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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 March 31, 2013

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 May 1, 2013 was 26,118,446.

PC CONNECTION, INC. AND SUBSIDIARIES
FORM 10-Q

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PC CONNECTION, INC. AND SUBSIDIARIES
PART I—FINANCIAL INFORMATION
Item 1—Financial Statements
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(amounts in thousands)

	March 31, 2013	December 31, 2012
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 58,529	$ 39,907
Accounts receivable, net	236,282	267,310
Inventories	59,593	69,637
Deferred income taxes	5,250	5,250
Prepaid expenses and other current assets	5,134	3,934
Income taxes receivable	204	434
Total current assets	364,992	386,472
Property and equipment, net	26,546	26,104
Goodwill	51,276	51,276
Other intangibles, net	3,532	3,757
Other assets	703	714
Total Assets	$447,049	$ 468,323
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of capital lease obligation to affiliate	$ 729	$ 989
Accounts payable	94,609	126,110
Accrued expenses and other liabilities	27,010	22,562
Accrued payroll	12,202	13,824
Total current liabilities	134,550	163,485
Deferred income taxes	10,403	10,514
Other liabilities	3,012	3,021
Total Liabilities	147,965	177,020
Stockholders' Equity:		
Common stock	280	278
Additional paid-in capital	103,416	101,735
Retained earnings	211,369	205,271
Treasury stock at cost	(15,981)	(15,981)
Total Stockholders' Equity	299,084	291,303
Total Liabilities and Stockholders' Equity	$447,049	$ 468,323

See notes to unaudited condensed consolidated financial statements.

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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 March 31,	
	2013	2012
Net sales	$505,423	$498,763
Cost of sales	438,585	432,152
Gross profit	66,838	66,611
Selling, general and administrative expenses	56,713	56,450
Special charges	—	1,135
Income from operations	10,125	9,026
Interest expense and other, net	(50)	46
Income before taxes	10,075	9,072
Income tax provision	(3,977)	(3,597)
Net income	$ 6,098	$ 5,475
Earnings per common share:		
Basic	$ 0.23	$ 0.21
Diluted	$ 0.23	$ 0.21
Shares used in the computation of earnings per share:		
Basic	25,998	26,439
Diluted	26,272	26,586

See notes to unaudited condensed consolidated financial statements.

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PC CONNECTION, INC. AND SUBSIDIARIES
PART I—FINANCIAL INFORMATION
Item 1—Financial Statements
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(amounts in thousands)

	Three Months Ended March 31,	
	2013	2012
Cash Flows from Operating Activities:		
Net income	$ 6,098	$ 5,475
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,627	1,558
Provision for doubtful accounts	202	99
Deferred income taxes	(111)	1,894
Stock-based compensation expense	148	1,047
Loss on disposal of fixed assets	5	71
Income tax benefit from stock-based compensation	155	6
Fair value adjustment to contingent consideration	—	10
Excess tax benefit from exercise of stock options	(216)	—
Changes in assets and liabilities:		
Accounts receivable	30,826	52,686
Inventories	10,044	14,909
Prepaid expenses and other current assets	(970)	(1,839)
Other non-current assets	11	(68)
Accounts payable	(31,605)	(19,041)
Accrued expenses and other liabilities	2,817	(1,646)
Net cash provided by operating activities	19,031	55,161
Cash Flows from Investing Activities:		
Purchases of property and equipment	(1,745)	(2,823)
Net cash used for investing activities	(1,745)	(2,823)
Cash Flows from Financing Activities:		
Repayment of short-term borrowings	—	(12,471)
Proceeds from short-term borrowings	—	7,204
Purchase of treasury shares	—	(1,715)
Exercise of stock options	1,380	14
Repayment of capital lease obligation to affiliate	(260)	(233)
Excess tax benefit from exercise of stock options	216	—
Net cash provided by (used for) financing activities	1,336	(7,201)
Increase in cash and cash equivalents	18,622	45,137
Cash and cash equivalents, beginning of period	39,907	4,615
Cash and cash equivalents, end of period	$ 58,529	$ 49,752
Non-cash Investing and Financing Activities:		
Accrued capital expenditures	$ 356	$ 520
Issuance of nonvested stock from treasury	—	740

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, 2012, 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 months ended March 31, 2013 may not be indicative of the results expected for any succeeding quarter or the entire year ending December 31, 2013.

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.

Comprehensive Income

We had no items of comprehensive income, other than our net income for each of the periods presented.

