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

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended September 30, 2000

OR

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

For the transition period from ________________ to _______________

Commission file number 0-23827

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

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

Registrant's telephone number, including area code (603) 423-2000

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

YES X NO

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of the issuer's Common Stock, $.01 par value, as of November 9, 2000 was 24,365,108.

PC CONNECTION, INC. AND SUBSIDIARIES
FORM 10-Q

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INDEPENDENT ACCOUNTANTS' REPORT

To the Board of Directors and Stockholders of
PC Connection, Inc. and Subsidiaries
Merrimack, New Hampshire

We have reviewed the accompanying condensed consolidated balance sheet of PC Connection, Inc. and subsidiaries (the "Company") as of September 30, 2000, and the related condensed consolidated statements of income, changes in stockholders' equity and cash flows for the three-month and nine-month periods then ended listed as Part 1, Item 1 in the Table of Contents included on Form 10-Q for the quarterly period ended September 30, 2000. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of PC Connection, Inc. and subsidiaries as of December 31, 1999, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated January 26, 2000, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 1999 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

DELOITTE & TOUCHE LLP
Boston, Massachusetts
October 17, 2000

PC CONNECTION, INC. AND SUBSIDIARIES
Part I - Financial Information
ITEM 1 - FINANCIAL STATEMENTS
CONDENSED CONSOLIDATED BALANCE SHEETS
(amounts in thousands)

	September 30, 2000 (unaudited)	December 31, 1999
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 12,729	$ 20,416
Accounts receivable, net	166,510	99,405
Inventories-merchandise	83,073	64,348
Deferred income taxes	1,924	1,991
Prepaid expenses and other current assets	6,519	4,651
TOTAL CURRENT ASSETS	270,755	190,811
Property and equipment, net	27,659	23,126
Goodwill, net	9,685	9,431
Other assets	473	169
TOTAL ASSETS	$308,572	$223,537
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of capital lease obligation to affiliate	$ 176	$ 137
Notes payable, current maturities	8,027	1,000
Accounts payable	145,004	105,547
Accrued expenses and other liabilities	13,319	11,877
TOTAL CURRENT LIABILITIES	166,526	118,561
Notes payable, less current maturities	1,000	2,000
Capital lease obligation to affiliate	6,832	6,945
Deferred taxes	1,342	1,579
Other liabilities	143	229
TOTAL LIABILITIES	175,843	129,314
Stockholders' Equity:		
Common stock	244	237
Additional paid-in capital	71,072	58,548
Retained earnings	61,413	35,438
TOTAL STOCKHOLDERS' EQUITY	132,729	94,223
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$308,572	$223,537

See accompanying notes to condensed consolidated financial statements.

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, 2000	Three Months Ended September 30, 1999	Nine Months Ended September 30, 2000	Nine Months Ended September 30, 1999
Net sales	$397,124	$282,103	$1,081,457	$738,915
Cost of sales	347,394	247,651	946,152	649,598
GROSS PROFIT	49,730	34,452	135,305	89,317
Selling, general and administrative expenses	32,872	24,333	92,782	64,136
INCOME FROM OPERATIONS	16,858	10,119	42,523	25,181
Interest expense	(440)	(449)	(1,114)	(991)
Other, net	121	32	490	173
Income before taxes	16,539	9,702	41,899	24,363
Income taxes	(6,284)	(3,687)	(15,924)	(9,259)
NET INCOME	$ 10,255	$ 6,015	$ 25,975	$ 15,104
Earnings per common share:				
Basic	$ .42	$ 0.26	$ 1.08	$ .64
Diluted	$ .40	$ 0.25	$ 1.02	$ .63

See accompanying notes to condensed consolidated financial statements.

PC CONNECTION, INC. AND SUBSIDIARIES
Part I - Financial Information
ITEM 1 - FINANCIAL STATEMENTS
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)
(AMOUNTS IN THOUSANDS)

	Common Stock				
	Shares	Amount	Additional Paid In Capital	Retained Earnings	Total
Balance, December 31, 1999	23,653	$237	$58,548	$35,438	$ 94,223
Exercise of stock options, including income tax benefits	686	7	11,994	-	12,001
Issuance of stock under employee stock purchase plan	25	-	479	-	479
Compensation under nonstatutory stock option agreements	-	-	51	-	51
Net income	-	-	-	25,975	25,975
Balance, September 30, 2000	24,364	$244	$71,072	$61,413	$132,729

