Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

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 **(State or other jurisdiction of incorporation or organization)**	**02-0513618** **(I.R.S. Employer Identification No.)**
730 MILFORD ROAD, MERRIMACK, NEW HAMPSHIRE **(Address of principal executive offices)**	**03054** **(Zip Code)**

(603) 683-2000
(Registrant's telephone number, including area code)

Former name, former address and former fiscal year, if changed since last report: N/A

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 (§232.405 of this chapter) 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 definitions 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 ☐ (Do not check if smaller reporting company)	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** ☑

The number of shares outstanding of the issuer's common stock as of November 1, 2011 was 26,433,858.

PC CONNECTION, INC. AND SUBSIDIARIES
FORM 10-Q

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

Table of Contents

PC CONNECTION, INC. AND SUBSIDIARIES

PART I—FINANCIAL INFORMATION
Item 1—Financial Statements
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(amounts in thousands)

	September 30, 2011	December 31, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 39,760	$ 35,374
Accounts receivable, net	269,916	238,011
Inventories	72,970	74,293
Deferred income taxes	4,520	3,813
Prepaid expenses and other current assets	3,931	4,210
Income taxes receivable	250	1,489
Total current assets	391,347	357,190
Property and equipment, net	21,913	13,500
Goodwill	51,276	48,060
Other intangibles, net	5,389	1,786
Other assets	590	405
Total Assets	$ 470,515	$ 420,941
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of capital lease obligation to affiliate	$ 945	$ 870
Accounts payable	138,819	114,632
Accrued expenses and other liabilities	26,611	23,963
Accrued payroll	13,788	12,652
Total current liabilities	180,163	152,117
Deferred income taxes	8,462	5,822
Capital lease obligation to affiliate, less current maturities	1,242	1,960
Other liabilities	4,546	3,403
Total Liabilities	194,413	163,302
Stockholders' Equity:		
Common stock	276	275
Additional paid-in capital	99,369	98,871
Retained earnings	185,435	164,075
Treasury stock at cost	(8,978)	(5,582)
Total Stockholders' Equity	276,102	257,639
Total Liabilities and Stockholders' Equity	$ 470,515	$ 420,941

See notes to unaudited condensed consolidated financial statements.

Table of Contents

PC CONNECTION, INC. AND SUBSIDIARIES

PART I—FINANCIAL INFORMATION
Item 1—Financial Statements
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(amounts in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net sales	$575,646	$532,827	$1,550,133	$1,418,635
Cost of sales	505,210	470,856	1,353,984	1,252,031
Gross profit	70,436	61,971	196,149	166,604
Selling, general and administrative expenses	54,554	47,640	160,321	139,615
Income from operations	15,882	14,331	35,828	26,989
Interest expense	(93)	(111)	(221)	(305)
Other, net	32	49	129	159
Income before taxes	15,821	14,269	35,736	26,843
Income tax provision	(6,435)	(5,643)	(14,376)	(10,760)
Net income	$ 9,386	$ 8,626	$ 21,360	$ 16,083
Earnings per common share:				
Basic	$ 0.35	$ 0.32	$ 0.80	$ 0.59
Diluted	$ 0.35	$ 0.32	$ 0.80	$ 0.59
Weighted average common shares outstanding:				
Basic	26,615	26,939	26,788	27,070
Diluted	26,692	26,977	26,860	27,108

See notes to unaudited condensed consolidated financial statements.

Table of Contents

PC CONNECTION, INC. AND SUBSIDIARIES

PART I—FINANCIAL INFORMATION
Item 1—Financial Statements
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
Nine Months Ended September 30, 2011
(Unaudited)
(amounts in thousands)

	Common Stock		Additional	Retained	Treasury Stock		
	Shares	Amount	Paid-In Capital	Earnings	Shares	Amount	Total
Balance—January 1, 2011	27,507	$ 275	$ 98,871	$164,075	(854)	$(5,582)	$257,639
Stock-based compensation expense	—	—	698	—	—	—	698
Issuance of common stock under Employee Stock Purchase Plan	23	—	183	—	—	—	183
Nonvested stock awards	—	—	(633)	—	93	633	—
Tax benefit from stock-based compensation	—	—	68	—	—	—	68
Repurchase of common stock for treasury	—	—	—	—	(487)	(4,029)	(4,029)
Issuance of common stock under stock incentive plans	27	1	182				183
Net income and comprehensive income	—	—	—	21,360	—	—	21,360
Balance—September 30, 2011	27,557	$ 276	$ 99,369	$185,435	(1,248)	$(8,978)	$276,102

See notes to unaudited condensed consolidated financial statements.

PC CONNECTION, INC. AND SUBSIDIARIES

PART I—FINANCIAL INFORMATION
Item 1—Financial Statements
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(amounts in thousands)

	Nine Months Ended September 30,	
	2011	2010
Cash Flows from Operating Activities:		
Net income	$ 21,360	$ 16,083
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,375	4,152
Provision for doubtful accounts	1,765	1,737
Deferred income taxes	1,933	1,256
Stock-based compensation expense	698	1,102
Fair value adjustment to contingent consideration	(20)	—
Income tax benefit (deficiency) from stock-based compensation	68	(18)
Loss on disposal of fixed assets	13	6
Changes in assets and liabilities:		
Accounts receivable	(30,407)	(40,348)
Inventories	1,617	(14,035)
Prepaid expenses and other current assets	1,786	(1,467)
Other non-current assets	(157)	71
Accounts payable	22,100	24,675
Accrued expenses and other liabilities	(2,761)	7,676
Net cash provided by operating activities	22,370	890
Cash Flows from Investing Activities:		
Purchases of property and equipment	(8,483)	(2,350)
Acquisition of ValCom Technology, net of cash acquired	(4,745)	—
Purchase of intangible asset	(450)	(800)
Proceeds from sale of property and equipment	—	6
Net cash used for investing activities	(13,678)	(3,144)
Cash Flows from Financing Activities:		
Purchase of treasury shares	(4,029)	(3,067)
Repayment of capital lease obligation to affiliate	(643)	(576)
Issuance of stock under Employee Stock Purchase Plan	183	135
Exercise of stock options	183	—
Net cash used for financing activities	(4,306)	(3,508)
Increase (decrease) in cash and cash equivalents	4,386	(5,762)
Cash and cash equivalents, beginning of period	35,374	46,297
Cash and cash equivalents, end of period	$ 39,760	$ 40,535
Non-cash Investing and Financing Activities:		
Contingent consideration included in accrued expenses and other liabilities	$ 1,900	$ —
Accrued capital expenditures	746	3,117
Issuance of nonvested stock from treasury	633	820

See notes to unaudited condensed consolidated financial statements.

PC CONNECTION, INC. AND SUBSIDIARIES

PART I—FINANCIAL INFORMATION
Item 1—Financial Statements
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, except per share data)

Note 1–Basis of Presentation

The accompanying condensed consolidated financial statements of PC Connection, Inc. and its subsidiaries (the “Company,” “we,” “us,” or “our”) have been prepared in accordance with accounting principles generally accepted in the United States of America. Such principles were applied on a basis consistent with the accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2010, filed with the Securities and Exchange Commission (the “SEC”). The accompanying condensed consolidated financial statements should be read in conjunction with the financial statements contained in our Annual Report on Form 10-K.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the results of operations for the interim periods reported and of the Company’s financial condition as of the date of the interim balance sheet. The Company considers events or transactions that occur after the balance sheet date but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. Subsequent events have been evaluated through the date of issuance of these financial statements. The operating results for the three and nine months ended September 30, 2011 may not be indicative of the results expected for any succeeding quarter or the entire year ending December 31, 2011.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the amounts reported in the accompanying condensed consolidated financial statements. Actual results could differ from those estimates.

Note 2–Earnings Per Share

Basic earnings per common share is computed using the weighted average number of shares outstanding. Diluted earnings per share is computed using the weighted average number of shares outstanding adjusted for the incremental shares attributable to restricted stock units and stock options outstanding, if dilutive.