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 nonvested 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	
March 31,	2013	2012
Numerator:		
Net income	$ 6,098	$ 5,475
Denominator:		
Denominator for basic earnings per share	25,998	26,439
Dilutive effect of employee stock awards	274	147
Denominator for diluted earnings per share	26,272	26,586
Earnings per share:		
Basic	$ 0.23	$ 0.21
Diluted	$ 0.23	$ 0.21

For the three months ended March 31, 2013 and 2012, 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	
March 31,	2013	2012
Common stock options	—	317

Note 3–Goodwill and Other Intangible Assets

Goodwill

Goodwill is subject to an annual impairment test and tested more frequently if events or circumstances occur that would indicate a potential decline in fair value. An entity has the option of performing a qualitative assessment of factors affecting the significant inputs used in the impairment test, or proceeding directly to a quantitative impairment test. For goodwill, a two-step quantitative test is performed at a reporting unit level which requires, under the first step, that the fair value of a reporting unit is determined and compared to the reporting unit's carrying value, including goodwill. If the fair value is determined to be less than the carrying value, the second step is performed to measure the amount of the impairment. We use established income and market valuation approaches to assess the fair value of a reporting unit.

Our annual impairment test of goodwill is set as of the first day of the year. Previously, goodwill was held by two reporting units that comprised our Large Account segment. However, in the fourth quarter of 2012 we combined the operations of the two reporting units to gain operational efficiencies, and as a result, goodwill is now held by the combined Large Account reporting unit. We determined that the fair value of the goodwill and the Large Account reporting unit to which the goodwill balance relates substantially exceeded the carrying values. Accordingly, we did not identify any goodwill impairment as of January 1, 2013, nor did we identify any events or circumstances that would indicate that it is more likely than not that the carrying value of the reporting unit was in excess of its fair value during the three months ended March 31, 2013. As a result, we did not perform an interim test for impairment.

Intangible Assets

For the three months ended March 31, 2013 and 2012, we recorded amortization expense of $225 and $234, respectively. The estimated amortization expense in each of the five succeeding years and thereafter is as follows:

For the Year Ending December 31,	
2013	$ 678(*)
2014	901
2015	735
2016	599
2017	362
Thereafter	257

(*) Represents estimated amortization expense for the nine months ending December 31, 2013.

Note 4–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 our Chairman of the Board of Directors, and she evaluates operations and allocates resources based on a measure of operating income.

Our operations are organized under three reporting segments—the SMB segment, which serves primarily small- and medium-sized businesses, consumers, and small office/home office markets; the Large Account segment, which serves primarily medium-to-large corporations; and the Public Sector segment, which serves primarily federal, state, and local government and educational institutions. In addition, the Headquarters/Other group provides services in areas such as finance, human resources, information technology, marketing, and product management. 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.

Net sales presented below exclude inter-segment product revenues. Segment information applicable to our reportable operating segments for the three months March 31, 2013 and 2012 is shown below:

	Three Months Ended	
	March 31, 2013	March 31, 2012
Net sales:		
SMB	$235,678	$225,295
Large Account	186,395	181,316
Public Sector	83,350	92,152
Total net sales	$505,423	$498,763
Operating income (loss):		
SMB	7,138	6,276
Large Account	6,176	7,353
Public Sector	(1,522)	(40)
Headquarters/Other	(1,667)	(4,563)
Total operating income	$ 10,125	$ 9,026
Interest expense and other, net	(50)	46
Income before taxes	$ 10,075	$ 9,072
Selected Operating Expense:		
Depreciation and amortization:		
SMB	1	3
Large Account	517	465
Public Sector	38	44
Headquarters/Other	1,071	1,046
Total depreciation and amortization	$ 1,627	$ 1,558
Special charges (Headquarters/Other)	—	$ 1,135
Assets at March 31, 2013:		
SMB	$150,732	
Large Account	219,871	
Public Sector	44,932	
Headquarters/Other	31,514	
Total assets	$447,049	

The assets of our operating segments presented above consist primarily of accounts receivable, intercompany receivable, goodwill, and other intangibles. Assets reported under the Headquarters/Other group are managed by corporate headquarters, including cash, inventory, and property and equipment. Total assets for

the Headquarters/Other group are presented net of intercompany balance eliminations of $21,637 as of March 31, 2013. Our capital expenditures consist largely 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 revenue by product mix. Nets sales by product mix are presented below:

	Three Months Ended	
March 31,	2013	2012
Notebook/Tablet	$ 94,311	$ 84,699
Desktop/Server	76,204	82,443
Software	75,213	72,286
Net/Com Product	50,187	48,351
Video, Imaging & Sound	43,706	48,203
Printer & Printer Supplies	37,238	37,171
Storage	30,301	36,033
Memory & System Enhancement	13,223	17,073
Accessory/Services/Other	85,040	72,504
Total	$ 505,423	$ 498,763

Note 5–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, unclaimed property, employment matters, and other assessments. A comprehensive multi-state unclaimed property audit continues to be 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, as no formal assessments have yet been made. Additional liabilities for this and other audits could be assessed, and such outcomes could have a material, negative impact on our financial position, results of operations, and cash flows.

