming a price per share of $17.50 for the nine months ended September 30, 1998, and $16.00 for all 1997 periods).

The following table sets forth the computation of basic and diluted earnings per share:

SEPTEMBER 30, (AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)	THREE MONTHS ENDED 1998	THREE MONTHS ENDED 1997	NINE MONTHS ENDED 1998	NINE MONTHS ENDED 1997
		(PRO FORMA)	(PRO FORMA)	(PRO FORMA)
Numerator:				
Net income	$ 3,146	$ 2,699	$10,267	$ 6,967
Denominator:				
Denominator for basic earnings per share:				
Weighted average shares	15,443	11,799	14,614	11,799
Weighted average shares required to pay stockholder dividend	-	2,062	422	2,062
Denominator for basic earnings per share	15,443	13,861	15,036	13,861
Effect of dilutive securities				
Employee stock options	557	398	542	320
Denominator for diluted earnings per share	16,000	14,259	15,578	14,181
Earnings per share:				
Basic	$ .20	$ .20	$ .68	$ .51
Diluted	$ .20	$ .19	$ .66	$ .49

The following stock options to purchase Common Stock were excluded from the computation of diluted earnings per share for the three and nine months ended September 30, 1998 and 1997 because the effect of the options on the calculation would have been anti-dilutive:

SEPTEMBER 30, (AMOUNTS IN THOUSANDS)	THREE MONTHS ENDED 1998	THREE MONTHS ENDED 1997	NINE MONTHS ENDED 1998	NINE MONTHS ENDED 1997
Anti-dilutive stock options	25	--	65	--

NOTE 10--CAPITAL LEASE

In November 1997, the Company entered into a fifteen year lease for a new corporate headquarters with an affiliated entity related to the Company through common ownership. The Company began occupying this facility in October of 1998 and the lease payments commenced in November 1998. Annual lease payments under the terms of the lease, as amended on December 29, 1997, will be approximately $903,000 for the first five years of the lease, increasing to $1,016,000 for years nine through ten and $1,129,000 for years eleven through fifteen. The lease requires the Company to pay its proportionate share of real estate taxes and common area maintenance charges as additional rent and also to pay insurance premiums for the leased property. The Company has the option to renew the lease for two additional terms of five years each.

NOTE 10--CAPITAL LEASE - CONT'D.

In November 1998, the Company recorded the lease as a capital lease. The recorded value of the asset (lease property under capital lease) and the related liability (obligation under capital lease) was $6.8 million.

NOTE 11--REPORTING COMPREHENSIVE INCOME

The Company has adopted the provisions of SFAS No. 130, "Reporting Comprehensive Income". SFAS No. 130 requires the reporting of comprehensive income in addition to net income. Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of certain financial information that historically has not been recognized in the calculation of net income. Based on the current financial structure and operations of the Company, the Company had no other components to be included in comprehensive income. Therefore, comprehensive income is the same as net income reported for the three and nine months ended September 30, 1998 and 1997.

NOTE 12--RECENT PRONOUNCEMENTS OF THE FINANCIAL ACCOUNTING STANDARDS BOARD

SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," which will be effective for the Company for the year ending December 31, 1998, establishes standards for reporting information about operating segments in the annual financial statements, selected information about operating segments in interim financial reports and disclosures about products and services, geographic areas and major customers. This new standard will require the Company to report financial information on the basis that is used internally for evaluating segment performance and deciding how to allocate resources to segments, which may result in more detailed information in the notes to the Company's financial statements than is currently required and provided. The Company has not yet determined the effects, if any, of implementing SFAS No. 131 on its reporting of financial information.