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

	Three Months Ended		Nine Months Ended	
September 30,	2011	2010	2011	2010
Numerator:				
Net income	$ 9,386	$ 8,626	$21,360	$16,083
Denominator:				
Denominator for basic earnings per share	26,615	26,939	26,788	27,070
Dilutive effect of employee equity awards	77	38	72	38
Denominator for diluted earnings per share	26,692	26,977	26,860	27,108
Earnings per share:				
Basic	$ 0.35	$ 0.32	$ 0.80	$ 0.59
Diluted	$ 0.35	$ 0.32	$ 0.80	$ 0.59

For the three and nine months ended September 30, 2011 and 2010, the following outstanding stock options were excluded from the computation of diluted earnings per share because including them would have had an anti-dilutive effect:

	Three Months Ended		Nine Months Ended	
September 30,	2011	2010	2011	2010
Common stock options	483	751	534	751

Note 3—Acquisition of ValCom Technology

On March 17, 2011, we completed the acquisition of ValCom Technology ("ValCom"), a provider of information technology ("IT") infrastructure and onsite managed services. The purchase of ValCom is consistent with our strategy to expand our services capabilities. Under the terms of the stock purchase agreement, we paid $8,495 at closing. In addition, we agreed to pay up to $3,000 upon the achievement of three performance milestones. The total purchase price was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values on the closing date. The excess of purchase price over the aggregate fair values was recorded as goodwill. This goodwill represents potential revenue increases through synergies with our existing customer base and the assembled workforce of sales representatives and service technicians of ValCom that we acquired in the transaction. The initial allocation of the purchase price is based upon a preliminary valuation, and accordingly, our estimates and assumptions are subject to change as we obtain additional information during the measurement period and completion of the valuation of intangible assets. The goodwill balance of $3,216 is expected to be fully deductible for tax purposes. ValCom's external sales since the date of acquisition were $17,208. We have not included ValCom's sales or operating results since January 1, 2011 on a pro forma basis as they were not material to our consolidated results. We incurred $671 of transaction costs in 2011 related to the acquisition, which we have reported in selling, general and administrative ("SG&A") expenses in our condensed consolidated statements of income for the nine months ended September 30, 2011.

The following table reflects components of the purchase price at fair value as of the closing date. The fair values of the intangibles were determined through a third party valuation using management estimates.

	Purchase Price Allocation
Current assets (including $4,750 of cash)	$ 8,576
Fixed assets, including capitalized software	3,157
Goodwill	3,216
Intangible assets:	
Customer list	3,400
Tradename	200
Total assets acquired	18,549
Acquired liabilities	(7,174)
Net assets acquired	11,375
Liability for contingent consideration (gross value of $3,000)	(2,880)
Net purchase price at closing	8,495
Less cash acquired	(4,750)
Purchase price at closing, net of cash acquired	$ 3,745

The fair value of the contingent consideration as of the acquisition date was assessed at $2,880. The contingent consideration valuation was based on management's initial estimates as of the measurement date, including estimates of the probability of achievement of the performance milestones. The first of three milestones was achieved during the second quarter of 2011, and as a result, we paid $1,000 of the contingent consideration. The difference in fair value of $20 between the valuation date (or acquisition date) and the balance sheet date was charged to earnings. The remaining two milestones have measurement dates in 2012 and require payment if ValCom achieves certain revenue goals. Additional adjustments to the fair value of the remaining contingent consideration will be reflected in our operating results, if necessary.

Note 4—Goodwill and Other Intangible Assets

Goodwill

Goodwill and intangible assets with indefinite lives are not amortized but are subject to an annual impairment test. These assets are tested more frequently if events or circumstances occur that would indicate a potential decline in fair value. The goodwill impairment test, performed at a reporting unit level, is a two-step test that requires, under the first test, that we determine the fair value of a reporting unit and compare it to the reporting unit's carrying value, including goodwill. We use established income and market valuation approaches to determine the fair value of the reporting unit.

We completed our annual impairment test of an indefinite-lived trademark and goodwill as of the first day of 2011 and determined that the fair values of the trademark and the reporting unit to which the goodwill relates substantially exceeded their respective carrying values. Accordingly, we did not identify any impairment as of December 31, 2010. Goodwill is held by the two reporting units comprising our Large Account segment, and therefore, the test of goodwill requires that we assess the fair value of each reporting unit.

We did not identify any events or circumstances that would indicate that it is more likely than not that the carrying value of either reporting unit was in excess of its fair value during the nine months ended September 30, 2011. As a result, we did not perform an interim test for impairment.

In the nine months ended September 30, 2011, we recorded an additional $3,216 of goodwill in our Large Account segment as a result of our acquisition of ValCom. Goodwill was determined as of the date of acquisition as the excess of the total purchase price over the net of the assets and liabilities acquired based on their estimated fair values.

Intangible Assets

	Estimated Useful Lives	September 30, 2011			December 31, 2010		
		Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Tradename	*	$1,390	$ 44	$1,346	$1,190	$ —	$1,190
Customer List	8	3,400	229	3,171	—	—	—
License Agreement	5	1,250	378	872	800	204	596
Total Intangible Assets		$6,040	$ 651	$5,389	$1,990	$ 204	$1,786

* Includes the MoreDirect tradename of $1,190, which is not subject to amortization, and the ValCom tradename of $200, to be amortized over a five-year life.

The intangible assets acquired as part of our acquisition of ValCom in the first quarter of 2011 will be amortized in proportion to the original estimates of the future cash flows underlying the valuation of the intangible assets. The weighted-average period over which we expect to amortize the intangible assets that we acquired as part of the ValCom acquisition is 7.8 years. During the second quarter of 2011, we purchased a patent license agreement for $450, which we expect to amortize ratably over five years.

For the three-month periods ended September 30, 2011 and 2010, we recorded amortization expense of $184 and $35, respectively. For the nine-month periods ended September 30, 2011 and 2010, we recorded amortization expense of $447 and $258, respectively. The estimated amortization expense in each of the five succeeding years and thereafter is as follows:

For the Year Ending December 31,	
2011	$184(*)
2012	937
2013	789
2014	776
2015	602
2016 and thereafter	911

(*) Represents estimated amortization expense for the three months ending December 31, 2011.

Note 5—Segment and Related Disclosures

We are required to report profits and losses and certain other information about our “reportable operating segments” in our annual and interim financial statements. The internal reporting structure used by our chief operating decision maker (“CODM”) to assess performance and allocate resources determines the basis for our reportable operating segments. Our CODM is comprised of certain senior executive officers, who collectively evaluate operations and allocate resources based on a measure of operating income.

Our operations are organized under four reporting segments—the SMB segment, which primarily serves small- and medium-sized businesses; the Large Account segment, which primarily serves medium-to-large corporations; the Public Sector segment, which serves federal, state, and local government and educational institutions; and the Consumer/SOHO segment, which serves the consumer and small office/home office (“SOHO”) markets. In addition, the Headquarters/Other group provides services in areas such as finance, human resources, IT, product management, and marketing. Most of the operating costs associated with the Headquarters/Other group functions are charged to the operating segments based on their estimated usage of the underlying functions. We report these charges to the operating segments as “Allocations.” Certain headquarters costs relating to executive oversight and other fiduciary functions that are not allocated to the operating segments are included under the heading of Headquarters/Other in the tables below.

In March 2011, we acquired ValCom, a provider of IT infrastructure and on-site managed services to medium-to-large corporations. We have included the operating results for ValCom in our Large Account segment from March 17, 2011, the closing date of the acquisition. The external sales of ValCom totaled $17,208 since the date of acquisition and were immaterial to our consolidated results.

