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, 2004

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

Indicate by check mark (**ü**) 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 (**ü**) whether the registrant is an accelerated filer as defined in Rule 12b-2 of the Securities and Exchange Act of 1934, as amended.

YES ☐ **NO** ☒

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of the issuer’s Common Stock, $.01 par value, as of September 30, 2004 was 25,049,973.

PC CONNECTION, INC. AND SUBSIDIARIES
FORM 10-Q

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying condensed consolidated balance sheet of PC Connection, Inc. and subsidiaries (the "Company") as of September 30, 2004, and the related condensed consolidated statements of income for the three-month and nine-month periods ended September 30, 2004 and 2003, and the condensed consolidated statement of changes in stockholders' equity for the nine-month period ended September 30, 2004, and the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2004 and 2003. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board (United States), 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 reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim 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 standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of PC Connection, Inc. and subsidiaries as of December 31, 2003, 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 March 18, 2004, 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, 2003 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

DELOITTE & TOUCHE LLP

November 10, 2004
Boston, Massachusetts

PC CONNECTION, INC. AND SUBSIDIARIES

Part I—Financial Information
Item 1—Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS
(amounts in thousands)

	September 30, 2004	December 31, 2003
	(unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 7,367**	$ 2,977
Restricted cash	**—**	5,000
Accounts receivable, net	**123,503**	144,337
Inventories – merchandise	**77,414**	80,140
Deferred income taxes	**3,391**	1,732
Income taxes receivable	**1,047**	2,190
Prepaid expenses and other current assets	**3,629**	3,649
Total current assets	**216,351**	240,025
Property and equipment, net	**17,757**	20,396
Goodwill, net	**44,766**	45,264
Other intangibles, net	**3,129**	3,393
Other assets	**226**	208
Total assets	**$ 282,229**	$ 309,286
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of capital lease obligation to affiliate	**$ 362**	$ 334
Note payable – bank	**—**	5,614
Accounts payable	**90,557**	112,538
Accrued expenses and other liabilities	**18,336**	13,063
Acquisition earn-out obligation	**—**	11,593
Total current liabilities	**109,255**	143,142
Capital lease obligation to affiliate, less current maturities	**5,813**	6,088
Deferred income taxes	**3,370**	2,867
Total liabilities	**118,438**	152,097
Stockholders' Equity:		
Common stock	**254**	253
Additional paid-in capital	**76,798**	76,428
Retained earnings	**89,025**	82,794
Treasury stock at cost	**(2,286)**	(2,286)
Total stockholders' equity	**163,791**	157,189
Total liabilities and stockholders' equity	**$ 282,229**	$ 309,286

See accompanying notes to 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 September 30,		Nine Months Ended September 30,	
	2004	**2003**	**2004**	**2003**
Net sales	**$351,265**	$349,420	**$1,014,235**	$954,515
Cost of sales	**311,859**	313,494	**904,742**	853,157
Gross profit	**39,406**	35,926	**109,493**	101,358
Selling, general, and administrative expenses	**32,765**	32,059	**94,938**	91,716
Special charges	**1,800**	—	**3,583**	397
Income from operations	**4,841**	3,867	**10,972**	9,245
Interest expense	**(334)**	(270)	**(1,059)**	(849)
Other, net	**35**	27	**136**	125
Income before taxes	**4,542**	3,624	**10,049**	8,521
Income tax provision	**(1,725)**	(1,444)	**(3,818)**	(3,363)
Net income	**$ 2,817**	$ 2,180	**$ 6,231**	$ 5,158
Weighted average common shares outstanding:				
Basic	**25,047**	24,741	**25,018**	24,686
Diluted	**25,215**	25,322	**25,271**	25,058
Earnings per common share:				
Basic	**$ .11**	$ .09	**$ .25**	$ .21
Diluted	**$ .11**	$ .09	**$ .25**	$ .21

See accompanying notes to condensed consolidated financial statements.

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PC CONNECTION, INC. AND SUBSIDIARIES

Part I—Financial Information
Item 1—Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
Nine Months Ended September 30, 2004
(Unaudited)
(amounts in thousands)

	Common Stock				Treasury Shares		
	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Shares	Amount	Total
Balance – December 31, 2003	25,342	$ 253	$ 76,428	$ 82,794	(362)	$ (2,286)	$ 157,189
Exercise of stock options, including income tax benefits	33	1	165	—	—	—	166
Issuance of stock under employee stock purchase plan	37	—	205	—	—	—	205
Net income	—	—	—	6,231	—	—	6,231
Balance – September 30, 2004	**25,412**	**$ 254**	**$ 76,798**	**$ 89,025**	**(362)**	**$ (2,286)**	**$ 163,791**

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,	
	2004	**2003**
Cash Flows from Operating Activities:		
Net income	**$ 6,231**	$ 5,158
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**5,340**	6,500
Deferred income taxes	**(1,156)**	(1,867)
Provision for doubtful accounts	**3,083**	2,323
Loss (gain) on disposal of fixed assets	**9**	(1)
Changes in assets and liabilities:		
Accounts receivable	**17,751**	(12,314)
Inventories	**2,726**	(19,995)
Prepaid expenses and other current assets	**1,163**	250
Other non-current assets	**(18)**	147
Accounts payable	**(21,981)**	32,810
Income tax benefits from exercise of stock options	**90**	152
Accrued expenses and other liabilities	**5,273**	2,123
Net cash provided by operating activities	**18,511**	15,286
Cash Flows from Investing Activities:		
Purchases of property and equipment	**(2,449)**	(1,907)
Proceeds from sale of property and equipment	**3**	1
Payment of acquisition earn-out obligation	**(11,095)**	(10,800)
Cash escrow distributed for acquisition	**5,000**	5,000
Net cash used for investing activities	**(8,541)**	(7,706)
Cash Flows from Financing Activities:		
Proceeds from short-term borrowing	**270,686**	109,333
Repayment of short-term borrowings	**(276,300)**	(109,333)
Repayment of capital lease obligation to affiliate	**(247)**	(140)
Exercise of stock options	**76**	290
Issuance of stock under employee stock purchase plan	**205**	212
Net cash (used for) provided by financing activities	**(5,580)**	362
Increase in cash and cash equivalents	**4,390**	7,942
Cash and cash equivalents, beginning of period	**2,977**	1,797
Cash and cash equivalents, end of period	**$ 7,367**	$ 9,739

See accompanying notes to condensed consolidated financial statements.