PC CONNECTION, INC.
PART I - FINANCIAL INFORMATION
ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements based on management's current expectations, estimates and projections about the Company's industry, management's beliefs and certain assumptions made by management. All statements, trends, analyses and other information contained in this report relative to trends in net sales, gross margin and anticipated expense levels, as well as other statements, including words such as "anticipate", "believe," "plan," "estimate," "expect" and "intend" and other similar expressions, constitute forward-looking statements. These forward-looking statements involve risks and uncertainties, and actual results may differ materially from those anticipated or expressed in such statements. Potential risks and uncertainties include, among others, those set forth under the caption "Risk Factors" in the Company's Registration Statement filed with the SEC in connection with its Initial Public Offering (File No. 333-41171). Particular attention should be paid to the cautionary statements involving the industry's rapid technological change and exposure to inventory obsolescence, availability and allocation of goods, reliance on vendor support and relationships, continued sales of Mac products, competitive risks, pricing risks, and economic risks. Except as required by law, the Company undertakes no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise. Readers, however, should carefully review the factors set forth in other reports or documents that the Company files from time to time with the SEC.

GENERAL

The Company was founded in 1982 as a mail-order business offering a broad range of software and accessories for IBM and IBM-compatible personal computers ("PCs"). The founders' goal was to provide consumers with superior service and high quality branded products at competitive prices. The Company initially sought customers through advertising in magazines and the use of inbound toll free telemarketing. Currently, the Company seeks to generate sales through (i) outbound telemarketing by account managers focused on the business, education and government markets and (ii) inbound calls from customers responding to the Company's catalogs and other advertising. The Company also advertises in selected computer industry publications, on radio and television and in 1997 commenced selling products through its Internet web site.

The Company offers both PC compatible products and Mac personal computer compatible products. Reliance on Mac product sales has decreased over the last two years, from 26.7% of net sales in the year ended December 31, 1995 to 19.3% of net sales in the quarter ended September 30, 1998. In late 1997, Apple announced that it will sell built-to-order computers directly to customers over the Internet. While Apple also indicated that it is not abandoning traditional retail and direct marketing outlets, the Company cannot predict whether direct sales by Apple will affect the future supply of Mac products to the Company. Although net sales attributable to Mac products in absolute dollar amounts increased in the quarter ended September 30, 1998, as compared to the comparable period in 1997, such sales decreased as a percentage of net sales and the Company believes that such sales will continue to decrease as a percentage of net sales and may decline in absolute dollar amounts in future periods.

All of the Company's product categories experienced strong growth in the quarter ended September 30, 1998 over the comparable period in 1997, with sales of computer systems representing one of the fastest growing categories. Sales of computer systems result in a relatively high dollar sales order, as reflected in the increase in the Company's average order size from $555 in the quarter ended September 30, 1997 to $624 in the quarter ended September 30, 1998. Computer system sales generally provide the largest gross profit dollar contribution per order of all of the Company's products, although they usually yield the lowest gross margin percentage. Partially as a result of higher system sales, the Company's gross margin has declined over the last two years while the operating income margin has increased due to the leveraging of selling, general and administrative expenses over a larger sales base.

The Company's profit margins are also influenced by, among other things, industry pricing and the relative mix of inbound and outbound sales. Generally, pricing in the computer and related products market is very aggressive and the Company intends to maintain prices at competitive levels. Since outbound sales are typically to corporate accounts that purchase at volume discounts, the gross margin on such sales is generally lower than inbound sales, although the gross profit dollar contribution per order is generally higher as average order sizes to corporate accounts are usually larger. The Company believes that outbound sales will continue to represent a larger portion of its business mix in future periods.

GENERAL - CONT'D.

The direct marketing of personal computers and related products is highly competitive. In addition to other direct marketers and manufacturers who sell direct, such as Dell Computer Corporation and Gateway 2000, Inc., manufacturers of PCs sold by the Company, such as Compaq and IBM, have also announced varying plans to sell PCs directly to end users. However, both Compaq and IBM continue to rely on reseller arrangements with direct marketers such as the Company as part of their own marketing programs designed to compete more effectively with Dell and Gateway. The Company currently believes that direct sales by Compaq and IBM will not have a significant adverse effect upon the Company's net sales.