Net sales presented below exclude inter-segment product revenues. Segment information applicable to our reportable operating segments for the three and nine months ended September 30, 2011 and 2010 is shown below:

	Three Months Ended September 30, 2011					
	SMB Segment	Large Account Segment	Public Sector Segment	Consumer/ SOHO Segment	Headquarters/ Other	Consolidated
Net sales	$ 212,248	$ 206,564	$ 144,629	$ 12,205		$ 575,646
Operating income (loss) before allocations	$ 19,329	$ 9,159	$ 8,127	$ (329)	$ (20,404)	$ 15,882
Allocations	(10,217)	(1,233)	(5,317)	(867)	17,634	—
Operating income (loss)	$ 9,112	$ 7,926	$ 2,810	$ (1,196)	$ (2,770)	$ 15,882
Net interest expense and other, net						(61)
Income before taxes						$ 15,821
Selected Operating Expense:						
Depreciation and amortization	$ 6	$ 398	$ 47	$ —	$ 1,033	$ 1,484

	Three Months Ended September 30, 2010					
	SMB Segment	Large Account Segment	Public Sector Segment	Consumer/ SOHO Segment	Headquarters/ Other	Consolidated
Net sales	$ 208,733	$ 159,641	$ 145,615	$ 18,838		$ 532,827
Operating income (loss) before allocations	$ 17,524	$ 8,468	$ 8,278	$ (729)	$ (19,210)	$ 14,331
Allocations	(10,625)	(1,086)	(5,031)	(1,116)	17,858	—
Operating income (loss)	$ 6,899	$ 7,382	$ 3,247	$ (1,845)	$ (1,352)	$ 14,331
Net interest expense and other, net						(62)
Income before taxes						$ 14,269
Selected Operating Expense:						
Depreciation and amortization	$ 12	$ 88	$ 28	$ —	$ 1,133	$ 1,261

	Nine Months Ended September 30, 2011					
	SMB Segment	Large Account Segment	Public Sector Segment	Consumer/ SOHO Segment	Headquarters/ Other	Consolidated
Net sales	$ 641,204	$ 514,128	$ 354,701	$ 40,100		$1,550,133
Operating income (loss) before allocations	$ 54,434	$ 24,490	$ 18,523	$ (404)	$ (61,215)	$ 35,828
Allocations	(30,575)	(3,771)	(14,269)	(2,656)	51,271	—
Operating income (loss)	$ 23,859	$ 20,719	$ 4,254	$ (3,060)	$ (9,944)	$ 35,828
Net interest expense and other, net						(92)
Income before taxes						$ 35,736
Selected Operating Expense:						
Depreciation and amortization	$ 23	$ 954	$ 124	$ —	$ 3,274	$ 4,375
Balance Sheet Data as of September 30, 2011:						
Goodwill	$ —	$ 51,276	$ —	$ —	$ —	$ 51,276
Total assets	123,645	190,172	67,936	1,846	86,916	470,515

	Nine Months Ended September 30, 2010					
	SMB Segment	Large Account Segment	Public Sector Segment	Consumer/ SOHO Segment	Headquarters/ Other	Consolidated
Net sales	$588,189	$435,154	$345,503	$ 49,789		$1,418,635
Operating income (loss) before allocations	$ 49,022	$ 22,119	$ 16,086	$ (1,800)	$ (58,438)	$ 26,989
Allocations	(31,527)	(3,318)	(14,116)	(2,928)	51,889	—
Operating income (loss)	$ 17,495	$ 18,801	$ 1,970	$ (4,728)	$ (6,549)	$ 26,989
Net interest expense and other, net						(146)
Income before taxes						$ 26,843
Selected Operating Expense:						
Depreciation and amortization	$ 42	$ 350	$ 79	$ —	$ 3,681	$ 4,152

The assets held by our operating segments are primarily accounts receivables, intercompany receivables, goodwill, and other intangibles. Assets for the Headquarters/Other group are managed by corporate headquarters, including cash, inventory, and property and equipment. Total assets for the Headquarters/Other group at September 30, 2011, are presented net of intercompany balance eliminations of $36,018. Our capital expenditures are largely comprised of IT hardware and software purchased to maintain or upgrade our management information systems. These systems serve all of our subsidiaries, to varying degrees, and as a result, our CODM does not evaluate capital expenditures on a segment basis.

Senior management also monitors consolidated revenue by product mix (Desktop/Server; Notebook and PDA; Software; Video, Imaging and Sound; Net/Com Product; Printer and Printer Supplies; Storage Device; Memory and System Enhancement; and Accessory/Other).

Net sales by product mix is presented below:

	Three Months Ended		Nine Months Ended	
September 30,	2011	2010	2011	2010
Desktop/Server	$ 98,994	$ 82,222	$ 251,486	$ 216,391
Notebook and PDA	98,210	92,451	275,843	244,929
Software	82,204	82,748	221,304	198,529
Video, Imaging and Sound	64,552	50,840	165,547	158,406
Net/Com Product	56,627	54,606	150,001	140,555
Printer and Printer Supplies	40,691	40,379	114,472	117,907
Storage Device	39,266	35,986	114,315	107,872
Memory and System Enhancement	17,745	25,171	55,137	60,371
Accessory/Other	77,357	68,424	202,028	173,675
Total	$575,646	$532,827	$ 1,550,133	$ 1,418,635

Note 6—Commitments and Contingencies

We are subject to various legal proceedings and claims, including patent infringement claims, which have arisen during the ordinary course of business. In the opinion of management, the outcome of such matters is not expected to have a material effect on our financial position, results of operations, and cash flows.

We are subject to audits by states on sales and income taxes and unclaimed property, as well as employment and other matters. A comprehensive multi-state unclaimed property audit is currently in progress. While management believes that known and estimated liabilities have been adequately provided for, it is too early to determine the ultimate outcome of such audits. Additional liabilities could be assessed, and such outcome could have a material, negative impact on our financial position, results of operations, and cash flows.

Note 7—Bank Borrowing and Trade Credit Arrangements

We have a $50,000 credit facility collateralized by substantially all of our assets. This facility can be increased, at our option, to $80,000 for approved acquisitions or other uses authorized by the lender at substantially the same terms. Amounts outstanding under this facility bear interest at the prime rate (3.25% at September 30, 2011). The facility also gives us the option of obtaining Eurodollar Rate Loans in multiples of $1,000 for various short-term durations. The credit facility includes various customary financial ratios and operating covenants, including minimum net worth and maximum funded debt ratio requirements, and restrictions on the payment of dividends to shareholders, repurchase of our common stock, and default acceleration provisions, none of which we believe significantly restricts our operations. Funded debt ratio is the ratio of average outstanding advances under the credit facility to EBITDA (Earnings Before Interest Expense, Taxes, Depreciation, and Amortization). The maximum allowable funded debt ratio under the agreement is 2.0 to 1.0; this ratio did not limit potential borrowings at September 30, 2011. Decreases in our consolidated EBITDA, however, could limit our potential borrowings under the credit facility.

No borrowings were outstanding under this credit facility at September 30, 2011 or December 31, 2010, and accordingly, the entire $50,000 facility was available for borrowing at both dates. The credit facility matures on October 15, 2012, at which time amounts outstanding become due. We have begun negotiations with our current lender to replace the bank line of credit agreement with a new agreement that has substantially the same terms. We expect to conclude these negotiations and enter into a new agreement during the first quarter of 2012.

At September 30, 2011, we had security agreements with two financial institutions to facilitate the purchase of inventory from various suppliers under certain terms and conditions. The agreements allow a collateralized first position in certain branded products in our inventory that were financed by these two institutions up to an aggregated amount of $47,000. The cost of such financing under these agreements is borne by the suppliers by discounting their invoices to the financial institutions as an incentive for us to purchase their products. We do not pay any interest or discount fees on such inventory financing provided we pay within the amount of time prescribed by our agreements. At September 30, 2011 and December 31, 2010, accounts payable included $16,403 and $14,603, respectively, owed to these financial institutions.

Note 8—Treasury Stock Purchases

On March 28, 2001, our Board of Directors authorized the spending of up to $15,000 to repurchase our common stock. Share purchases are made in the open market from time to time depending on market conditions. However, our bank credit facility limited such repurchases subsequent to June 2005 to $10,000. In the third quarter of 2011, our bank amended, at our request, our line of credit to increase the dollar limit to repurchase shares without bank approval from $10,000 to $15,000.

We repurchased 460 shares for $3,823 in the nine months ended September 30, 2011, excluding net share settlements discussed below. As of September 30, 2011, we have repurchased an aggregate of 1,520 shares for $10,768. Accordingly, the maximum approximate dollar value of shares that may yet be purchased under the board authorization is $4,232. We have issued nonvested shares from treasury stock and have reflected upon the vesting of such shares the net remaining balance of treasury stock on the condensed consolidated balance sheet. In addition, our employees surrendered 26 shares, having an aggregate fair value of $206, in connection with the vesting of nonvested stock to satisfy related employee tax obligations during the nine months ended September 30, 2011. Such transactions were recognized as a repurchase of common stock and returned to treasury but do not apply against authorized repurchase limits under our bank line agreement or the repurchase program authorized by our Board of Directors.

Note 9—Fair Value

Our financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, and capital leases with carrying values that approximate fair value due to their short-term nature. We are required to measure fair value under a fair value hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are obtained from independent sources and can be validated by a third party, whereas unobservable inputs reflect assumptions regarding what a third party would use in pricing an asset or liability. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Three levels of inputs may be used to measure fair value:

Level 1—Quoted prices in active markets for identical assets or liabilities.
Level 2—Include other inputs that are directly or indirectly observable in the marketplace.
Level 3—Unobservable inputs which are supported by little or no market activity.