Note 6–Bank Borrowing and Trade Credit Arrangements

We have a $50,000 credit facility collateralized by our receivables that expires February 24, 2017. 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 one-month London Interbank Offered Rate, or LIBOR, plus a spread based on our funded debt ratio, or in the absence of LIBOR, the prime rate (3.25% at March 31, 2013). The one-month LIBOR rate at March 31, 2013 was 0.20%. The credit facility includes various customary financial ratios and operating covenants, including minimum net worth and maximum funded debt ratio requirements, 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 Adjusted EBITDA (Earnings Before Interest Expense, Taxes, Depreciation, Amortization, and Special Charges). The maximum allowable funded debt ratio under the agreement is 2.0 to 1.0. Decreases in our consolidated Adjusted EBITDA could limit our potential borrowings under the credit facility, however, we did not have any borrowings under our credit facility in the three months ended March 31, 2013. We had no outstanding bank borrowings at March 31, 2013, and accordingly, the entire $50,000 facility was available for borrowings under the credit facility.

At March 31, 2013, 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 financed by the financial 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. We do not pay any interest or discount fees on such inventory. At March 31, 2013 and December 31, 2012, accounts payable included $14,500 and $18,901, respectively, owed to these financial institutions.

Note 7–Fair Value

Our financial instruments consist primarily of cash and cash equivalents, accounts receivable, and accounts payable. The carrying values of cash, accounts receivable, and accounts payable approximate their fair values 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.

We measure our cash equivalents at fair value and classify such assets within Level 1 of the fair value hierarchy. This classification has been determined based on the manner in which we value our cash equivalents, primarily using quoted market prices for identical assets.

Assets measured at fair value on a recurring basis consisted of the following types of instruments at March 31, 2013 and December 31, 2012:

	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 March 31, 2013	$ 38	$ —	$ —	$ 38
Money market fund deposits at December 31, 2012	$ 38	$ —	$ —	$ 38

Note 8–Special Charges

We did not record any special charges in the three months ended March 31, 2013. In the first quarter of 2012, we recorded special charges of $1,135 related to awards granted upon the retirement of a former executive officer, and certain workforce reductions. These charges included a non-cash charge of $842 for the issuance of nonvested stock.

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, 2012 on file with the SEC.

OVERVIEW

We are a direct marketer of a wide range of information technology, or IT, solutions. We help our customers design, enable, manage, and service their IT environments. We provide IT 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 services involving design, configuration, and implementation of IT solutions. These services are performed by our personnel and by third-party providers. We operate through three sales segments, which serve primarily: (a) small- to medium-sized businesses, or SMBs, in our SMB segment, through our PC Connection Sales subsidiary, (b) large enterprise customers, in our Large Account segment, through our MoreDirect subsidiary, and (c) federal, state, and local government and educational institutions, in our Public Sector segment, through our GovConnection 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. However, 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 attempting to eliminate 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.

The primary challenges we continue to face in effectively managing our business are (1) increasing our revenues while at the same time maintaining or improving our gross margin in all three segments, (2) recruiting, retaining, and improving the productivity of our sales personnel, and (3) effectively controlling our selling,

general, and administrative, or 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 still in the early stages of this multi-year 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.

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. This investment includes significant planned expenditures to update our websites, as buying trends change and electronic commerce continues to grow.

To operate more efficiently, we have undertaken 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. As of March 31, 2013, we have capitalized $13.9 million of software and integration costs for the initial phase of this software project. We have not yet finalized our decisions regarding to what extent additional software will be acquired and implemented beyond the Customer Master Data Management ("Customer MDM") software we have acquired to date. However, we expect to increase our capital investments in our IT infrastructure in the next three years, which will also likely increase SG&A expenses as the assets are placed into service and depreciated.

RESULTS OF OPERATIONS

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

	Three Months Ended	
March 31,	**2013**	**2012**
Net sales *(in millions)*	$505.4	$498.8
Net sales	100.0%	100.0%
Gross margin	13.2	13.4
Selling, general and administrative expenses	11.2	11.3
Special charges	—	0.3
Income from operations	2.0%	1.8%

Net sales in the first quarter of 2013 increased year over year by $6.7 million, or 1.3%, as our SMB and Large Account sales increased by 4.6% and 2.8%, respectively, while our Public Sector sales decreased by 9.6%. Gross margin (gross profit expressed as a percentage of net sales) decreased in our SMB segment by 14 basis points compared to prior year quarter, while our Public Sector segment margin was unchanged. Gross margin in our Large Account segment decreased 30 basis points due to a shift in product mix. SG&A expenses increased slightly in dollars, however decreased as a percentage of net sales. Operating income in the first quarter of 2013 increased year over year by $1.1 million due to an increase in net sales and the absence of special charges.

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Net Sales Distribution

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

March 31,	Three Months Ended 2013	2012
Business Segment		
SMB	47%	45%
Large Account	37	36
Public Sector	16	19
Total	100%	100%
Product Mix		
Notebook/Tablet	19%	17%
Desktop/Server	15	17
Software	15	14
Net/Com Product	10	10
Video, Imaging & Sound	8	10
Printer & Printer Supplies	7	7
Storage	6	7
Memory & System Enhancement	3	3
Accessory/Services/Other	17	15
Total	100%	100%

Gross margin

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

March 31,	Three Months Ended 2013	2012
Business Segment		
SMB	15.1%	15.2%
Large Account	11.5	11.8
Public Sector	11.9	11.9
Total	13.2%	13.4%

On a consolidated basis, gross margin decreased year over year due primarily to lower product margins (19 basis points) as a percentage of net sales compared to the prior year period. Product margins, which include freight and vendor consideration, decreased due to a change in product mix and increased pricing pressures.