Most product manufacturers provide the Company with cooperative advertising support in exchange for product coverage in the Company's catalogs. Although the level of cooperative advertising support available to the Company from certain manufacturers has declined, and may decline further in the future, the overall level of cooperative advertising revenues has continued to increase consistent with the Company's increased levels of spending for catalog and other advertising programs. The Company believes that the overall levels of cooperative advertising revenues available over the next twelve months will be consistent with the Company's planned advertising programs.

In connection with the planned relocation of its headquarters facility in the fall of 1998, the Company incurred certain one-time moving and other costs, not expected to exceed $500,000, which will be charged to operating costs. In connection with the Offering of the Company's Common Stock that closed in March 1998, the Company reported certain non-recurring, non-cash items in the nine months ended September 30, 1998. See "Initial Public Offering" and "Pro Forma and Other Adjustments" below.

INITIAL PUBLIC OFFERING

On March 6, 1998, the Company closed its Offering of 3,593,750 shares (including 468,750 shares issued upon the exercise of an underwriters' overallotment option) of Common Stock at an offering price of $17.50 per share. Net proceeds to the Company after deducting expenses of the Offering were approximately $57.3 million. See "Liquidity and Capital Resources".

PRO FORMA AND OTHER ADJUSTMENTS

The pro forma income statements presented below have been determined by applying the following pro forma and other adjustments to the Company's historical income statements for all periods prior to the quarter ended June 30, 1998:

Pro Forma Adjustments
- ---------------------

1. Elimination of stockholder/officer compensation in excess of aggregate established 1998 base salaries ($150,000) for all periods prior to the quarter ended June 30, 1998. These amounts generally represented Company-related S Corporation tax obligations payable by the stockholder/officers for periods prior to March 6, 1998. Effective upon the closing of the Offering, these stockholder/officers are being paid annual base salaries aggregating $600,000.

2. Elimination of the historical income tax benefit/provision for all periods prior to the quarter ended June 30, 1998 (including elimination of the $4.2 million income tax benefit related to the establishment of additional deferred tax assets for future tax deductions resulting from the termination of the Company's Subchapter S Corporation status) and establishment of a provision for federal and state income taxes that would have been payable by the Company if taxed under Subchapter C of the Code, assuming an effective tax rate of 39% after an adjustment for stockholder/officer compensation described in Paragraph 1 above.

Other Adjustments
- -----------------

1. Elimination for the nine months ended September 30, 1998 of an $870,000 one-time charge for stock option compensation expense relating to the acceleration in the vesting period of certain of the Company's stock options from seven years to four years in connection with the Offering.

GENERAL - CONT'D.

INCOME STATEMENTS, AS ADJUSTED

(Amounts in thousands, except per share data)	THREE MONTHS ENDED SEPTEMBER 30, 1998	% of NET SALES	1997 (PRO FORMA)	% of NET SALES
Net sales	$169,089	100.00%	$139,137	100.00%
Cost of sales	147,837	87.43	119,841	86.13
GROSS PROFIT	21,252	12.57	19,296	13.87
Selling, general and administrative expenses	16,317	9.65	14,537	10.45
Additional stockholder/officer compensation	-	-	30	.02
Income from operations	4,935	2.92	4,729	3.40
Interest expense	(10)	-	(267)	(.19)
Other, net	233	.13	(37)	(.03)
Income taxes	(2,012)	(1.19)	(1,726)	(1.24)
NET INCOME	$ 3,146	1.86%	$ 2,699	1.94%
Weighted average shares outstanding:				
Basic	15,443		13,861	
Diluted	16,000		14,259	
Earnings per share:				
Basic	$.20		$.20	
Diluted	$.20		$.19	