Assets and liabilities measured at fair value on a recurring basis consisted of the following types of instruments at September 30, 2011 and December 31, 2010:

	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Instruments Inputs (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance
Assets				
Cash Equivalents:				
Money market fund deposits at September 30, 2011	$ 1,037	$ —	$ —	$ 1,037
Money market fund deposits at December 31, 2010	1,036	—	—	1,036
Liabilities				
Accrued expenses and other liabilities				
Contingent liability at September 30, 2011	—	—	1,900	1,900

We measure our cash equivalents at fair value and classify such assets within Level 1 of the fair value hierarchy. This classification is based on the manner in which we value our cash equivalents, primarily using quoted market prices for identical assets. The Level 3 liability consists of contingent consideration related to our acquisition of ValCom in the first quarter of 2011. The fair value of the contingent consideration was estimated by applying the income approach, which utilizes significant inputs that are unobservable in the market. Key assumptions include a discount rate of 4.1% and a 100% probability of achievement. A reconciliation of the beginning and ending Level 3 liabilities is as follows:

September 30, 2011	Three Months Ended	Nine Months Ended
Balance beginning of period	$ 1,900	$ —
Purchased	—	2,880
Payments	—	(1,000)
Change in fair value (included within selling, general and administrative expenses)	—	20
Balance end of period	$ 1,900	$ 1,900

PC CONNECTION, INC. AND SUBSIDIARIES

PART I—FINANCIAL INFORMATION
Item 2—MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our management's discussion and analysis of our financial condition and results of operations include the identification of certain trends and other statements that may predict or anticipate future business or financial results that are subject to important factors that could cause our actual results to differ materially from those indicated. See Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2010 on file with the SEC.

OVERVIEW

We are a leading direct marketer of a wide range of information technology, or IT, solutions. We help companies design, enable, manage, and service their IT environments. We provide products, including computer systems, software and peripheral equipment, networking communications, and other products and accessories that we purchase from manufacturers, distributors, and other suppliers. We also offer an extensive range of design, configuration, and implementation of IT solutions. These services are performed by our personnel and third-party providers. We operate through four sales segments, which primarily serve: (a) small- to medium-sized businesses, or SMBs, through our PC Connection Sales subsidiary, (b) large enterprise customers, in Large Account, through our MoreDirect and ValCom Technology ("ValCom") subsidiaries, (c) federal, state, and local government and educational institutions, in Public Sector, through our GovConnection subsidiary, and (d) consumers and small office/home office ("Consumer/SOHO") customers through our PC Connection Express subsidiary.

We generate sales primarily through outbound telemarketing and field sales contacts by account managers focused on the business, education, and government markets, our websites, and inbound calls from customers responding to our catalogs and other advertising media. We seek to recruit, retain, and increase the productivity of our sales personnel through training, mentoring, financial incentives based on performance, and updating and streamlining our information systems to make our operations more efficient.

As a value added reseller in the IT supply chain, we do not manufacture IT hardware or software. We are dependent on our suppliers—manufacturers and distributors that historically have sold only to resellers rather than directly to end users. Certain manufacturers have on multiple occasions attempted to sell directly to our customers, and in some cases, have restricted our ability to sell their products directly to certain customers, thereby eliminating our role. We believe that the success of these direct sales efforts by suppliers will depend on their ability to meet our customers' ongoing demands and provide objective, unbiased solutions to meet their needs. We believe more of our customers are seeking total IT solutions, rather than simply the acquisition of specific IT products. Our advantage is our ability to be product-neutral and provide a broader combination of products, services, and advice tailored to customer needs. By providing customers with customized solutions from a variety of manufacturers, we believe we can mitigate the negative impact of continued direct sales initiatives from individual manufacturers. Through the formation of our ProConnection services group, and more recently, our acquisition of ValCom, we are able to provide customers complete IT solutions, from identifying their needs, to designing, developing, and managing the integration of products and services to implement their IT projects. Such service offerings carry higher margins than traditional product sales. Additionally, the technical certifications of our service engineers permit us to offer higher-end, more complex products that generally carry higher gross margins. We expect these service offerings and technical certifications to continue to play a role in sales generation and improve gross margins in this competitive environment.

Market conditions and technology advances significantly affect the demand for our products and services. Virtual delivery of software products and advanced Internet technology providing customers enhanced functionality have substantially increased customer expectations, requiring us to invest more heavily in our own

IT development to meet these new demands. As buying trends change and electronic commerce continues to grow, customers have become more sophisticated due to the amount and quality of information available and the increased number of readily available choices. Customers are also better able to make price comparisons through the Internet, thereby necessitating more aggressive pricing strategies to remain competitive. The changing landscape of the consumer and business markets in which we operate could have a negative effect on our financial condition, results of operations, and cash flows. While it is not possible for us to estimate with any degree of accuracy the level of sales we may have lost or may lose in the future as a result of such increased buyer sophistication, our consolidated Internet sales have consistently represented 30% of total sales over the last three years.

We have undertaken significant actions with respect to our websites in order enhance the customer experience and remain competitive in the market. We have historically increased the level of internet marketing expenditures on third-party “click fees” and affiliate charges, particularly with respect to consumer marketing, in order to increase visibility on third-party search engines. We have also launched various promotions, including select freight offers, to generate higher internet sales and increase brand awareness. All of these activities are costly, aggregating $2.0 million in the nine months ended September 30, 2011, and decreasing our operating results accordingly. These costs may increase in future periods as we continue to expand our internet visibility and functionality, and if we do not generate increased internet sales, our operating margins may be further impacted.

The primary challenges we continue to face in effectively managing our business are (1) increasing our revenues while at the same time improving our gross margin in all four segments, (2) recruiting, retaining, and improving the productivity of our sales personnel, and (3) effectively controlling our SG&A expenses while making major investments in our IT systems and solution selling personnel.

To support future growth, we are expanding our IT solution business, which requires the addition of highly-skilled service engineers. We are only in the preliminary stages of this initiative and although we expect to realize the ultimate benefit of higher-margin service revenues, we believe that our SG&A expenses will increase significantly as we add service engineers. If our service revenues do not grow enough to offset the cost of these headcount additions, our operating results may decline. In addition, we are continuing our comprehensive review and assessment of our entire business software needs. That review and assessment includes the review of commercially available software that meets, or can be configured to meet, those needs better than our existing software. As of September 30, 2011, we have capitalized $7.1 million of software and integration costs for the initial phase of this software project. While we have not yet finalized our decisions regarding to what extent additional software will be acquired and implemented beyond the Customer Master Data Management (“MDM”) software we have acquired to date, we expect to increase our capital investments in our IT infrastructure in the next three-to-five years, which will also likely increase SG&A expenses.

ACQUISITION

On March 17, 2011, we acquired ValCom, a provider of IT infrastructure and onsite managed services to medium-to-large corporations. ValCom had approximately 200 employees as of the acquisition date and is headquartered in the greater Chicago area. For the year ended December 31, 2010, its revenues and operating income were $39.6 million and $3.0 million, respectively. We have included the operating results for ValCom in our Large Account segment from the acquisition date of March 17, 2011. ValCom’s external sales since the date of acquisition were $17,208 and were immaterial to our consolidated results. Please see Notes 3, 4, and 5 of the Notes to the Unaudited Condensed Consolidated Financial Statements of this report for further discussion of this acquisition.

RESULTS OF OPERATIONS

The following table sets forth information derived from our statements of operations expressed as a percentage of net sales for the periods indicated:

September 30,	Three Months Ended 2011	Three Months Ended 2010	Nine Months Ended 2011	Nine Months Ended 2010
Net sales *(in millions)*	$ 575.6	$ 532.8	$1,550.1	$1,418.6
Net sales	100.0%	100.0%	100.0%	100.0%
Gross margin	12.2	11.6	12.6	11.7
Selling, general and administrative expenses	9.4	8.9	10.3	9.8
Income from operations	2.8%	2.7%	2.3%	1.9%

Net sales in the third quarter of 2011 increased by $42.8 million, or 8.0%, compared to the third quarter of 2010. Net sales for our Large Account and SMB segments in the third quarter of 2011 increased year over year by 29.4% and 1.7%, respectively, and offset a decrease in Public Sector and Consumer/SOHO sales. Gross margin (gross profit expressed as a percentage of net sales) increased on a consolidated basis as a result of our focus on margin improvement. Operating income in the third quarter of 2011 increased year over year by $1.6 million due to the increase in net sales and gross margin.