See accompanying notes to 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, 2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 25,975	$ 15,104
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation and amortization	4,719	3,796
Deferred income taxes	7,760	2,697
Compensation under nonstatutory stock option agreements	51	114
Provision for doubtful accounts	7,152	4,961
(Gain)/loss on disposal of fixed assets	(5)	24
Changes in assets and liabilities:		
Accounts receivable	(73,757)	(23,722)
Inventories	(18,725)	5,474
Prepaid expenses and other current assets	(1,868)	936
Other non-current assets	(304)	-
Accounts payable	39,711	(1,489)
Accrued expenses and other liabilities	1,511	(26)
Net cash (used for) provided by operating activities	(7,780)	7,869
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(8,074)	(4,868)
Proceeds from sale of property and equipment	74	3
Payment for acquisitions, net of cash acquired	(2,158)	(3,198)
Net cash used for investing activities	(10,158)	(8,063)
Cash Flows from Financing Activities:		
Proceeds from short-term borrowings	399,774	392,960
Repayment of short-term borrowings	(392,747)	(392,960)
Repayment of notes payable	(1,000)	-
Repayment of capital lease obligations	(74)	(90)
Issuance of stock upon exercise of nonstatutory stock options	3,819	133
Issuance of stock under Employee Stock Purchase Plan	479	198
Net cash provided by financing activities	10,251	241
(Decrease)/increase in cash and cash equivalents	(7,687)	47
Cash and cash equivalents, beginning of period	20,416	11,910
Cash and cash equivalents, end of period	$ 12,729	$ 11,957
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 918	$ 983
Income taxes paid	11,058	5,341
NON-CASH:		
Issuance of notes payable in connection with acquisition of a subsidiary	$ -	$ 3,000

See accompanying notes to condensed consolidated financial statements.

NOTE 1-BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements of PC Connection, Inc. and Subsidiaries ("PCC" or the "Company") 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 those of the financial statements contained in the Company's Annual Report on Form 10-K/A for the year ended December 31, 1999 (the "10-K/A Report") filed with the Securities and Exchange Commission ("SEC"). The accompanying condensed consolidated financial statements should be read in conjunction with the financial statements contained in the Company's Annual Report on Form 10K/A. 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. The operating results for the three and nine months ended September 30, 2000 may not be indicative of the results expected for any succeeding quarter or the entire year ending December 31, 2000.

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

In April 2000, the Company's Board of Directors approved a three-for-two stock split of its outstanding shares of Common Stock to be effected in the form of a 50% stock dividend. The dividend was distributed on May 23, 2000 to the Company's stockholders of record as of the close of business on May 12, 2000. All per share and related amounts contained in these financial statements and notes have been adjusted retroactively to reflect the stock split.

REVENUE RECOGNITION

Revenue on product sales is recognized at the point in time when persuasive evidence of an arrangement exists, the price is fixed and final, delivery has occurred and there is a reasonable assurance of collection of the sales proceeds. The Company generally obtains oral or written purchase authorizations from its customers for a specified amount of product at a specified price and considers delivery to have occurred at the point of shipment. The Company provides its customers with a limited thirty day right of return only for defective merchandise. Revenue is recognized at shipment and a reserve for sales returns is recorded. The Company has demonstrated the ability to make reasonable and reliable estimates of product returns in accordance with SFAS No. 48 based on significant historical experience.

INVENTORIES--MERCHANDISE

Inventories (all finished goods) consisting of software packages, computer systems and peripheral equipment, are stated at cost (determined under the first-in, first-out method) or market, whichever is lower. Provisions are made currently for obsolete, slow moving and nonsalable inventory.

NOTE 2-EARNINGS PER SHARE

Basic earnings per common share is computed using the weighted average number of shares outstanding. Diluted earnings per common share is computed using the weighted average number of shares outstanding adjusted for the incremental shares attributed to outstanding options to purchase common stock.

NOTE 2-EARNINGS PER SHARE - CONT'D.

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

September 30, (Amounts In Thousands, Except Per Share Data)	Three Months Ended 2000	Three Months Ended 1999	Nine Months Ended 2000	Nine Months Ended 1999
Numerator:				
Net income	$10,255	$ 6,015	$25,975	$15,104
Denominator:				
Denominator for basic earnings per share:				
Weighted average shares	24,243	23,477	23,949	23,450
Dilutive effect of unexercised employee stock options:	1,654	640	1,635	658
Denominator for diluted earnings per share	25,897	24,117	25,584	24,108
Earnings per share:				
Basic	$ .42	$ .26	$ 1.08	$ .64
Diluted	$ .40	$ .25	$ 1.02	$ .63

The following unexercised stock options were excluded from the computation of diluted earnings per share for the three and nine months ended September 30, 2000 and 1999 because the effect of the options on the calculation would have been anti-dilutive:

September 30, (Amounts In Thousands)	Three Months Ended 2000	Three Months Ended 1999	Nine Months Ended 2000	Nine Months Ended 1999
Anti-dilutive stock options	--	1,430	76	1,355

Note 3-Reporting Comprehensive Income

Comprehensive income is the same as net income reported for the three and nine months ended September 30, 2000 and 1999.

Note 4-Recently Issued Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," (SFAS 133) adjusted to be effective for fiscal years beginning after June 15, 2000. SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Under SFAS 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. The Company intends to adopt SFAS 133 effective January 1, 2001. Management does not expect the adoption of SFAS 133 to have a significant impact on the financial position or results of operations of the Company because the Company does not have significant derivative activity.