INCOME STATEMENTS, AS ADJUSTED

(Amounts in thousands, except per share data)	THREE MONTHS ENDED SEPTEMBER 30, 1998 (PRO FORMA)	% of NET SALES	1997 (PRO FORMA)	% of NET SALES
Net sales	$512,081	100.00%	$383,460	100.00%
Cost of sales	446,299	87.15	330,008	86.06
GROSS PROFIT	65,782	12.85	53,452	13.94
Selling, general and administrative expenses	48,347	9.44	40,965	10.69
Additional stockholder/officer compensation	-	-	90	.02
Income from operations	17,435	3.41	12,397	3.23
Interest expense	(267)	(.05)	(933)	(.24)
Other, net	532	.10	(43)	(.01)
Income taxes	(6,903)	(1.35)	(4,454)	(1.16)
NET INCOME	$ 10,797	2.11%	$ 6,967	1.82%
Weighted average shares outstanding:				
Basic	15,036		13,861	
Diluted	15,578		14,181	
Earnings per share:				
Basic	$.72		$.51	
Diluted	$.70		$.49	

RESULTS OF OPERATIONS

THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 1998 COMPARED WITH THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 1997

The following table sets forth the Company's percentage of net sales (in dollars) of computer systems/memory, peripherals, software, and networking and communications products during the three month and nine month periods ended September 30, 1998 and 1997:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
SEPTEMBER 30,	1998	1997	1998	1997
Computer Systems/Memory	43.6%	43.8%	42.4%	40.9%
Peripherals	35.4	33.6	34.9	34.7
Software	13.4	14.9	14.4	16.5
Networking and Communications	7.6	7.7	8.3	7.9
Total	100.0%	100.0%	100.0%	100.0%

NET SALES increased $30.0 million, or 21.5%, to $169.1 million for the quarter ended September 30, 1998 from $139.1 million for the comparable period in 1997. Similarly, net sales for the nine months ended September 30, 1998 increased $128.6 million, or 33.5%, to $512.1 million from $383.5 million for the comparable nine month period in 1997. Growth in net sales was primarily attributable to the continued expansion and increased productivity of the Company's outbound telemarketing group, continued growth in average order size, increased catalog mailings and growth in the Company's Internet sales. The Company's growth in net sales in the early part of the quarter was adversely affected by the conversion in July 1998 of its sales order management and fulfillment software to a new enterprise management software system. Also, product availability levels for certain models of computer systems were lower than anticipated. Outbound sales increased $29.3 million, or 43.6%, to $96.5 million in the three months ended September 30, 1998 from $67.2 million for the three months ended September 30, 1997. Inbound and on-line Internet sales increased $0.7 million, or 1.0%, to $72.6 million in the three months ended September 30, 1998 from $71.9 million for the three months ended September 30, 1997. Outbound sales for the nine months ended September 30, 1998 increased $104.0 million, or 59.7%, to $278.2 million from $174.2 million for the comparable period in 1997, and inbound and online Internet sales for the nine months ended September 30, 1998 increased $24.6 million, or 11.7%, to $233.9 million from $209.3 million in the comparable period in 1997, respectively. System/memory sales increased to 43.6% and 42.4% of net sales for the three months and nine months ended September 30, 1998, respectively, from 43.8% and 40.9% for the respective comparable periods in 1997.

GROSS PROFIT increased $2.0 million, or 10.4%, to $21.3 million for the quarter ended September 30, 1998 from $19.3 million for the comparable quarter in 1997. Gross profit increased for the nine months ended September 30, 1998 by $12.3 million, or 23.1% to $65.8 million from $53.5 million in the comparable period in 1997. The increase in gross profit dollars was primarily attributable to the increase in net sales described above. Gross profit margin decreased from 13.9% and 13.9% in the three months and nine months ended September 30, 1997, respectively, to 12.6% and 12.9% in the three months and nine months ended September 30, 1998, respectively, due primarily to the continued decline in margins for system sales and growth in outbound telemarketing sales, which generally carry lower margins. The Company's gross profit margin as a percentage of net sales may vary on a quarterly basis based upon vendor support programs, product mix, pricing strategies, market conditions and other factors.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES increased $1.8 million, or 12.2%, to $ 16.3 million for the quarter ended September 30, 1998 from $14.5 million for the comparable quarter in 1997, but decreased as a percentage of sales from 10.5% for the three months ended September 30, 1997 to 9.7% for the three months ended September 30, 1998. Such expenses for the nine months ended September 30, 1998 increased by $8.2 million, or 20.1%, to $49.2 million from $41.0 million in the nine months ended September 30, 1997, but decreased as a percentage of sales from 10.7% for the nine months ended September 30, 1997 period to 9.6% in the comparable period in 1998. The increase in expenses was primarily attributable to increases in volume-sensitive costs such as sales personnel and credit card fees and included a $870,000 one-time charge for stock option compensation expense relating to the acceleration in the vesting period of certain of the Company's stock options from seven to four years in connection with the Offering. The decrease as a percentage of net sales was primarily attributable to improved expense control and the leveraging of selling, general and administrative expenses over a larger sales base.