Net sales in the nine months ended September 30, 2011 increased by $131.5 million, or 9.3%, compared to the nine months ended September 30, 2010. Net sales for our SMB, Large Account, and Public Sector segments increased in the first nine months of 2011 compared to the prior year period and offset a decline in Consumer/SOHO sales. Gross margin (gross profit expressed as a percentage of net sales) increased in all four of our segments as a result of our focus on margin improvement. Operating income in the nine months ended September 30, 2011 increased to $35.8 million compared to $27.0 million in the comparable prior year period due to the increase in net sales and gross margin.

Net Sales Distribution

The following table sets forth our percentage of net sales by business segment and product mix:

September 30,	Three Months Ended 2011	Three Months Ended 2010	Nine Months Ended 2011	Nine Months Ended 2010
Business Segment				
SMB	37%	39%	41%	41%
Large Account	36	30	33	31
Public Sector	25	27	23	24
Consumer/SOHO	2	4	3	4
Total	100%	100%	100%	100%
Product Mix				
Desktop/Server	17%	15%	16%	15%
Notebook and PDA	17	17	18	17
Software	14	15	14	15
Video, Imaging and Sound	11	10	11	11
Net/Com Product	10	10	10	10
Printer and Printer Supplies	7	8	7	8
Storage Device	7	7	7	8
Memory and System Enhancement	3	5	4	4
Accessory/Other	14	13	13	12
Total	100%	100%	100%	100%

Gross margin

The following table summarizes our gross margin, as a percentage of net sales, over the periods indicated:

September 30,	Three Months Ended 2011	Three Months Ended 2010	Nine Months Ended 2011	Nine Months Ended 2010
Business Segment				
SMB	15.9%	14.2%	15.1%	14.2%
Large Account	9.8	10.1	10.9	10.4
Public Sector	10.5	10.2	10.9	9.8
Consumer/SOHO	10.9	7.4	10.5	8.7
Total	12.2%	11.6%	12.6%	11.7%

Consolidated gross profit dollars for the three and nine months ended September 30, 2011 increased year over year due to an increase in net sales and gross margin compared to the respective prior year periods. On a consolidated basis, gross margin increased year over year in each of the three and nine-month periods ended September 30, 2011, due to our focus on margin improvement. In the three months ended September 30, 2011, gross margin increased year over year as improved invoice selling margins (60 basis points) offset a decrease in agency revenues (9 basis points) as a percentage of net sales compared to the respective prior year quarter. For the nine months ended September 30, 2011, gross margin increased year over year due to improved invoice selling margins (69 basis points) and increased vendor consideration (13 basis points), as a percentage of net sales compared to the prior year period.

Cost of Sales and Certain Other Costs

Cost of sales includes the invoice cost of the product, direct employee and third party cost of services, direct costs of packaging, inbound and outbound freight, and provisions for inventory obsolescence, adjusted for discounts, rebates, and other vendor allowances. Direct operating expenses relating to our purchasing function and receiving, inspection, internal transfer, warehousing, packing and shipping, and other expenses of our distribution center are included in our SG&A expenses. Accordingly, our gross margin may not be comparable to those of other entities who include all of the costs related to their distribution network in cost of goods sold. Such distribution costs included in our SG&A expenses, as a percentage of net sales for the periods reported, are as follows:

September 30,	Three Months Ended 2011	Three Months Ended 2010	Nine Months Ended 2011	Nine Months Ended 2010
Purchasing/Distribution Center	0.61%	0.56%	0.64%	0.63%

Table of Contents

Operating Expenses

The following table breaks out our more significant operating, or SG&A, expenses for the periods indicated (dollars in millions):

	Three Months Ended		Nine Months Ended	
September 30,	2011	2010	2011	2010
Personnel costs	$ 39.0	$ 33.4	$113.7	$ 97.5
Advertising	5.1	4.4	15.6	12.6
Professional fees	1.8	2.0	5.8	6.2
Facilities operations	2.5	2.0	7.4	6.3
Credit card fees	1.6	1.9	5.0	5.1
Depreciation and amortization	1.5	1.3	4.4	4.2
Bad debts	0.6	0.5	1.5	1.4
Other, net	2.5	2.1	6.9	6.3
Total	$ 54.6	$ 47.6	$160.3	$139.6
Percentage of net sales	9.4%	8.9%	10.3%	9.8%

Personnel costs increased year over year in the three and nine months ended September 30, 2011, due to investments in solutions sales and support areas, increased variable compensation associated with higher gross profits, and the ValCom acquisition.

Year-Over-Year Comparisons

Three Months Ended September 30, 2011 Compared to Three Months Ended September 30, 2010

Changes in net sales and gross profit by business segment are shown in the following table (dollars in millions):

	Three Months Ended September 30,				
	2011		2010		
	Amount	% of Net Sales	Amount	% of Net Sales	% Change
Sales:					
SMB	$212.2	36.9%	$208.7	39.2%	1.7%
Large Account	206.6	35.9	159.7	30.0	29.4
Public Sector	144.6	25.1	145.6	27.3	(0.7)
Consumer/SOHO	12.2	2.1	18.8	3.5	(35.2)
Total	$575.6	100.0%	$532.8	100.0%	8.0%
Gross Profit:					
SMB	$ 33.7	15.9%	$ 29.7	14.2%	13.5%
Large Account	20.2	9.8	16.1	10.1	25.9
Public Sector	15.2	10.5	14.8	10.2	2.6
Consumer/SOHO	1.3	10.9	1.4	7.4	(5.4)
Total	$ 70.4	12.2%	$ 62.0	11.6%	13.7%

Consolidated net sales increased in the third quarter of 2011 compared to the third quarter of 2010, as explained below:

- Net sales for the SMB segment increased due to our focus on higher-margin solution selling. Sales of notebooks and desktops increased slightly year over year as the PC refresh, which started in the second half of 2010, continued albeit at a more modest pace. The year-over-year sales growth was lower due to higher sales of tablets in the third quarter of 2010. Sales representatives for the SMB segment totaled 359 at September 30, 2011, compared to 358 at September 30, 2010, and 360 at June 30, 2011. Average annualized sales productivity in the third quarter of 2011 decreased by 1% year over year for the SMB segment.

- Net sales for the Large Account segment increased due to a significant increase in corporate demand, as well as the inclusion of sales by ValCom, which totaled $8.4 million in the quarter. Excluding sales by ValCom, large account sales would have increased by 24%. Net sales also benefited from large product roll-outs for two of our enterprise customers. Average annualized sales productivity in the third quarter of 2011 increased by only 1% year over year due to an increase in headcount. Sales representatives for our Large Account segment totaled 113 at September 30, 2011, compared to 84 at September 30, 2010, and 105 at June 30, 2011. The year-over-year increase in sales representatives from September 30, 2010 includes 12 sales representatives of ValCom.
- Net sales to government and education customers (the Public Sector segment) decreased slightly as lower federal government sales outweighed increased sales to higher education customers. Overall average annualized sales productivity decreased by 6% due to investments in higher staffing levels that serve state and local government and education markets. Sales representatives for our Public Sector segment totaled 143 at September 30, 2011, compared to 134 at September 30, 2010, and 144 at June 30, 2011.
- Net sales to consumers and SOHO customers by PC Connection Express decreased as profitability and gross margin improvements continued to be the primary focus for this segment in 2011.

Consolidated gross profit for the third quarter of 2011 increased year over year in dollars and as a percentage of net sales (gross margin), as explained below:

- Gross profit for the SMB segment increased due to increases in net sales and gross margin. Gross margin increased by 170 basis points due to improved invoice selling margins and increased agency revenues. We attribute the improvement in invoice selling margins to our initiatives to increase higher-margin solution sales.
- Gross profit for the Large Account segment increased due to higher net sales as gross margin decreased by 30 basis points. Lower agency revenues and a decrease in vendor consideration offset higher invoice selling margins. We attribute the increase in invoice selling margins to the inclusion of higher-margin services revenue of ValCom, which we acquired in the first quarter of 2011.
- Gross profit for the Public Sector segment increased due to a 30 basis point improvement in gross margin. Gross margin improved as an increase in invoice selling margins offset a decrease in agency revenues.
- Gross profit for the Consumer/SOHO segment decreased as the lower net sales were only partly offset by an increase in gross margin. Gross margin increased by 350 basis points due to improved invoice selling margins and additional vendor consideration as a percentage of net sales.