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, 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:

March 31,	Three Months Ended 2013	2012
Purchasing/Distribution Center	0.65%	0.68%

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Operating Expenses

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

March 31,	Three Months Ended 2013	2012
Personnel costs	$ 41.9	$ 40.6
Advertising	5.0	5.8
Facilities operations	2.6	2.6
Professional fees	1.7	2.0
Credit card fees	1.8	1.5
Depreciation and amortization	1.6	1.6
Other, net	2.1	2.4
Total	$ 56.7	$ 56.5
Percentage of net sales	11.2%	11.3%

Personnel costs increased year over year in the three months ended March 31, 2013, due to investments in solution sales and support personnel.

Year-Over-Year Comparisons

<u>Three Months Ended March 31, 2013 Compared to Three Months Ended March 31, 2012</u>

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

	Three Months Ended March 31, 2013		2012		
	Amount	% of Net Sales	Amount	% of Net Sales	% Change
Sales:					
SMB	$235.7	46.6%	$225.3	45.2%	4.6%
Large Account	186.4	36.9	181.3	36.3	2.8
Public Sector	83.3	16.5	92.2	18.5	(9.6)
Total	$505.4	100.0%	$498.8	100.0%	1.3%
Gross Profit:					
SMB	$ 35.5	15.1%	$ 34.2	15.2%	3.7%
Large Account	21.4	11.5	21.4	11.8	0.2
Public Sector	9.9	11.9	11.0	11.9	(9.8)
Total	$ 66.8	13.2%	$ 66.6	13.4%	0.3%

Net sales increased in the first quarter of 2013 compared to the first quarter of 2012, as explained below:

- Net sales for the SMB segment increased by 4.6% in the quarter to $235.7 million, compared to net sales in the first quarter of 2012. Net/com sales experienced the strongest growth due to our investment in solution sales capabilities. Both notebook/tablet and desktop sales also increased year over year.
- Net sales for the Large Account segment increased by 2.8% to $186.4 million, compared to net sales in the first quarter of 2012. We continued to experience strong growth in notebook/tablet and software sales in the Large Account segment.

- Net sales to government and education customers (Public Sector segment) decreased by 9.6% to $83.3 million. Sales to state and local government and educational institutions increased slightly compared to last year, while sales to the federal government decreased by 29.0% year over year due to federal budget spending cuts.

Gross profit for the first quarter of 2013 increased year over year in dollars, however decreased as a percentage of net sales (gross margin), as explained below:

- Gross profit for the SMB segment increased due to an increase in net sales. Gross margin decreased slightly year over year due to lower product margin (23 basis points) which was partially offset by decreases in inventory write-downs and freight costs.
- Gross profit for the Large Account segment was unchanged as higher net sales offset lower gross margin. Gross margin decreased due to lower product margin (25 basis points) and lower agency fees (9 basis points).
- Gross profit for the Public Sector segment decreased due to a decrease in net sales. Gross margin was unchanged as a decrease in product margins (21 basis points) was offset by an increase in agency fees (3 basis points) and lower contract administration fees (14 basis points).

Selling, general and administrative expenses increased slightly in dollars, but decreased as a percentage of net sales in the first quarter of 2013 compared to the prior year quarter. SG&A expenses attributable to our three operating segments and the remaining unallocated Headquarters/Other group expenses are summarized below (dollars in millions):

	Three Months Ended March 31,				
	2013		2012		
	Amount	% of Segment Net Sales	Amount	% of Segment Net Sales	% Change
SMB	$ 28.3	12.0%	$ 28.0	12.4%	1.4%
Large Account	15.3	8.2	14.1	7.8	8.7
Public Sector	11.4	13.7	11.0	11.9	3.7
Headquarters/Other	1.7		3.4		(5.1)
Total	$ 56.7	11.2%	$ 56.5	11.3%	0.5%

- SG&A expenses for the SMB segment increased in dollars, but decreased as a percentage of net sales. Incremental variable compensation associated with higher gross profits offset lower marketing expenditures in the quarter.
- SG&A expenses for the Large Account segment increased in dollars and as a percentage of net sales. The increase in both dollars and as a percentage of net sales is a result of increased investments in sales support areas, higher credit card fees, and bad debt expense.
- SG&A expenses for the Public Sector segment increased in dollars and as a percentage of net sales, as the increased usage of centralized headquarter services offset a decrease in personnel costs.
- SG&A expenses for the Headquarters/Other group decreased due to a decrease in unallocated personnel and related costs. The Headquarters/Other group provides services to the three reportable operating segments in areas such as finance, human resources, IT, marketing, and product management. Most of the operating costs associated with such corporate headquarters services are charged to the operating segments based on their estimated usage of the underlying services. The amounts shown above represent the remaining unallocated costs.