RESULTS OF OPERATIONS - GENERAL - CONT'D.

Selling, general and administrative expenses, excluding the one-time charge for stock option compensation expense, increased $7.3 million, or 18.0%, to $48.3 million for the nine months ended September 30, 1998 from $41.0 million for the comparable period in 1997, but decreased as a percentage of sales from 10.7% for the nine months ended September 30, 1997 to 9.4% for the comparable period in 1998.

ADDITIONAL STOCKHOLDER/OFFICER COMPENSATION was $0 and $2.4 million for the three months and nine months ended September 30, 1998, respectively, compared to $3.2 million and $8.6 million for the respective comparable periods in 1997. These amounts generally represented Company-related federal income tax obligations payable by the stockholder/officers for periods prior to March 6, 1998. Effective upon closing of the Offering, these stockholder/officers are being paid annual base salaries aggregating $600,000.

INCOME FROM OPERATIONS increased $3.4 million, or 216.5%, to $4.9 million for the quarter ended September 30, 1998, from $1.6 million for the quarter ended September 30, 1997. Income from operations as a percentage of sales increased from 1.1% in the three months ended September 30, 1997 to 2.9% in the comparable period in 1998 for the reasons discussed above. Similarly, income from operations for the nine months ended September 30, 1998 increased $10.3 million, or 268.4%, to $14.2 million from $3.9 million in the comparable 1997 period, and income from operations as a percentage of sale increased from 1.0% for the nine months ended September 30, 1997 to 2.8% for the comparable period in 1998.

Income from operations, excluding both the one-time charge for stock option compensation expense ($870,000) and the additional stockholder/officer compensation in excess of their aggregate annual base salaries of $0.6 million, ($3.2 million, $2.4 million and $8.5 million for the three months ended September 30, 1997, and the nine months and nine months ended September 30, 1998 and 1997, respectively) increased by $0.2 million, or 4.4%, to $4.9 million for the quarter ended September 30, 1998, from $4.7 million for the quarter ended September 30, 1997, and increased by $5.0 million, or 40.6%, to $17.4 million for the nine months ended September 30, 1998 from $12.4 million for the comparable period in 1997. Such income from operations as a percentage of net sales changed from 3.4% and 3.2% for the respective three-month and nine-month periods ended September 30, 1997 to 2.9% and 3.4% for the respective comparable periods in 1998.

INTEREST EXPENSE decreased $257,000, or 96.3%, to $10,000 for the quarter ended September 30, 1998 from $267,000 for the comparable quarter in 1997. Similarly, interest expense for the nine months ended September 30, 1998, decreased $666,000, or 71.4%, to $267,000 from $933,000 for the comparable period in 1997. This decrease in interest expense was due primarily to lower average outstanding borrowings generally in the nine months ended September 30, 1998, compared to the comparable period in 1997, and particularly, to the full payment of all outstanding bank borrowings at the close of the Offering.

INCOME TAXES for the three months ended September 30, 1998 was a provision of $2.0 million compared to a provision of $165,000 for the comparable quarter in 1997. Income taxes for the nine months ended September 30, 1998 was a net provision of $837,000, compared to a provision of $429,000 for the comparable period in 1997.