In December, 1999 the Securities and Exchange Commission ("SEC") released Staff Accounting Bulletin ("SAB") No. 101 "Revenue Recognition in Financial Statements." This SAB clarifies certain elements of revenue recognition. Since December, the SEC has issued several amendments that have effectively postponed the implementation date until the fourth quarter of fiscal 2000. Management currently believes that the implementation of the SAB will not have a material impact on the Company's financial statements.

In July, 2000 the Emerging Issues Task Force reached a consensus on Issue 00-10, "Accounting for Shipping and Handling Fees and Costs". The Consensus specifically stated that all amounts billed to a customer in a sale transaction related to shipping and handling, if any, represent revenues earned for the goods provided and should be classified as revenue. It is currently the Company's policy to record such revenues as a reduction of cost of goods sold. Management is currently assessing the impact of Issue 00-10 on the financial statements of the Company. The Company will adopt this Consensus in the fourth quarter of fiscal 2000.

NOTE 5-ACQUISITION

On January 4, 2000 the Company acquired the Merisel Americas Inc. call center in Marlborough, Massachusetts for approximately $2.2 million including acquisition costs. The Company acquired the assembled work force of Merisel, as well as its fixed assets; it also assumed its lease liabilities. The excess of the purchase price over the fair value of the assets acquired totaled approximately $1.3 million. Such excess will be amortized over a period of 15 years. Operating results of PC Connection would not have been materially different from those reported for the nine months ended September 30, 1999 had the acquisition occurred on January 1, 1999.

NOTE 6-SEGMENT AND RELATED DISCLOSURES

SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," requires that public companies report profits and losses and certain other information on its "reportable operating segments" in its annual and interim financial statements.

Management has determined that the Company has only one "reportable operating segment," given the financial information provided to and used by the "chief decision maker" of the Company to allocate resources and assess the Company's performance. However, senior management does monitor revenue by platform (PC vs. Mac), sales channel (Corporate Outbound, Inbound Telesales and On-line Internet), and product mix (Computer Systems and Memory, Peripherals, Software, and Networking and Communications).

NOTE 6-SEGMENT AND RELATED DISCLOSURES - CONT'D.

Net sales by platform, sales channel and product mix are presented below:

	Three Months Ended		Nine Months Ended	
September 30, (Amounts In Thousands)	2000	1999	2000	1999
Platform				
PC and Multi Platform	$359,400	$244,567	$ 964,676	$621,191
Mac	37,724	37,536	116,781	117,724
Total	$397,124	$282,103	$1,081,457	$738,915
Sales Channel				
Corporate Outbound	$312,741	$194,598	$ 823,780	$470,607
Inbound Telesales	55,499	72,639	178,592	229,180
On-Line Internet	28,884	14,866	79,085	39,128
Total	$397,124	$282,103	$1,081,457	$738,915
Product Mix				
Computer Systems and Memory	$208,206	$131,911	$ 564,691	$349,364
Peripherals	113,293	95,853	308,788	246,390
Software	37,432	35,490	113,992	94,752
Networking and Communications	38,193	18,849	93,986	48,409
Total	$397,124	$282,103	$1,081,457	$738,915

Substantially all of the Company's net sales for the quarters ended September 30, 2000 and 1999 were made to customers located in the United States. Shipments to customers located in foreign countries aggregated less than 2% in those respective quarters. All of the Company's assets at September 30, 2000 and December 31, 1999 were located in the United States. The Company's primary target customers are small- to medium-size businesses ("SMBs") comprised of 20 to 1,000 employees, although its customers also include individual consumers, larger companies, federal, state and local governmental agencies and educational institutions. Except for the federal government, no single customer accounted for more than 3% of total net sales in the nine months ended September 30, 2000 and 1999. Sales to the federal government accounted for $96.1 million, or 8.9% of total net sales for the nine months ended September 30, 2000 and $58.1 million or 7.9% of total net sales for the nine months ended September 30, 1999.

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

OVERVIEW

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements based on management's current expectations, estimates and projections about the Company's industry, management's beliefs and certain assumptions made by management. All statements, trends, analyses and other information contained in this report relative to trends in net sales, gross margin and anticipated expense levels, as well as other statements, including words such as "anticipate," "believe," "plan," "estimate," "expect," and "intend" and other similar expressions, constitute forward-looking statements. These forward-looking statements involve risks and uncertainties, and actual results may differ materially from those anticipated or expressed in such statements. Potential risks and uncertainties include, among others, those set forth in Item 7 under the caption "Factors That May Affect Future Results and Financial Condition" in the Company's Annual Report on Form 10-K and its amendments for the year ended December 31, 1999 filed with the SEC, which are incorporated by reference herein. Particular attention should be paid to the cautionary statements involving the industry's rapid technological change and exposure to inventory obsolescence, availability and allocation of goods, reliance on vendor support and relationships, competitive risks, pricing risks, and economic risks. Except as required by law, the Company undertakes no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise. Readers, however, should carefully review the factors set forth in other reports or documents that the Company files from time to time with the SEC.