Special charges totaled $1.1 million in the first quarter of 2012 and were related to awards granted upon the retirement of a former executive officer, as well as workforce reductions. We did not record any such charges in the three months ended March 31, 2013.

Income from operations for the first quarter of 2013 increased to $10.1 million, compared to $9.0 million for the first quarter of 2012. Income from operations as a percentage of net sales was 2.0% for the first quarter of 2012, compared to 1.8% of net sales for the prior year quarter. The increases in operating income and operating margin were due to an increase in net sales and the absence of special charges in 2013.

Our effective tax rate was 39.5% for the first quarter of 2013 compared to an effective tax rate of 39.6% for the first quarter of 2012. 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, however we do not expect these variations to be significant in 2013.

Net income for the first quarter of 2013 increased to $6.1 million, compared to $5.5 million for the first quarter of 2012, principally due to the increase in operating income.

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, possible 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 the Customer MDM software initiative, we expect our capital needs for the next twelve months to consist primarily of capital expenditures of $8.0 to $10.0 million and payments on capital lease and other contractual obligations of approximately $3.8 million. In addition, we have undertaken a comprehensive review and assessment of our entire business software needs, including 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 $13.9 million of software and integration costs for the Customer MDM software project, the first stage of our overall IT initiative, as of March 31, 2013.

We expect to meet our cash requirements for 2013 through a combination of cash on hand, cash generated from operations, and borrowings on our bank line of credit, as follows:

- *Cash on Hand*. At March 31, 2013, we had approximately $58.5 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 mitigating net changes in inventories and receivables with changes in payables to generate a positive cash flow.
- *Credit Facilities.* As of March 31, 2013, no borrowings were outstanding against our $50.0 million bank line of credit, which is available until February 24, 2017. Accordingly, our entire line of credit was available for borrowing at March 31, 2013. 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, however, limited 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 we do not anticipate needing any additional sources of financing to fund our operations at this time, if demand for IT products declines, our cash flows from operations may be substantially affected. See also related risks listed above under “Item 1A. Risk Factors.”

Summary of Sources and Uses of Cash

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

	Three Months Ended	
March 31,	2013	2012
Net cash provided by operating activities	$ 19.0	$ 55.1
Net cash used for investing activities	(1.7)	(2.8)
Net cash provided by (used for) financing activities	1.3	(7.2)
Increase in cash and cash equivalents	$ 18.6	$ 45.1

Cash provided by operating activities decreased by $36.1 million in the first quarter of 2013 compared to the prior year quarter. Operating cash flow in the first quarter of 2013 resulted primarily from net income before depreciation and amortization, and a decrease in accounts receivables and inventory, partially offset by a decrease in accounts payable. Accounts receivable decreased by $30.8 million from the prior year-end balance due to improved collection efforts as evidence by our lower days sales outstanding, which decreased to 40 days at March 31, 2013, compared to 43 days at March 31, 2012, and 41 days at December 31, 2012. Inventory decreased by $10.0 million in the first quarter of 2013 due to management efforts to reduce stocking levels. Inventory turns increased to 26 turns for the first quarter of 2013 compared to 25 turns for the prior year quarter.

At March 31, 2013, we had $94.6 million in outstanding accounts payable. Such accounts are generally paid within 30 days of incurrence, or earlier when favorable cash discounts are offered. This balance will be financed by cash flows from operations or short-term borrowings under the line of credit. This amount includes $14.5 million payable to two financial institutions under inventory trade credit agreements we use to finance our purchase of certain inventory, secured by the inventory which is financed. We believe we will be able to meet our obligations under our accounts payable with cash flows from operations and our existing line of credit.

Cash used for investing activities decreased by $1.1 million in the first quarter of 2013 compared to the prior year quarter due to lower purchases of property and equipment. Capital expenditures were primarily for computer equipment and capitalized internally-developed software in connection with the IT initiative referred to above.

Cash provided by financing activities in the first quarter of 2013 resulted primarily from $1.4 million of proceeds from the exercise of stock options. Whereas in the prior year quarter, financing activities represented a use of cash due to the purchase of $1.7 million of treasury stock and the repayment of $5.3 million in borrowings on our bank line of credit.

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 consolidated financial statements and the accompanying notes included in this Quarterly Report.

Bank Line of Credit. Our bank line of credit extends until February 2017 and is collateralized by our receivables. Our borrowing capacity is up to $50.0 million at the one-month London Interbank Offered Rate, or LIBOR, plus a spread based on our funded debt ratio, or in the absence of LIBOR, the prime rate (3.25% at March 31, 2013). The one-month LIBOR rate at March 31, 2013 was 0.20%. In addition, we have the option to increase the facility by an additional $30.0 million to meet additional borrowing requirements. Our credit facility is subject to certain covenant requirements which are described below under “Factors Affecting Sources of Liquidity.” We did not have any borrowings under the credit facility during the first quarter of 2013.