Effective with the consummation of the Offering, the Company's S Corporation election was automatically terminated and the Company recorded a tax benefit of approximately $4.2 million relating to the establishment of additional net deferred tax assets for future tax deductions resulting from the termination of the S Corporation election. In addition, for the periods subsequent to March 6, 1998, the Company recorded income tax expense at the Company's effective tax rate (39%). For periods prior to the termination of the S Corporation election, the Company was only required to pay New Hampshire Business Profits Tax.

NET INCOME for the quarter ended September 30, 1998 increased $2.0 million, or 188.6%, to $3.1 million from $1.1 million for the comparable quarter in 1997, principally as a result of the increases in operating income as described above. Net income for the nine months ended September 30, 1998 increased $11.1 million, or 456.2%, to $13.6 million from $2.5 million for the comparable period in 1997, principally as a result of the $4.2 million income tax benefit and increase in operating income as described above.

RESULTS OF OPERATIONS - GENERAL - CONT'D.

PRO FORMA NET INCOME, calculated for the nine months ended September 30, 1998, and the three and nine months ended September 30, 1997, is determined by (i) eliminating stockholder/officer compensation in excess of quarterly base salaries ($150,000) and (ii) by eliminating the actual income tax provision/benefit and adding a provision for federal and state income taxes that would have been payable by the Company under Subchapter C of the Internal Revenue Code ("Code"). Net income for the quarter ended September 30, 1998 was $3.1 million, or $.20 per share, compared to pro forma net income for the quarter ended September 30, 1997 of $2.7 million, or $.19 per share. Pro forma net income for the nine months ended September 30, 1998 was $10.3 million, or $.66 per share, compared to $7.0 million, or $.49 per share for the comparable period in 1997.

Excluding a one-time charge for the acceleration of certain stock option compensation expense (described above), the Company would have reported pro forma net income of $10.8 million, or $.70 per share, for the nine months ended September 30, 1998, compared to pro forma net income of $7.0 million, or $.49 per share, for the comparable period in 1997, an increase of $.21 per share, or 43%.

LIQUIDITY AND CAPITAL RESOURCES

The Company has historically financed its operations and capital expenditures through cash flow from operations and bank borrowings. In March 1998, the Company completed an initial public offering and used the net proceeds of the Offering, aggregating $57.3 million, to repay all outstanding bank indebtedness of $12.9 million and to pay a dividend of $33.0 million to its stockholders of record as of February 27, 1998, equal to substantially all previously taxed, but undistributed, S Corporation earnings of the Company. The remaining net proceeds of $11.4 million have been invested in short-term investment securities and are being used for general corporate purposes. The Company believes that funds generated from operations, together with the net proceeds from the Offering and available credit under its bank line of credit, will be sufficient to finance its working capital and capital expenditure requirements at least through 1998.

Net cash provided by operating activities was $24.8 million in the nine months ended September 30, 1998, as compared to $8.4 million provided in the comparable period in 1997. The primary factors historically affecting cash flows from operations are the Company's net income and changes in the levels of accounts receivable, inventories and accounts payable. Historically, inventories and accounts payable have increased as a result of the sales growth of the Company. Accounts receivable have increased primarily due to an increase in open account purchases by commercial customers resulting from the Company's continued efforts to increase its sales to such customers, offset in part by a higher rate of increase in accounts receivable allowances for sales returns and doubtful accounts related to the growth in sales and the disproportionately higher level and complexity of settling claims with vendors.

Capital expenditures were $6.1 million in the nine months ended September 30, 1998, as compared to $3.4 million in the comparable period in 1997. The majority of the capital expenditures for the first half of 1998 and 1997 relate to computer hardware and software for the Company's management information systems. The Company has been in the process over the last year of upgrading its order management and fulfillment systems to new hardware and software. The conversion was completed during the third quarter of 1998. Total additional expenditures related to the management information systems for the year ending December 31, 1998 are estimated at $0.5 million.

In addition, in connection with the relocation of its headquarters facility during October and November, the Company expects to spend approximately $3.0 million in total for leasehold improvements and for furniture and equipment.