Consolidated selling, general and administrative expenses increased in dollars and as a percentage of net sales in the third quarter of 2011 compared to the prior year quarter. SG&A expenses attributable to our four operating segments and the Headquarters/Other group, and the reasons for their respective changes, are summarized below (dollars in millions):

	Three Months Ended September 30,				
	2011		2010		
	Amount	% of Net Sales	Amount	% of Net Sales	% Change
SMB	$ 24.6	11.6%	$ 22.8	10.9%	7.9%
Large Account	12.3	5.9	8.7	5.4	41.6
Public Sector	12.4	8.6	11.5	7.9	7.1
Consumer/SOHO	2.5	20.7	3.2	17.2	(22.3)
Headquarters/Other	2.8		1.4		104.9
Total	$ 54.6	9.4%	$ 47.6	8.9%	14.5%

- SG&A expenses for the SMB segment increased in dollars and as a percentage of net sales due to increased marketing expenditures and investments in solution sales and support personnel. While lower usage of centralized headquarters services partly offset the dollar increase, incremental variable compensation associated with the increase in gross profits discussed above contributed to the overall dollar increase.
- SG&A expenses for the Large Account segment increased in dollars and as a percentage of net sales. The dollar increase resulted from investments in sales support areas, incremental variable compensation associated with higher gross profit, and the operating expenses of ValCom in 2011. The increase as a percentage of net sales was due primarily to the higher SG&A expense rate attributable to ValCom and its services business model.
- SG&A expenses for the Public Sector segment increased in dollars and as a percentage of net sales due to higher personnel and advertising expenses. The addition of sales representatives that serve educational institutions and state and local government customers contributed to the increase in personnel.
- SG&A expenses for the Consumer/SOHO group decreased in dollars but increased as a percentage of net sales due to lower 2011 sales levels. A planned reduction in internet advertising costs and catalog circulation combined with lower usage of centralized headquarters services led to the dollar decrease.
- SG&A expenses for the Headquarters/Other group increased due to an increase in unallocated personnel and related costs. The Headquarters/Other group provides services to the four reportable operating segments in areas such as finance, human resources, IT, product management, and marketing. Most of the operating costs associated with such corporate headquarters functions are charged to the operating segments based on their estimated usage of the underlying functions. The increase relates to personnel and other costs related to senior management oversight, which is not normally allocated to operating units.

Income from operations for the third quarter of 2011 increased to $15.9 million, compared to $14.3 million for the third quarter of 2010. Income from operations as a percentage of net sales was 2.8% for the third quarter of 2011, compared to 2.7% of net sales for the prior year quarter. The increases in operating income and operating margin resulted primarily from the respective increase in sales and gross margin.

Our effective tax rate was 40.7% for the third quarter of 2011 compared to an effective tax rate of 39.5% for the third quarter of 2010. Our tax rate will continue to vary based on variations in state tax levels for certain subsidiaries, valuation reserves, and accounting for uncertain tax positions. We anticipate that our effective tax rate will be in the range of 39% to 41% in 2011.

Net income for the third quarter of 2011 increased to $9.4 million, compared to $8.6 million for the third quarter of 2010, principally due to the increase in operating income.

Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 30, 2010

Changes in net sales and gross profit by business segment are shown in the following table (dollars in millions):

	Nine Months Ended September 30,				
	2011		2010		
	Amount	% of Net Sales	Amount	% of Net Sales	% Change
Sales:					
SMB	$ 641.2	41.4%	$ 588.2	41.4%	9.0%
Large Account	514.1	33.1	435.1	30.7	18.1
Public Sector	354.7	22.9	345.5	24.4	2.7
Consumer/SOHO	40.1	2.6	49.8	3.5	(19.5)
Total	$1,550.1	100.0%	$1,418.6	100.0%	9.3%
Gross Profit:					
SMB	$ 96.9	15.1%	$ 83.2	14.2%	16.4%
Large Account	56.2	10.9	45.1	10.4	24.7
Public Sector	38.8	10.9	34.0	9.8	14.2
Consumer/SOHO	4.2	10.5	4.3	8.7	(2.4)
Total	$ 196.1	12.6%	$ 166.6	11.7%	17.7%

Consolidated net sales for the nine months ended September 30, 2011 increased compared to the nine months ended September 30, 2010, as explained below:

- Net sales for the SMB segment continued to benefit from strong demand associated with the improvement in SMB customer profits and the corresponding release of pent-up IT demand. Accordingly, this segment's largest selling product categories of notebook and PDA and desktop/server were also among its fastest growing categories, with year-over-year growth of 18% and 20%, respectively.
- The increase in net sales for the Large Account segment was attributed to improved corporate customer profits, which resulted in increased investments by large enterprises, as well as the inclusion of ValCom post-acquisition sales totaling $17.2 million. Excluding ValCom sales, the Large Account segment would have increased by 14%. The sales growth was attributed to demand from both new and existing customers and our investments in solution sales support.
- The increase in net sales for the Public Sector segment was due primarily to the growth in sales to higher educational institutions. Federal government sales decreased by 10% in the first nine months of 2011, however, sales to state and local government and educational institutions increased by 10% largely due to our initiatives to increase higher education sales.
- Net sales for the Consumer/SOHO segment decreased as profitability and gross margin improvements continued to be the primary focus for this segment.

Consolidated gross profit for the nine months ended September 30, 2011 increased in dollars and as a percentage of net sales compared to the nine months ended September 30, 2010, as explained below:

- Gross profit for the SMB segment increased due to increases in both net sales and gross margin. Gross margin increased by 90 basis points due to improved invoice selling margins and increased vendor funding as a percentage of net sales.

- Gross profit for the Large Account segment increased due to increases in net sales and gross margin. Gross margin increased by 50 basis points as improved invoice selling margins offset lower vendor consideration as a percentage of net sales. We attribute the increase in invoice selling margins primarily to increased solution sales to existing customers.
- Gross profit for the Public Sector segment increased primarily due to a 110 basis point increase in gross margin. Gross margin increased due to improved invoice selling margins and additional vendor consideration as a percentage of net sales.
- Gross profit for the Consumer/SOHO segment decreased slightly as an increase in gross margin offset the decrease in net sales. Gross margin increased by 180 basis points as improved invoice selling margins and additional vendor consideration more than offset higher net freight costs.

Consolidated selling, general and administrative expenses in the nine months ended September 30, 2011 increased in dollars and as a percentage of net sales compared to the nine months ended September 30, 2010. The year-over-year changes attributable to our operating segments and the Headquarters/Other group are summarized below (dollars in millions):

	Nine Months Ended September 30,				
	2011		2010		
	Amount	% of Net Sales	Amount	% of Net Sales	% Change
SMB	$ 73.0	11.4%	$ 65.7	11.2%	11.1%
Large Account	35.5	6.9	26.3	6.0	35.1
Public Sector	34.6	9.7	32.0	9.3	8.0
Consumer/SOHO	7.3	18.2	9.1	18.2	(19.6)
Headquarters/Other	9.9		6.5		51.8
Total	$160.3	10.3%	$139.6	9.8%	14.8%

- SG&A expenses for the SMB segment increased in dollars and as a percentage of net sales due to investments in solution sales and support personnel and increased marketing expenditures. Incremental variable compensation associated with the nearly $14 million increase in gross profits also contributed to the dollar increase.
- SG&A expenses for the Large Account segment increased in dollars and as a percentage of net sales due primarily to an increase in personnel expense. The increase in personnel expense was attributed to investments in sales support areas, incremental variable compensation associated with the increase in gross profit, and the operating expenses of ValCom, which we acquired in March 2011. The increase in expense as a percentage of net sales was due primarily to the higher SG&A expense rate attributable to ValCom and its services business model.
- SG&A expenses for the Public Sector segment increased in dollars and as a percentage of net sales. An increase in personnel expense and advertising expenditures were partly offset by lower professional fees. Personnel expense increased due to the addition of sales representatives and incremental variable compensation associated with the increase in gross profit, as discussed above.
- SG&A expenses for the Consumer/SOHO group decreased in dollars but was unchanged as a percentage of net sales due to a planned reduction in internet advertising costs and catalog circulation as well as lower usage of centralized headquarters services.
- Unallocated SG&A expenses for the Headquarters/Other group increased due to an increase in unallocated personnel and other costs related to senior management oversight, as well as $0.7 million of ValCom acquisition related costs.