Cash receipts are automatically applied against any outstanding borrowings. Any excess cash on account may either remain on account to generate earned credits to offset up to 100% of cash management fees, or may be invested in short-term qualified investments. Borrowings under the line of credit are classified as current. At March 31, 2013, the entire $50.0 million facility was available for borrowing.

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 inventory financed by these financial institutions. Although the agreements provide for up to 100% financing on the purchase price, 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; such costs are borne by the suppliers as an incentive for us to purchase their products. Amounts outstanding under such facilities, equal to $14.5 million as of March 31, 2013, are recorded in accounts payable, and the inventory financed is classified as inventory on the consolidated balance sheet.

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

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 the “Contractual Obligations” section of our Annual Report on Form 10-K for the year ended December 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 arrangements, require annual payments aggregating from $0.1 million to $0.4 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, changes in financial condition, results of operations, liquidity, capital expenditures, or capital resources.

Contractual Obligations. The disclosures relating to our contractual obligations in our Annual Report on Form 10-K for the year ended December 31, 2012 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 bank line of credit extends until February 2017 and is collateralized by our receivables. As of March 31, 2013, the entire $50.0 million facility was available for borrowing. Our credit

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

- The funded debt ratio (defined as the average outstanding advances under the line for the quarter, divided by the consolidated Adjusted 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 during the first quarter of 2013, and accordingly, the funded debt ratio did not limit potential borrowings as of March 31, 2013. Future decreases in our consolidated Adjusted EBITDA, however, could limit our potential borrowings under the credit facility.
- Minimum Consolidated Net Worth must be at least $250.0 million, plus 50% of consolidated net income for each quarter, beginning with the quarter ended March 31, 2012 (loss quarters not counted). Such amount was calculated at March 31, 2013, as $269.6 million, whereas our actual consolidated stockholders’ equity at this date was $299.1 million.

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. Such 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, 2012. These policies include revenue recognition, accounts receivable, vendor allowances, inventory, and the value of goodwill and long-lived assets, including intangibles.

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, 2012. No material changes have occurred in our market risks since December 31, 2012.

PC CONNECTION, INC. AND SUBSIDIARIES
PART I—FINANCIAL INFORMATION
Item 4–CONTROLS AND PROCEDURES

The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of March 31, 2013. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) promulgated under 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. The Company's disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives as described above. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company's 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 March 31, 2013 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, 2012, 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, 2012.

Item 6—Exhibits

Exhibit Number		Description
10.1	*	Ninth Amendment, dated March 15, 2013, 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.
10.2	*	Thirteenth Amendment, dated March 15, 2013, to the Lease Agreement between Merrimack Services Corporation and EWE Warehouse Investments V, LTD., dated September 27, 1990, for property located at Old State Route 73, Wilmington, Ohio.
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 Senior 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 Senior 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.DEF	**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	**	XBRL Taxonomy Label Linkbase Document.
101.PRE	**	XBRL Taxonomy Presentation Linkbase Document.

* 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 March 31, 2013 and December 31, 2012, (ii) Condensed Consolidated Statements of Income for the three months ended March 31, 2013 and March 31, 2012, (iii) Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and March 31, 2012, 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.

Table of Contents

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.

Date: May 3, 2013	By:	/s/ TIMOTHY MCGRATH Timothy McGrath President and Chief Executive Officer
Date: May 3, 2013	By:	/S/ JOSEPH DRISCOLL Joseph Driscoll Senior Vice President, Treasurer and Chief Financial Officer

Exhibit 10.1

BUILDING NO. 4

AMENDMENT NO. 9 TO LEASE

This Amendment No. 9 to Lease is made this 15th day of March, 2013, by and between **EWE WAREHOUSE INVESTMENTS V, LTD**., a Florida limited partnership ("Lessor") and **PC CONNECTION, INC**., a Delaware corporation ("Lessee").

RECITALS

A. Lessor's predecessor in interest and Lessee's predecessor in interest entered into an Agreement of Lease dated May 13, 1993; as amended by Amendment No. 1 to Lease dated June 19, 2001; as further amended by Amendment No. 2 to Lease dated April 24, 2003; as amended by Amendment No. 3 to Lease dated November 11, 2006; as amended by Amendment No. 4 to Lease dated October 13, 2009; as amended by Amendment No. 5 to Lease dated February 5, 2010; as amended by Amendment No. 6 to Lease dated May 20, 2010; as amended by Amendment No. 7 to Lease dated July 22, 2011; and as amended by Amendment No. 8 to Lease dated October 18, 2012 (collectively, the "Lease") for certain premises containing approximately 102,400 square feet (the "Premises") located at 2841-2931 Old State Route 73, Wilmington, Ohio ("Building 4") and located within the development known as Wilmington Air Park (the "Development").