GENERAL

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

The Company offers both PC compatible products and Mac personal computer compatible products. Reliance on Mac product sales has decreased over the last three years, from 23.0% of net sales for the year ended December 31, 1996 to 10.8% of net sales for the nine months ended September 30, 2000. The Company believes that such sales will continue to decrease as a percentage of net sales and may decline in dollar volume in future periods.

RESULTS OF OPERATIONS

THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2000 COMPARED WITH THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 1999

The following table sets forth for the periods indicated information derived from the Company's statements of income expressed as a percentage of net sales.

	Three Months Ended		Nine Months Ended	
September 30,	2000	1999	2000	1999
Net sales (in millions)	$397.1	$282.1	$1,081.5	$738.9
Net sales	100.0%	100.0%	100.0%	100.0%
Gross profit	12.5	12.2	12.5	12.1
Selling, general and administrative expenses	8.3	8.6	8.6	8.7
Income from operations	4.2	3.6	3.9	3.4
Interest expense	0.1	0.2	0.1	0.1
Income before income taxes	4.2	3.4	3.9	3.3
Income taxes	1.6	1.3	1.5	1.3
Net income	2.6	2.1	2.4	2.0

The following table sets forth the Company's percentage of net sales by platform, sales channel, and product mix:

	Three Months Ended		Nine Months Ended	
September 30,	2000	1999	2000	1999
Platform				
PC and Multi-Platform	90%	87%	89%	84%
Mac	10	13	11	16
Total	100%	100%	100%	100%
Sales Channel				
Corporate Outbound	79%	69%	76%	64%
Inbound Telesales	14	26	17	31
On-Line Internet	7	5	7	5
Total	100%	100%	100%	100%
Product Mix				
Computer Systems and Memory	52%	47%	52%	47%
Peripherals	29	34	29	33
Software	9	12	10	13
Networking and Communications	10	7	9	7
Total	100%	100%	100%	100%

RESULTS OF OPERATIONS - GENERAL - CONT'D.

NET SALES increased $115.0 million, or 40.8%, to $397.1 million for the quarter ended September 30, 2000 from $282.1 million for the comparable period in 1999. Net sales for the nine months ended September 30, 2000 increased $342.6 million, or 46.4%, to $1,081.5 million from $738.9 million for the comparable period in 1999. Growth in net sales was primarily attributable to increased productivity of the Company's outbound telemarketing group, continued growth in average order size, and growth in the Company's Internet sales. Outbound sales increased $118.1 million, or 60.7%, to $312.7 million in the three months ended September 30, 2000 from $194.6 million in the three months ended September 30, 1999. Outbound sales increased $353.2 million, or 75.1%, to $823.8 million for the nine months ended September 30, 2000 from $470.6 million in the comparable period in 1999. On-line Internet sales increased $14.0 million, or 94.0%, to $28.9 million in the three months ended September 30, 2000 from $14.9 million in the three months ended September 30, 1999. On-line Internet sales increased $40.0 million, or 102.3%, to $79.1 million in the nine months ended September 30, 2000 from $39.1 million in the comparable period in 1999. Inbound sales showed a decrease for all periods presented. Inbound sales for the quarter decreased $17.1 million, or 23.6%, to $55.5 million in the quarter ended September 30, 2000 from $72.6 million in the comparable period in 1999; and decreased $50.6 million or 22.1% to $178.6 million for the nine months ended September 30, 2000 from $229.2 million in the comparable period in 1999. This decrease in inbound sales was consistent with management's expectations to grow the inbound business through the internet while focussing its sales force on targeting outbound customers.

Sales of networking and communication products represented the Company's fastest growing product category with 102.6% growth in net sales over the third quarter of 1999. Management believes that this category will continue to grow substantially as its customers further upgrade their network and communications infrastructure. Sales of computer systems continue to be the largest product category. Computer system/memory sales increased to 52.4% and 52.2% of net sales for the three months and nine months ended September 30, 2000, respectively, from 46.8% and 47.3% for the respective comparable periods in 1999.

Sales of computer systems result in a relatively high dollar sales order, as reflected in the increase in the Company's average order size from $848 in the quarter ended September 30, 1999 to $1,272 in the quarter ended September 30, 2000. Computer system sales generally provide the largest gross profit dollar contribution per order of all of the Company's products, although they usually yield the lowest gross margin percentage.

GROSS PROFIT increased $15.2 million, or 44.1%, to $49.7 million for the quarter ended September 30, 2000 from $34.5 million for the comparable period in 1999. Gross profit for the nine months ended September 30, 2000 increased $46.0 million, or 51.5%, to $135.3 million from $89.3 million for the comparable period in 1999. Gross profit margin as a percentage of net sales increased to 12.5% in the third quarter of 2000 from 12.2% for the comparable period in 1999. Gross profit margin as a percentage of net sales increased to 12.5% in the first nine months of 2000 from 12.1% for the comparable period in 1999. The margin improvement resulted from a continuing focus on solution sales to business, government and educational customers, stable average selling prices, and the impact of various profitability improvement programs. The Company's profit margins are also influenced by, among other things, industry pricing and the relative mix of inbound, outbound, and on-line Internet sales. Generally, pricing in the computer and related products market is very aggressive and the Company intends to maintain prices at competitive levels. Since outbound sales are typically to corporate accounts that purchase at volume discounts, the gross margin on such sales is generally lower than inbound sales. The gross profit dollar contribution per outbound sale order is generally higher as average sizes of orders to corporate accounts are usually larger. As stated in previous reports, the Company expects that its gross margin, as a percentage of sales, may vary by quarter based upon vendor support programs, product mix, pricing strategies, market conditions and other factors.