Income from operations for the nine months ended September 30, 2011 increased to $35.8 million, or 2.3% of net sales, compared to $27.0 million, or 1.9% of net sales for the comparable prior year period. Our increase in operating income in the nine months ended September 30, 2011 resulted primarily from the increase in net sales and gross margin, compared to the prior year period.

Our effective tax rate was 40.2% for the nine months ended September 30, 2011 compared to the effective tax rate of 40.1% for the prior year period of 2010. Our tax rate will continue to vary based on variations in state tax levels for certain subsidiaries, valuation reserves, and accounting for uncertain tax positions.

Net income for the nine months ended September 30, 2011 increased to $21.4 million, compared to $16.1 million for the nine months ended September 30, 2010, principally due to the year-over-year increase in operating income in the first nine months of 2011.

Liquidity and Capital Resources

Our primary sources of liquidity have historically been internally generated funds from operations and borrowings under our bank line of credit. We have used those funds to meet our capital requirements, which consist primarily of working capital for operational needs, capital expenditures for computer equipment and software used in our business, repurchases of common stock for treasury, and as opportunities arise, acquisitions of new businesses.

We believe that funds generated from operations, together with available credit under our bank line of credit and inventory trade credit agreements, will be sufficient to finance our working capital, capital expenditure, and other requirements for at least the next twelve calendar months. Aside from our expenditures on new IT systems, we expect our capital needs for the next twelve months to consist primarily of capital expenditures of $6.0 to $8.0 million and payments on capital lease and other contractual obligations of approximately $4.0 million. In addition, we are currently in the midst of a comprehensive review and assessment of our entire business software needs. That review and assessment includes the review of commercially available software that meets, or can be configured to meet, those needs better than our existing software. While we have not finalized our decisions regarding to what extent new software will be acquired and implemented beyond the Customer MDM software we have acquired to date, the additional capital costs of such a project, if fully implemented, would likely exceed $20.0 million over the next three years. We have capitalized $7.1 million of software and integration costs for the Customer MDM software project, the first stage of our overall IT initiative, as of September 30, 2011.

We expect to meet our cash requirements for the next twelve months through a combination of cash on hand, cash generated from operations and, if necessary, borrowings on our bank line of credit, as follows:

- *Cash on Hand*. At September 30, 2011, we had approximately $39.8 million in cash.
- *Cash Generated from Operations.* We expect to generate cash flows from operations in excess of operating cash needs by generating earnings and balancing net changes in inventories and receivables with compensating changes in payables to generate a positive cash flow. Although our operating activities represented a use of cash in 2010, historically, we have generated positive cash flows from operations.
- *Credit Facilities.* We did not have any borrowings outstanding in the third quarter of 2011 against our $50.0 million bank line of credit, which is available through October 2012. Accordingly, our entire line of credit was available for borrowing at September 30, 2011. This line of credit can be increased, at our option, to $80.0 million for approved acquisitions or other uses authorized by the bank. Borrowings are limited, however, by certain minimum collateral and earnings requirements, as described more fully below.

Our ability to continue funding our planned growth, both internally and externally, is dependent upon our ability to generate sufficient cash flow from operations or to obtain additional funds through equity or debt financing, or from other sources of financing, as may be required. While at this time we do not anticipate needing any additional sources of financing to fund our operations, if demand for information technology products declines, our cash flows from operations may be substantially affected. See more about this and related risks listed under Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2010.

Summary of Sources and Uses of Cash

The following table summarizes our sources and uses of cash over the periods indicated (in millions):

	Nine Months Ended	
September 30,	2011	2010
Net cash provided by operating activities	$ 22.4	$ 0.9
Net cash used for investing activities	(13.7)	(3.2)
Net cash used for financing activities	(4.3)	(3.5)
Increase (decrease) in cash and cash equivalents	$ 4.4	$ (5.8)

Cash provided by operating activities increased by $21.5 million in the nine months ended September 30, 2011, compared to the prior year period. Operating cash flow in the nine months ended September 30, 2011, resulted primarily from net income before depreciation and amortization and an increase in payables, partly offset by an increase in receivables. Net accounts receivable increased by $31.9 million from the prior year-end balance due to the increase in net sales, timing of collecting trade receivables, and the inclusion of ValCom receivables as of September 30, 2011. Days sales outstanding were 46 days at September 30, 2011, compared to 49 days at September 30, 2010, and 44 days December 31, 2010. Inventory decreased over the same period by $1.3 million. Inventory turns increased to 28 turns for the third quarter of 2011 compared to 26 turns for the prior year quarter.

At September 30, 2011, we had $138.8 million in outstanding accounts payable. Such accounts are generally paid within 30 days of incurrence, or earlier when favorable cash discounts are offered. This amount includes $16.4 million payable to two financial institutions under inventory trade credit agreements we use to finance our purchase of certain inventory, secured by the inventory so financed. We believe we will be able to meet these obligations with cash flows from operations and our existing line of credit.

Cash used for investing activities increased by $10.5 million in the nine months ended September 30, 2011 compared to the prior year period primarily due to an increase in capital expenditures and the acquisition of ValCom. Cash used to purchase property and equipment less proceeds from the sale of disposed property and equipment amounted to $8.5 million in the first nine months of 2011, compared to $2.4 million in the prior year period. These expenditures were primarily for computer equipment and capitalized internally-developed software in connection with the IT initiative referred to in the above Liquidity and Capital Resources section. In the nine months ended September 30, 2011, the acquisition of ValCom represented a net use of cash of $4.7 million, including the payment of $1.0 million in contingent consideration upon the achievement of the first of three milestones. We expect to pay approximately $2.0 million in contingent consideration for the remaining two milestones which have measurement dates in 2012.

Cash used for financing activities in the nine months ended September 30, 2011 was higher than the prior year period primarily due to additional purchases of treasury stock. We consider block repurchases directly from larger stockholders, as well as open market purchases, in carrying out our ongoing stock repurchase program.

Debt Instruments, Contractual Agreements, and Related Covenants

Below is a summary of certain provisions of our credit facilities and other contractual obligations. For more information about the restrictive covenants in our debt instruments and inventory financing agreements, see “Factors Affecting Sources of Liquidity” below. For more information about our obligations, commitments, and contingencies, see our condensed consolidated financial statements and the accompanying notes included in this Quarterly Report.

Bank Line of Credit. The bank line of credit available under our credit facility provides us with a borrowing capacity of up to $50.0 million at the prime rate (3.25% at September 30, 2011). In addition, we have the option to increase the facility by an additional $30.0 million, subject to our having sufficient levels of trade receivables to meet borrowing base requirements and meeting minimum EBITDA (earnings before interest, taxes, depreciation, and amortization) and equity requirements, described below under “Factors Affecting Sources of Liquidity.” The facility also gives us the option of obtaining Eurodollar Rate Loans in multiples of $1.0 million for various short-term durations. Substantially all of our assets are collateralized as security for this facility, and all of our subsidiaries are guarantors under the line of credit. At September 30, 2011, the entire $50 million facility was available for borrowing.

This facility, which matures in October 2012, operates under an automatic cash management program whereby disbursements in excess of available cash are added as borrowings at the time disbursement checks clear the bank, and available cash receipts are first applied against any outstanding borrowings and then invested in short-term qualified cash investments. Accordingly, borrowings, if any, under the line are classified as current. We have begun negotiations with our current lender to replace the bank line of credit agreement with a new agreement that has substantially the same terms. We expect to conclude these negotiations and enter into a new agreement during the first quarter of 2012.

Inventory Trade Credit Agreements. We have additional security agreements with two financial institutions to facilitate the purchase of inventory from various suppliers under certain terms and conditions. These agreements allow a collateralized first position in certain branded products in our inventory that were financed by these two institutions. Although the agreements provide for up to 100% financing on the purchase price of these products, up to an aggregate of $47.0 million, any outstanding financing must be fully secured by available inventory. We do not pay any interest or discount fees on such inventory financing provided we pay within the amount of time prescribed by our agreements. The related costs are borne by the suppliers as an incentive for us to purchase their products. Amounts outstanding under such facilities, which equaled $16.4 million in the aggregate as of September 30, 2011, are recorded in accounts payable. The inventory financed is classified as inventory on the condensed consolidated balance sheet.