B. The Term of the Lease will conclude on November 30, 2013.

C. Lessor and Lessee have agreed to modify the Rent payable during the remainder of the existing Term, and to extend the Term of the Lease for a period of two (2) years, all pursuant to the terms and conditions contained herein.

AGREEMENT

NOW, THEREFORE, in consideration of their mutual covenants and promises, the parties hereby agree as follows:

1. Article 1, Term, shall be amended to add the following additional paragraphs:

Notwithstanding anything contained herein to the contrary, the Term of the Lease is hereby extended for a period of two (2) years commencing December 1, 2013, and concluding November 30, 2015 (the "Extension"). All references in the Lease to the Term shall mean the Term as hereby extended.

Provided Lessee is not in default under this Lease and has continually operated a in the Premises, Lessee shall have the right, at Lessee's option, to extend the Term of this Lease for one (1) additional period of one (1) year commencing December 1, 2015 and concluding November 30, 2016 (the "Option Term"). The Option Term may be exercised by Lessee's delivery of written notice to Lessor stating that Lessee desires to

extend the Lease Term. Such notice shall be given no later than May 31, 2015. Upon such notice, Lessor and Lessee shall negotiate in good faith the annual Rent payable during the Option Term. If Lessor and Lessee cannot agree on annual Rent within thirty (30) days after receipt of Lessee's notice to Lessor, then Lessor and Lessee shall mutually select an independent appraiser whose determination of annual Rent shall be binding.

2. Article 3, Rent, shall be amended to add the following additional paragraphs:

Notwithstanding anything contained herein to the contrary, commencing March 1, 2013, and continuing through November 30, 2013, Lessee shall pay to Lessor Rent for the Premises as follows:

Lease Year	Annually	Monthly	Per Square Foot
3/1/13 – 11/30/13	N/A	$34,133.33	$ 4.00

During the Extension, Lessee shall pay to Lessor Rent for the Premises as follows:

Extension	Annually	Monthly	Per Square Foot
12/1/13 – 11/30/14	$421,888.00	$35,157.33	$ 4.12
12/1/14 – 11/30/15	$434,176.00	$36,181.33	$ 4.24

3. Defined Terms; No Other Amendment. Except as specifically set forth herein, defined terms shall have the meanings attributable to them in the Lease. Except as set forth herein, the Lease shall remain unamended and in full force and effect.

The parties have set their hands as of the day and year first above written.

Signed and acknowledged
in the presence of:

/S/ ANDREA BELLINO
Andrea Bellino
(Print Name)

/S/ LENETTE TRIVETT
Lenette Trivett
(Print Name)

LESSOR: EWE WAREHOUSE
INVESTMENTS V, LTD.,
a Florida limited partnership

/S/ EDWARD J. EASTON
By: Edward J. Easton
Its: Manager

Signed and acknowledged in the presence of:	LESSEE: PC CONNECTION, INC., a Delaware corporation
/S/ MICHELLE GAUTHIER	/S/ ROBERT PRATT
Michelle Gauthier	By: Robert Pratt
(Print Name)	Its: Vice President of Facilities and Site Services
/S/ DOUGLAS REARDON	
Douglas Reardon	
(Print Name)	

STATE OF FLORIDA)
) SS:
COUNTY OF MIAMI - DADE)

The foregoing instrument was acknowledged before me the 21 day of March, 2013, by Edward J. Easton, the Mgr of EWE Warehouse Investments V, Ltd., a Florida limited partnership, on behalf of the partnership.

/S/ LENETTE TRIVETT
Notary Public

STATE OF NEW HAMPSHIRE)
MERRIMACK) SS:
COUNTY OF HILLSBOROUGH)

The foregoing instrument was acknowledged before me the 15th day of March, 2013, by Robert Pratt, the Vice President of Facilities and Site Services of PC Connection, Inc., a Delaware corporation, on behalf of the corporation.

/S/ DOLORES R. COLLINS
Notary Public

Exhibit 10.2

BUILDING NO. 3

AMENDMENT NO. 13 TO LEASE

This Amendment No. 13 to Lease is made this 15th day of March, 2013, by and between **EWE WAREHOUSE INVESTMENTS V, LTD**., a Florida limited partnership ("Lessor") and **PC CONNECTION, INC**., a Delaware corporation ("Lessee").

RECITALS

A. Lessor's predecessor in interest and Lessee's predecessor in interest entered into an Agreement of Lease dated September 27, 1990; as amended by Revised Amendment No. 1 to Lease dated June 28, 1996; as further amended by Amendment No. 2 to Lease dated July 31, 1998; as amended by Amendment No. 3 to Lease dated June 26, 2000; as amended by Amendment No. 4 to Lease dated July 31, 2002; as amended by Amendment No. 5 to Lease dated February 28, 2005; as amended by Amendment No. 6 to Lease dated October 26, 2006; as amended by Amendment No. 7 to Lease dated January 28, 2009; as amended by Amendment No. 8 to Lease dated October 13, 2009; as amended by Amendment No. 9 to Lease dated February 5, 2010; as amended by Amendment No. 10 to Lease dated September 29, 2010; as amended by Amendment No. 11 to Lease dated November 22, 2011; and as amended by Amendment No. 12 to Lease dated October 18, 2012 (collectively, the "Lease") for certain premises containing approximately 102,400 square feet (the "Premises") located at 2780-2880 Old State Route 73, Wilmington, Ohio ("Building 3") and located within the development known as Wilmington Air Park (the "Development").