RESULTS OF OPERATIONS - GENERAL - CONT'D.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES increased $8.6 million, or 35.4%, to $32.9 million for the quarter ended September 30, 2000 from $24.3 million for the comparable quarter in 1999. Such expenses for the nine months ended September 30, 2000 increased by $28.7 million, or 44.8%, to $92.8 million from $64.1 million in the nine months ended September 30, 1999. The increase in expenses was primarily attributable to increases in volume-sensitive costs such as sales personnel, facility costs, depreciation, and costs associated with the January 2000 acquisition of Merisel's Marlborough, MA call center. Such costs remained a consistent percentage of net sales over the comparable periods presented here.

INCOME FROM OPERATIONS increased $6.8 million, or 67.3%, to $16.9 million for the quarter ended September 30, 2000, from $10.1 million for the comparable period in 1999. Income from operations as a percentage of sales increased from 3.6% in the three months ended September 30, 1999 to 4.2% for the comparable period in 2000 for the reasons discussed above. Similarly, income from operations for the nine months ended September 30, 2000 increased $17.3 million, or 68.7%, to $42.5 million from $25.2 million for the comparable period in 1999. Income from operations as a percentage of sales increased from 3.4% for the nine months ended September 30, 1999 to 3.9% for the comparable period in 2000, primarily due to gross margin improvement and as the result of the leveraging of selling, general and administrative expenses over a larger sales base.

INTEREST EXPENSE decreased $0.01 million, or 2.2%, to $0.44 million for the quarter ended September 30, 2000 from $0.45 million, for the comparable quarter in 1999. Interest expense for the nine months ended September 30, 2000, increased $0.12 million, or 12.1%, to $1.11 million from $0.99 million for the comparable period in 1999. This increase in interest expense was primarily due to debt associated with the June 1999 acquisition of Comteq Federal, Inc. Such debt was not outstanding during the majority of the first nine months of fiscal 1999.

OTHER, NET, which is essentially comprised of interest income increased $0.09 million, or 300.0%, to $0.12 million in the quarter ended September 30, 2000 from $0.03 million, for the comparable period in 1999. Similarly, other, net for the nine months ended September 30, 2000 increased $0.32 million or 188.2%, to $0.49 million from $0.17 million in the comparable 1999 period. This increase was due primarily to higher interest income from investments.

INCOME TAXES for the quarter ended September 30, 2000 were $6.3 million compared to $3.7 million for the comparable quarter in 1999. Income taxes for the nine months ended September 30, 2000 were $15.9 million compared to $9.3 million for the comparable period in 1999. The effective tax rate was 38% for all periods.

NET INCOME for the quarter ended September 30, 2000 increased $4.3 million, or 71.7%, to $10.3 million from $6.0 million for the comparable quarter in 1999, principally as a result of the increases in operating income as described above. Net income increased $10.9 million, or 72.2%, to $26.0 million for the nine months ended September 30, 2000 from $15.1 million for the comparable period in 1999.

LIQUIDITY AND CAPITAL RESOURCES

The Company has historically financed its operations and capital expenditures through cash flow from operations and bank borrowings. The Company believes that funds generated from operations, together with available credit under its bank line of credit, will be sufficient to finance its working capital and capital expenditure requirements at least through 2000. The Company's ability to continue funding its planned growth is dependent upon its 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.

At September 30, 2000, the Company had cash and cash equivalents of $12.7 million and working capital of $104.2 million. At December 31, 1999, the Company had cash and cash equivalents of $20.4 million and working capital of $72.3 million.

The Company has an unsecured credit agreement with a bank providing for short-term borrowings up to $50.0 million, which bears interest at various rates ranging from the prime rate (9.50% at September 30, 2000) to prime less 1%, depending on the ratio of senior debt to EBITDA (earnings before interest, taxes, depreciation and amortization). The credit agreement includes various customary financial and operating covenants, including restrictions on the payment of dividends, none of which the Company believes significantly restricts its operations. Outstanding borrowings were $7.0 million at September 30, 2000.

Net cash used for operating activities was $7.8 million for the nine months ended September 30, 2000, as compared to $7.9 million provided by operating activities in the comparable period in 1999. The primary factors historically affecting cash flows from operations are the Company's net income and changes in the levels of accounts receivable, inventories and accounts payable. Historically accounts receivable has increased primarily due to an increase in open account purchases by commercial customers resulting from the Company's continued efforts to increase its sales to such customers.