LIQUIDITY AND CAPITAL RESOURCES - CONT'D.

As of September 30, 1998, the Company had a credit agreement with a bank providing for short-term borrowings equal to the lesser of $45 million or an amount determined by a formula based on accounts receivable and inventory balances. Such borrowings are collateralized by the Company's accounts receivable and inventories (other than inventories pledged to secure trade credit arrangements) and bear interest at the prime rate (8.25% at September 30, 1998). The credit agreement includes various customary financial and operating covenants, including restrictions on the payment of dividends, except for dividends to stockholders in respect of income taxes, none of which the Company believes significantly restricts its operations. No borrowings were outstanding at September 30, 1998. The Company had $81.4 million in outstanding accounts payable at September 30, 1998, including $18.0 million for in-transit inventory from vendors not yet received by the Company but for which title passed to the Company upon shipment. Such accounts are generally paid within 30 days of incurrence and will be financed by cash flows from operations or short-term borrowings under the line of credit.

INFLATION

The Company has historically offset any inflation in operating costs by a combination of increased productivity and price increases, where appropriate. The Company does not expect inflation to have a significant impact on its business in the future.

YEAR 2000 COMPLIANT INFORMATION SYSTEMS

The change in date from 1999 to 2000 poses potential problems for many computer and electro-mechanical systems around the world. Some of the Company's systems could be affected by this problem which could have a material adverse effect on the Company's business, financial condition and results of operations.

In order to minimize any potential disruption to the Company's business, the Company has an active, on-going program to evaluate its systems and take corrective action prior to the millennium change. A full-time senior manager is responsible for managing the Year 2000 Project, which is comprised of five phases: Awareness, Assessment, Renovation, Validation and Implementation. For each system that is determined to be non-compliant, the Company will take one of the following three courses of action to achieve date compliance: (i) renovate (convert) the current system; (ii) replace the current system with a new date compliant system; or (iii) retire the current system because it no longer serves a valid business need.

The Company recently replaced its order management and fulfillment software with new software and converted its mainframe equipment to a new IBM AS400 platform, both of which are better suited to the Company's expected scale of operations and are designed to be Year 2000 compliant. The Company is investigating the extent to which its other systems may be affected and communicating to all of its system vendors concerning timely and completed remedies for those systems requiring modification. The Company currently believes it will be able to modify or replace any affected systems in time to minimize any detrimental effect on operations.

The Company is also communicating with all third parties on which it relies to assess their progress in evaluating their systems and implementing appropriate corrective measures. Furthermore, the Company is actively encouraging its customers to undertake their own Year 2000 Compliance projects in order to ensure the continued viability of the Company's commercial business pursuits.

Utilizing both internal and external resources to identify and assess needed Year 2000 remediation, the Company currently anticipates that its Year 2000 awareness, assessment, renovation and validation efforts, which began in 1996, will be completed by June 30, 1999, and that such efforts will be completed prior to any currently anticipated impact on its computer equipment and software. The Company estimates that as of September 30, 1998 it had completed approximately 60% of the initiatives that it believes will be necessary to fully address potential Year 2000 issues relating to its computer equipment and software. The projects comprising the remaining 40% of the initiatives are in process and expected to be completed by June 30, 1999.

YEAR 2000 COMPLIANT INFORMATION SYSTEMS - CONT'D.

YEAR 2000 INITIATIVE

	TIME FRAME	PERCENT COMPLETED
Status of overall Year 2000 Project:		
Awareness	10/97 - 06/98	100%
Assessment	10/97 - 12/98	85%
Renovation	04/98 - 09/99	60%
Validation	05/98 - 11/99	50%
Implementation	05/98 - 12/99	60%
Summary of significant Year 2000 projects completed:		
Conversion to new IBM AS400	10/96 - 09/98	100%
Conversion to new order management and fulfillment software	10/96 - 09/98	100%

The primary objectives of the Year 2000 Project relating to the Company's internal systems were met when the Company implemented its new order management and fulfillment software and upgraded its IBM AS400 data processing platform. The majority of the costs (approximately $5.5 million) of the new software and hardware were capitalized during the period October 1, 1997 to September 30, 1998. The Company believes that the costs of its Year 2000 awareness, assessment, renovation, validation and implementation for all other computer equipment and software, as well as currently anticipated costs to be incurred by the Company with respect to Year 2000 issues of third parties, will not exceed $500,000, which will be funded from operating cash flow. These costs will be expensed as incurred.