B. The Term of the Lease will conclude on February 28, 2014.

C. Lessor and Lessee have agreed to modify the Rent payable during the existing Term, and to extend the Term of the Lease for a period of two (2) years, all pursuant to the terms and conditions contained herein.

AGREEMENT

NOW, THEREFORE, in consideration of their mutual covenants and promises, the parties hereby agree as follows:

1. Article 1, Term, shall be amended to add the following additional paragraphs:

Notwithstanding anything contained herein to the contrary, the Term of the Lease is hereby extended for a period of two (2) years commencing March 1, 2014, and concluding February 28, 2016 (the "Extension"). All references in the Lease to the Term shall mean the Term as hereby extended.

Provided Lessee is not in default under this Lease and has continually operated a in the Premises, Lessee shall have the right, at Lessee's option, to extend the Term of this Lease for one (1) additional period of one (1) year commencing March 1, 2016 and

concluding February 28, 2017 (the “Option Term”). The Option Term may be exercised by Lessee’s delivery of written notice to Lessor stating that Lessee desires to extend the Lease Term. Such notice shall be given no later than August 31, 2015. Upon such notice, Lessor and Lessee shall negotiate in good faith the annual Rent payable during the Option Term. If Lessor and Lessee cannot agree on annual Rent within thirty (30) days after receipt of Lessee’s notice to Lessor, then Lessor and Lessee shall mutually select an independent appraiser whose determination of annual Rent shall be binding.

2. Article 3, Rent, shall be amended to add the following additional paragraphs:

Notwithstanding anything contained herein to the contrary, commencing March 1, 2013, and continuing through February 28, 2014, Lessee shall pay to Lessor Rent for the Premises as follows:

Lease Year	Annually	Monthly	Per Square Foot
3/1/13 – 2/28/14	$409,600.00	$34,133.33	$ 4.00

During the Extension, Lessee shall pay to Lessor Rent for the Premises as follows:

Extension	Annually	Monthly	Per Square Foot
3/1/14 – 2/28/15	$421,888.00	$35,157.33	$ 4.12
3/1/15 – 2/28/16	$434,176.00	$36,181.33	$ 4.24

3. Defined Terms; No Other Amendment. Except as specifically set forth herein, defined terms shall have the meanings attributable to them in the Lease. Except as set forth herein, the Lease shall remain unamended and in full force and effect.

The parties have set their hands as of the day and year first above written.

Signed and acknowledged
in the presence of:

/S/ ANDREA BELLINO
Andrea Bellino
(Print Name)

/S/ LENETTE TRIVETT
Lenette Trivett
(Print Name)

LESSOR: EWE WAREHOUSE
INVESTMENTS V, LTD.,
a Florida limited partnership

/S/ EDWARD J. EASTON
By: Edward J. Easton
Its: Manager

Signed and acknowledged in the presence of:	LESSEE: PC CONNECTION, INC., a Delaware corporation
/S/ MICHELLE GAUTHIER	/S/ ROBERT PRATT
Michelle Gauthier	By: Robert Pratt
(Print Name)	Its: Vice President of Facilities and Site Services
/S/ DOUGLAS REARDON	
Douglas Reardon	
(Print Name)	

STATE OF FLORIDA)
) SS:
COUNTY OF MIAMI - DADE)

The foregoing instrument was acknowledged before me the 21 day of March, 2013, by Edward J. Easton, the Mgr of EWE Warehouse Investments V, Ltd., a Florida limited partnership, on behalf of the partnership.

/S/ LENETTE TRIVETT
Notary Public

STATE OF NEW HAMPSHIRE)
MERRIMACK) SS:
COUNTY OF HILLSBOROUGH)

The foregoing instrument was acknowledged before me the 15th day of March, 2013, by Robert Pratt, the Vice President of Facilities and Site Services of PC Connection, Inc., a Delaware corporation, on behalf of the corporation.

/S/ DOLORES R. COLLINS
Notary Public

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: May 3, 2013	/S/ TIMOTHY MCGRATH
	Timothy McGrath
	President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Joseph Driscoll, 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: May 3, 2013	/S/ JOSEPH DRISCOLL
	Joseph Driscoll
	Senior 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 March 31, 2013 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: May 3, 2013

/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 March 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Joseph Driscoll, Senior 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: May 3, 2013

/S/ JOSEPH DRISCOLL
Joseph Driscoll
Senior Vice President, Treasurer and Chief Financial Officer