Capital Leases. We have a fifteen-year lease for our corporate headquarters with an affiliated company related through common ownership. In addition to the rent payable under the facility lease, we are required to pay real estate taxes, insurance, and common area maintenance charges. The initial term of the lease expires in 2013, and we have the option to renew the lease for two additional terms of five years each.

Operating Leases. We also lease facilities from our principal stockholders and facilities and equipment from third parties under non-cancelable operating leases which have been reported in our “Contractual Obligations” section of our Annual Report on Form 10-K for the year ended December 31, 2010. In addition, our newly acquired subsidiary ValCom has a non-cancelable operating lease for office space located in Itasca, Illinois. This lease requires monthly payments of approximately $0.4 million on an annual basis and expires on August 31, 2012.

Sports Marketing Commitments. We have entered into multi-year sponsorship agreements with the New England Patriots and the Boston Red Sox that extend to 2013 and 2014, respectively. These agreements, which grant us various marketing rights and seating access, require annual payments aggregating from $0.1 million to $0.9 million per year.

Off-Balance Sheet Arrangements. We do not have any other off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition or changes in financial condition.

Contractual Obligations. The disclosures relating to our contractual obligations in our Annual Report on Form 10-K for the year ended December 31, 2010 have not materially changed since the report was filed.

Factors Affecting Sources of Liquidity

Internally Generated Funds. The key factors affecting our internally generated funds are our ability to minimize costs and fully achieve our operating efficiencies, timely collection of our customer receivables, and management of our inventory levels.

Bank Line of Credit. Our credit facility contains certain financial ratios and operational covenants and other restrictions (including restrictions on additional debt, guarantees, stock repurchases, dividends and other distributions, investments, and liens) with which we and all of our subsidiaries must comply. Any failure to comply with these covenants would prevent us from borrowing additional funds under this line of credit and would constitute a default. This credit facility contains two financial tests, which potentially affect our ability to borrow funds:

- The funded debt ratio (defined as the average outstanding advances under the line for the quarter, divided by the consolidated EBITDA for the trailing four quarters) must not be more than 2.0 to 1.0. We did not have any outstanding borrowings under the credit facility in the third quarter of 2011, and accordingly, the funded debt ratio did not limit potential borrowings at September 30, 2011. Decreases in our consolidated EBITDA, however, could limit our potential borrowings under the credit facility.
- Minimum Consolidated Net Worth must be at least $150.0 million, plus 50% of consolidated net income for each quarter, beginning with the quarter ended March 31, 2007 (loss quarters not counted). This minimum amount was calculated at September 30, 2011 as $195.1 million; our consolidated stockholders' equity at this date was $276.1 million.

The borrowing base under this facility is set at 80% of qualified commercial receivables, plus 50% of qualified government receivables. As of September 30, 2011, the entire $50.0 million facility was available for borrowing.

Inventory Trade Credit Agreements. These agreements contain similar financial ratios and operational covenants and restrictions as those contained in our bank line of credit described above. These agreements also contain cross-default provisions whereby a default under the bank agreement would also constitute a default under these agreements. Financing under these agreements is limited to the purchase of specific branded products from authorized suppliers, and amounts outstanding must be fully collateralized by inventories of those products on hand.

Capital Markets. Our ability to raise additional funds in the capital market depends upon, among other things, general economic conditions, the condition of the information technology industry, our financial performance and stock price, and the state of the capital markets.

SUMMARY OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our critical accounting policies have not materially changed from those discussed in our Annual Report on Form 10-K for the year ended December 31, 2010. These policies include revenue recognition, accounts receivable, vendor allowances, inventory, value of goodwill and long-lived assets, including intangibles, and income taxes.

INFLATION

We have historically offset any inflation in operating costs by a combination of increased productivity and price increases, where appropriate. We do not expect inflation to have a significant impact on our business in the foreseeable future.

PC CONNECTION, INC. AND SUBSIDIARIES

PART I—FINANCIAL INFORMATION

Item 3—QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a description of the Company's market risks, see Item 7A. "Quantitative and Qualitative Disclosures About Market Risk" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010. No material changes have occurred in our market risks since December 31, 2010.

PC CONNECTION, INC. AND SUBSIDIARIES

PART I—FINANCIAL INFORMATION
Item 4—CONTROLS AND PROCEDURES

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2011. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives as described above. Based on the evaluation of our disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2011, our disclosure controls and procedures were effective at the reasonable assurance level.

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 fiscal quarter ended September 30, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 1A—Risk Factors

In addition to other information set forth in this report, you should carefully consider the factors discussed in Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2010, which could materially affect our business, financial position, and results of operations. Risk factors which could cause actual results to differ materially from those suggested by forward-looking statements include but are not limited to those discussed or identified in this document, in our public filings with the SEC, and those incorporated by reference in Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2010.

Item 2—Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information about our purchases during the quarter ended September 30, 2011, of equity securities that we have registered pursuant to Section 12 of the Exchange Act:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares (or Units) Purchased (1)	Average Price Paid per Share (or Unit)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plan or Programs (2)
07/01/11—07/31/11	—	—	—	$ 6,578,320
08/01/11—08/31/11	225,939	$ 8.01	206,256	$ 4,917,048
09/01/11—09/30/11	78,497	8.72	78,497	$ 4,232,468
Total	304,436	$ 8.19	284,753	$ 4,232,468

(1) In August 2011, our employees surrendered 19,683 shares of our common stock to satisfy statutory withholding requirements due upon the vesting of restricted stock awards.

(2) On March 28, 2001, our Board of Directors announced approval of a share repurchase program of our common stock having an aggregate value of up to $15.0 million. Share purchases are made in open market transactions from time to time depending on market conditions. The Program does not have a fixed expiration date.

Item 5—Other Information

On July 22, 2011, our subsidiary, Merrimack Services Corporation, entered into an amendment to its lease agreement with EWE Warehouse Investments V, LTD, dated May 13, 1993. This amendment will be effective December 1, 2011 and will extend the term of the lease until November 30, 2012.

Table of Contents

Item 6—Exhibits

Exhibit Number	Description
10.1+	Seventh Amendment, dated July 22, 2011, to the Lease agreement between Merrimack Services Corporation and EWE Warehouse Investments V, LTD, dated December 13, 1999, for property located at Old State Road 73, Wilmington, OH.
31.1*	Certification of the Company's President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Company's Executive Vice President, Treasurer, and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of the Company's President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of the Company's Executive Vice President, Treasurer, and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to 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 Calculation Linkbase Document.
101.LAB**	XBRL Taxonomy Label Linkbase Document.
101.PRE**	XBRL Taxonomy Presentation Linkbase Document.
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document.

+ Incorporated by reference from exhibits filed with the Company's Quarterly report on Form 10-Q, filed on August 11, 2011.
* Filed herewith.
** Submitted electronically herewith.

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at September 30, 2011 and December 31, 2010, (ii) Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2011 and September 30, 2010, (iii) Condensed Consolidated Statements of Changes in Stockholders' Equity for the nine months ended September 30, 2011, (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and September 30, 2010, and (v) Notes to Unaudited Condensed Consolidated Financial Statements.

In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act, is deemed not filed for purposes of section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.

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. AND SUBSIDIARIES

Date: November 08, 2011	By: /s/ TIMOTHY MCGRATH **Timothy McGrath** **President and Chief Executive Officer**
Date: November 08, 2011	By: /s/ JACK FERGUSON **Jack Ferguson** **Executive Vice President, Treasurer, and Chief Financial Officer**

Exhibit 31.1

CERTIFICATIONS

I, Timothy McGrath, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PC Connection, 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 officer 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 and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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

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

Date: November 08, 2011

/S/ TIMOTHY MCGRATH
Timothy McGrath
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Jack Ferguson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PC Connection, 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 officer 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 and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 08, 2011

/S/ JACK FERGUSON
Jack Ferguson
Executive Vice President, Treasurer, and Chief Financial Officer

Exhibit 32.1

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 on Form 10-Q of PC Connection, Inc. (the "Company") for the period ended September 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Timothy McGrath, President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) 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.

Date: November 08, 2011

/S/ TIMOTHY MCGRATH
Timothy McGrath
President and Chief Executive Officer

Exhibit 32.2

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 on Form 10-Q of PC Connection, Inc. (the "Company") for the period ended September 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Jack Ferguson, Executive Vice President, Treasurer, and Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) 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.

Date: November 08, 2011

/S/ JACK FERGUSON

Jack Ferguson

Executive Vice President, Treasurer, and Chief Financial Officer