The Company presently believes that the Year 2000 issue will not pose significant operational problems for the Company. The Company has been taking, and will continue to pursue, all reasonably necessary steps to protect its operations, assets and the interests of its customers, shareholders, employees and community partners. However, for all Year 2000 issues that are not properly identified, or assessments, renovation, validation and implementation that are not effected timely with respect to Year 2000 problems, there can be no assurance that the Year 2000 issues of the Company or other entities will not have a material adverse impact on the Company's systems or results of operations.

The Company is presently considering, a comprehensive analysis of the operational problems and costs (including loss of revenues) that would be reasonably likely to result from the failure by the Company and certain third parties to complete efforts necessary to achieve Year 2000 compliance on a timely basis. A contingency plan has not been developed for dealing with the most reasonably likely worst case scenario, and such scenario has not yet been clearly identified. The Company currently plans to complete such analysis and contingency planning by December 31, 1999.

The costs of the Company's Year 2000 awareness, assessment, renovation, validation and implementation efforts and the dates on which the Company believes it will complete such efforts are based upon management's best estimates, which were derived using numerous assumptions regarding future events, including the continued availability of certain resources, third-party remediation plans, and other factors. There can be no assurance that these estimates will prove to be accurate and actual results could differ materially from those currently anticipated. Specific factors that could cause such material differences include, but are not limited to, the availability and cost of personnel trained in Year 2000 issues, the ability to assess, renovate and implement all relevant computer codes and embedded technology and similar uncertainties. In addition, variability of definitions of "compliance of Year 2000" and the myriad of different products and services and combinations thereof, sold by the Company may lead to claims whose impact on the Company is not currently estimable. No assurance can be given that the aggregate cost of defending and resolving such claims, if any, will not materially adversely affect the Company's results of operations. Although some of the Company's agreements with manufacturers and others from whom it purchases products for resale contain provisions requiring such parties to indemnify the Company under some circumstances, there can be no assurance that such indemnification arrangements will cover all of the Company's liabilities and costs related to claims by third parties related to the Year 2000 issue.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company invests cash balances in excess of operating requirements in short-term securities, generally with maturities of 90 days or less. In addition, the Company's Credit Agreement provides for borrowings which bear interest at variable rates based on the prime rate. The Company had no borrowings outstanding pursuant to the Credit Agreement as of September 30, 1998. The Company believes that the effect, if any, of reasonably possible near-term changes in interest rates on the Company's financial position, results of operations and cash flows should not be material.

PC CONNECTION, INC.

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

Not applicable

ITEM 2 - CHANGES IN SECURITIES AND USE OF PROCEEDS

Not applicable

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

Not applicable

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable

ITEM 5 - OTHER INFORMATION

Not applicable

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

Exhibit Number	Description
27	Financial Data Schedule

(b) REPORTS ON FORM 8-K

(i) None

SIGNATURES

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.

PC CONNECTION, INC.

November 16, 1998 By: /s/ Wayne L. Wilson

Wayne L. Wilson
President and Chief Operating Officer

November 16, 1998 By: /s/ Mark A. Gavin

Mark A. Gavin
Vice President of Finance and
Chief Financial Officer

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THIS SCHEDULE CONTAINS SUMMARY INFORMATION EXTRACTED FROM THE COMPANY'S QUARTERLY FINANCIAL STATEMENTS ON FORM 10-Q AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

9-MOS
DEC-31-1998
SEP-30-1998
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3,146
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