Capital expenditures were $8.1 million in the nine months ended September 30, 2000 as compared to $4.9 million in the comparable period in 1999. The majority of the capital expenditures for the respective 2000 and 1999 periods relate to computer hardware and software for the Company's information systems. Total capital expenditures for the year ended December 31, 2000 are estimated to be $11.0 million.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," (SFAS 133) adjusted to be effective for fiscal years beginning after June 15, 2000. SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Under SFAS 133 certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. The Company intends to adopt SFAS 133 effective January 1, 2001. Management does not expect the adoption of SFAS 133 to have a significant impact on the financial position or results of operations of the Company because the Company does not have significant derivative activity.

In December, 1999 the Securities and Exchange Commission ("SEC") released Staff Accounting Bulletin ("SAB") No. 101 "Revenue Recognition in Financial Statements." This SAB clarifies certain elements of revenue recognition. Since December, the SEC has issued several amendments that have effectively postponed the implementation date until the fourth quarter of fiscal 2000. Management currently believes that the implementation of the SAB will not have a material impact on the Company's financial statements.

In July, 2000 the Emerging Issues Task Force reached a consensus on Issue 00-10, "Accounting for Shipping and Handling Fees and Costs". The Consensus specifically stated that all amounts billed to a customer in a sale transaction related to shipping and handling, if any, represent revenues earned for the goods provided and should be classified as revenue. It is currently the Company's policy to record such revenues as a reduction of cost of goods sold. Management is currently assessing the impact of Issue 00-10 on the financial statements of the Company. The Company will adopt this Consensus in the fourth quarter of fiscal 2000.

INFLATION

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

Item 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company invests cash balances in excess of operating requirements in short-term securities, generally with maturities of 90 days or less. The Company believes that the effect, if any, of reasonably possible near-term changes in interest rates on the Company's financial position, results of operations and cash flows should not be material.

ITEM 1 - LEGAL PROCEEDINGS

Not applicable.

ITEM 2 - CHANGES IN SECURITIES AND USE OF PROCEEDS

Not applicable.

Item 3 - DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

Not applicable.

ITEM 5 - OTHER INFORMATION

Not applicable.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

Exhibit Number	Description
10.43	Amendment to Employment Agreement between the Registrant and Robert Wilkins dated December 23,1995.
10.44	Lease between Merrimack Services Corporation and White Knight Realty Trust, dated October 19, 2000 for property located at 7 Route 101A, Amherst, New Hampshire.
15	Letter on unaudited interim financial information
27	Financial Data Schedule

(b) REPORTS ON FORM 8-K

None

Signatures

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

PC CONNECTION, INC. AND SUBSIDIARIES

November 14, 2000 By: /s/ Wayne L. Wilson

Wayne L. Wilson
President and Chief Operating Officer

November 14, 2000 By: /s/ Mark A. Gavin

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

EXHIBIT 10.43

MEMORANDUM

To: Robert Wilkins

From: Patricia Gallup, Chairman and CEO

Date: March 1, 1999

Re: Amendment to Employment Agreement

This memo serves as an amendment to the agreement we entered into upon the commencement of your employment with PC Connection, Inc. Should your employment be terminated for any reason other than cause as defined in the original agreement, you will receive one full year of base salary rather than six months of base salary.

Bob, I believe you will find this change in line with the discussions we have had regarding this issue.

Signed: /s/ Patricia Gallup

EXHIBIT 10.44

LEASE

This LEASE made October 19, 2000 by and between White Knight Realty Trust, duly authorized under the laws of the Commonwealth of Massachusetts, with an address of: c/o Prime Properties, Inc., P.O. Box 341, Chelmsford, MA 01824 (hereinafter "Landlord"), and Merrimack Services Corporation, a Delaware corporation with offices at 730 Milford Road, Merrimack, New Hampshire 03054 (hereinafter "Tenant").

WHEREAS, Landlord owns a certain building in Amherst, New Hampshire; and

WHEREAS, Tenant desires to lease certain space in said building (the "Premises"),

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the parties agree as follows:

1. PREMISES. Landlord agrees to lease to Tenant the Premises, comprising an area of 16,000 square feet, more or less, located at 7 Route 101A, Amherst, New Hampshire. Tenant may sublease the Premises, or portions thereof, to its affiliated corporations provided it remains liable to Landlord for the rent.

2. TERM. The term of this Lease shall be twelve (12) months, commencing upon completion of the fix-up work (see Schedule "A") by Landlord and delivery of a minimum of 12,000 square feet (floor 1, east and west and floor 2, east) of the Premises to Tenant, which shall be evidenced in writing and be no later than November 3, 2000. Delivery of the final 4,000 square feet (floor 2, west) shall be no later than November 10, 2000, with all rent to be pro-rated according to said delivery dates.

3. OPTION. Landlord hereby grants to Tenant two (2) additional one-year extensions to this Lease, at Tenant's sole option. Tenant may exercise said options by providing Landlord with written notice of its intent to exercise the options no later than one hundred twenty (120) days before the termination of the Lease or any subsequent extension. Notwithstanding the foregoing, Tenant shall not have the option to extend said Lease if Tenant is in default of any terms of said Lease.

4. RENT.

(a) Tenant shall pay rent to Landlord at a rate of $12.50 per square foot per annum, or $200,000.00 per annum, paid in 12 equal monthly installments of $16,666.66 on the 10th day of each month during term of this Lease.

(b) During the first option term, if exercised, Tenant shall pay rent to Landlord at a rate of $15.45 per square foot per annum, or $247,200.00 per annum, paid in 12 equal monthly installments of $20,600.00 on the 10th day of each month during term of this Lease.

(c) During the second option term, if exercised, Tenant shall pay rent to Landlord at a rate of $15.90 per square foot per annum, or 254,400.00 per annum, paid in 12 equal monthly installments of $21,200.00 on the 10th day of each month during term of this Lease.

(d) If any installment of rent is not paid in full within ten (10) days of written notice of its due date, in addition to any other rights or remedies of the Landlord arising by reason of such default, there shall be paid to Landlord by Tenant, upon demand, a sum equal to ten percent (10%) of the unpaid portion of such installment as a penalty charge for late payment.

5. DEPOSIT. A deposit consisting of an amount equal to two (2) month's rent shall be paid commensurate with the payment of the first monthly rental payment. An amount equal to one month's rent shall be held by Landlord as security, and shall be returned to Tenant at the end of the term subject to all terms and conditions of this lease are met. An amount equal to one month's rent shall be applied towards the last month's rent, with any balance due hereunder, payable immediately by Tenant to Landlord.

6. OPERATIONS. The parties agree that each shall furnish and pay for the cost of operations as indicated below:

	To be furnished by:
(a) Utilities (electricity, heat, water, sewer, phone).	Tenant
(b) Trash removal.	Tenant
(c) Replacement of bulbs and fluorescent tubes.	Tenant
(d) Exterior window washing (annually).	Landlord
(e) Replacement of broken glass.	Landlord
(f) Janitorial and cleaning services.	Tenant
(g) All maintenance and repairs to the Premises including HVAC and elevator (except as in "h").	Landlord
(h) HVAC maintenance, limited to filter changes, cleaning and lubrication of units.	Tenant

(i) Common area costs, including clearing and removal of ice and snow from walkways, parking lot area and roof when necessary for safety, sanding, and grounds maintenance.	Landlord
(j) Structural integrity of the roof and buildings and replacement of any part of the HVAC system when necessary.	Landlord
(k) Parking lot maintenance, including asphalt sealing and repair and re-striping.	Landlord
(l) Maintenance and repair of fuel storage tanks including any underground fuel storage tanks.	Landlord

7. INSURANCE.

(a) Landlord shall maintain all-risk property insurance on the Premises in at least the amount of the replacement value of the Premises. Landlord shall also maintain combined bodily injury and property damage insurance on said property in an amount not less than Five Hundred Thousand Dollars ($500,000.00) and One Million Dollars ($1,000,000.00) in aggregate. Insurance policies shall be issued by financially responsible insurers authorized to do business in the State of New Hampshire.

(b) Tenant shall maintain liability insurance on its business and operations on the Premises, in an amount of not less than Five Hundred Thousand Dollars ($500,000.00) per incident and One Million Dollars ($1,000,000.00) in aggregate. lnsurance policies shall be issued by financially responsible insurers authorized to do business in the State of New Hampshire.

(c) Each party shall provide the other party of evidence of insurance upon execution of this Lease and thereafter upon request.

8. TAX. Landlord shall pay all real estate taxes when due. In the event Landlord fails to pay any such tax or related charges when due, Tenant shall have the option to pay such tax and related charges and deduct said amounts from its rent payments.

9. LANDLORD'S REMEDIES. Landlord may deem Tenant to be in breach of this Lease following any of the following events, upon written notice to Landlord:

(a) If Tenant fails to pay rent or other charges and assessments when due and payable under this Lease within ten (10) days following written notice of failure to pay;

(b) If Tenant fails to commence to cure any other violation of its covenants within twenty (20) days following written notice thereof or, having commenced to cure, fails to conclude such cure with reasonable diligence; and

(c) Upon the adjudication of Tenant as a bankrupt or the appointment of a receiver of its property.

(d) In the event of Tenant's default of its obligations under this Lease, Landlord shall be entitled to recoup its costs of collection, including reasonable attorneys' fees.

10. UNTENANTABILITY. If the Premises, or any portion thereof, are made untenanable by fire, the elements, or other casualty, rent for the leased Premises, or affected portion thereof, shall abate from the date of such casualty until its restoration to tenantability. Landlord shall restore the Premises with all reasonable speed and, if Landlord does not restore the Premises or the affected portion thereof to tenantability within one hundred twenty (120) days, Tenant may terminate this Lease. If the Premises are more than fifty percent (50%) destroyed by such casualty, either Landlord or Tenant may terminate this Lease unless Landlord is able to rebuild and restore the premises within one hundred twenty (120) days of such casualty. Rent shall abate during such period of untenantability.

11. INSPECTION. Landlord shall have the right upon reasonable notice to enter the premises during normal business hours for reasonable inspections and, in addition, shall have the right to show the Premises to prospective tenants during the last 120 days of the term, provided the Landlord and its guests are accompanied by Tenant.

12. LANDLORD'S IMPROVEMENTS.

(a) Landlord shall have the right at its own expense to re-landscape and make cosmetic changes to the exterior of the building during the term of the Lease. Any such work will be coordinated with Tenant so that business operations of the Tenant will not be disturbed and security of the facility is not compromised.

(b) Landlord may at its own expense place a "for lease" sign on the property if the Tenant does not exercise the option to extend this Lease.

(c) Upon execution of this Lease, and receipt of $20,000.00, Landlord shall promptly perform the fix-up work set forth in detail on the attached Schedule "A." Upon completion of said fix-up work, Tenant shall pay to Landlord the sum of $22,500 as advance additional rent.

13. SIGNS. Landlord must approve in advance of installation any signs, lettering or plaques that Tenant desires to affix to the building, doors, windows, or any exterior part of the Premises. Such approval shall not be unreasonably withheld. Notwithstanding the foregoing, Tenant may illuminate and replace the face of the existing pylon sign with new graphics and lettering consistent with Tenant's business needs. Tenant shall return existing pylon sign to its original condition at commencement of Lease, upon vacating leased premises.

14. TENANT'S ALTERATIONS AND IMPROVEMENTS. Except for the fix-up work described herein, Tenant shall not make any alterations or improvements to the Premises without the prior written consent of Landlord, which consent shall not be unreasonably withheld.

15. PARKING.

(a) Landlord shall provide on the Premises eighty-seven (87) parking spaces for Tenant and its employees and guests.

(b) Landlord shall use best and reasonable efforts to secure additional parking to accommodate a total of 93 vehicles, via supplemental striping of existing lot and via continued negotiation/agreement with abutting properties.

16. EFFECT OF TERMINATION. Upon termination of this Lease, or any extension thereof, any and all improvements, alterations or modifications that are affixed to the real estate, and normally considered to be part of the real estate, shall become the property of the Landlord. This includes, but is not limited to, ceilings, flooring, carpeting, shelving (which is affixed to the real estate), partitions, walls, wall coverings and the like. Upon termination of this Lease, Tenant may remove its own personal property not considered fixtures, such as Venetian blinds, curtains, office equipment, business machines, trade fixtures, signs and the like.

17. CONDEMNATION. If the leased Premises, or any significant portion thereof, are taken by eminent domain, or condemned for public use, this Lease may be terminated upon written notice by either Landlord or Tenant, and any and all awards for such taking shall be the exclusive property of the Landlord; provided, however, that nothing contained herein shall be construed to preclude Tenant from prosecuting any claim directly against the condemning authority in such condemnation proceedings for loss of business or depreciation or, damage to, or cost of removal of, or the value of stock and other personal property belonging to the Tenant; provided, however, that no such claim shall diminish or otherwise adversely affect Landlord's award or the award of any mortgagee.

18. SUCCESSORS AND ASSIGNS. This Lease is binding on the parties hereto and their respective heirs, executors, administrators, successors and assigns. This Lease may be assigned by Tenant to its parent, subsidiary, or sister corporations, provided that Tenant shall remain obligated to make all payments required hereunder.

19. ENTIRE AGREEMENT. This Lease embodies the entire agreement between the parties, and there are no promises, terms, conditions or obligations referring to the subject matter herein other than those contained herein. There may be no modification of this Lease except in writing, executed by both Landlord and Tenant with the same formalities as this Lease.

20. GOVERNING LAW. This Lease shall be construed under the laws of the State of New Hampshire.

Agreed:

White Knight Realty Trust	Merrimack Services Corporation
By: -------------------------------	By: /s/ Wayne L. Wilson ----------------------------
/s/ Leo Forcier - ----------------------------------	10/19/00 -------------------------------
Leo Forcier, Trustee	Wayne Wilson, President - duly authorized

Exhibit 15

October 17, 2000

PC Connection Inc. and Subsidiaries
Merrimack, New Hampshire

We have made a review, in accordance with standards established by the American Institute of Certified Public Accountants, of the unaudited interim financial information of PC Connection, Inc. and subsidiaries for the periods ended September 30, 2000 and 1999, as indicated in our report dated October 17, 2000; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which were included in your Quarterly Report on Form 10-Q for the quarter ended September 30, is incorporated by reference in Registration Statements Nos. 333-69981, 333-50847, 333-50845, 333-83943 and 333-40172 of PC Connection, Inc. on Form S-8.

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, are not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

DELOITTE & TOUCHE LLP
Boston, Massachusetts

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM 10Q - 09/30/2000 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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9-MOS
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SEP-30-2000
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