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PC CONNECTION, INC. AND SUBSIDIARIES

Part I—Financial Information
Item 1—Financial Statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(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 ("PC Connection") 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 our Annual Report on Form 10-K for the year ended December 31, 2003 filed with the Securities and Exchange Commission. 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 operating results for the three and nine months ended September 30, 2004 may not be indicative of the results expected for any succeeding quarter or the entire year ending December 31, 2004.

Revenue Recognition

Revenue on product sales is recognized at the point in time when persuasive evidence of an arrangement exists, the price is fixed, final delivery has occurred, and there is a reasonable assurance of collection of the sales proceeds. We generally obtain oral or written purchase authorizations from our customers for a specified amount of product at a specified price. Because we either (i) have a general practice of covering customer losses while products are in transit despite title transferring to the customer at the point of shipment or (ii) have FOB – destination specifically set out in our arrangements with federal agencies, delivery is deemed to have occurred at the point in time when the product is received by the customer.

We provide our customers with a limited thirty-day right of return generally limited to defective merchandise. Revenue is recognized at delivery and a reserve for sales returns is recorded. We have demonstrated the ability to make reasonable and reliable estimates of product returns in accordance with Statement of Financial Accounting Standards ("SFAS") No. 48, "Revenue Recognition When Right of Return Exists," based on significant historical experience. Should such returns no longer prove estimable, we believe that the impact on our financials would not necessarily be significant since the return privilege expires 30 days after shipment.

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 have been classified as "net sales." Costs related to such shipping and handling billings are classified as "cost of sales."

Restricted Cash

In connection with the acquisition of MoreDirect, Inc. (see Note 6 – Acquisition of MoreDirect, Inc.), we established a $10,000 cash escrow to fund a portion of the contingent consideration. We used $5,000 of these escrowed funds in the first quarter of 2003 and the remaining $5,000 in the first quarter of 2004 to satisfy a portion of the earn-out obligation.

Goodwill and Other Intangible Assets

Intangible assets subject to amortization, consisting of customer lists, were $1,939 and $2,203 at September 30, 2004 and December 31, 2003 (net of accumulated amortization of $881 and $617, respectively). Intangible assets not subject to amortization are as follows:

	September 30, 2004	December 31, 2003
Goodwill	**$ 44,766**	$ 45,264
Trademarks	**1,190**	1,190

A rollforward of goodwill is as follows:

Balance, December 31, 2003	$ 45,264
Adjustment to earn-out obligation	(498)
Balance, September 30, 2004	$ 44,766

We have designated January 1 of each year as the date we intend to perform our annual impairment tests relative to goodwill. This test was completed in the first quarter of 2004, and no impairment was recorded.

For the each of the nine-month periods ended September 30, 2004 and 2003, we recorded amortization expense of $264 on intangible assets.

The estimated amortization expense for each of the five succeeding years and thereafter is as follows:

For the Year Ended December 31,		
2004	$ 89	(A)
2005	353	
2006	353	
2007	353	
2008	353	
2009 and thereafter	438	

(A) Represents estimated remaining amortization expense for the three months ending December 31, 2004.

Use of Estimates

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

Stock-Based Compensation

Compensation expense associated with awards of stock or options to employees and directors is measured using the intrinsic value method in accordance with APB Opinion No. 25, “Accounting for Stock Issued to Employees.” The intrinsic value method requires that compensation expense, if any, be measured by the difference between the fair value of our common stock and the strike price of the option as of a measurement date. This measurement date is generally when both the number of shares and the strike price of the options are determined.

Had we recorded compensation expense using the fair value method under SFAS No. 123, "Accounting for Stock-Based Compensation," pro forma net income and diluted net income per share for the periods indicated would have been as follows:

September 30, *(amounts in thousands, except per share data)*	Three Months Ended 2004	Three Months Ended 2003	Nine Months Ended 2004	Nine Months Ended 2003
Net income, as reported	**$ 2,817**	$ 2,180	**$ 6,231**	$ 5,158
Compensation expense, net of taxes, under SFAS No. 123	**256**	679	**764**	1,617
Net income, under SFAS No. 123	**2,561**	1,501	**5,467**	3,541
Basic net income per share, as reported	**.11**	.09	**.25**	.21
Basic net income per share, under SFAS No. 123	**.10**	.06	**.22**	.15
Diluted net income per share, as reported	**.11**	.09	**.25**	.21
Diluted net income per share, under SFAS No. 123	**.10**	.06	**.22**	.15

We have used the Black-Scholes model to value options granted subsequent to our initial public offering. For the period ended September 30, 2004, volatility factors ranging from 96.1% to 98.6%, estimated option lives of four years, and risk-free interest rates ranging from 2.4% to 3.4% were used. For the period ended September 30, 2003, a volatility factor of 64.6%, estimated option lives of four years, and a risk-free interest rate of 2.4% were used.

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 options outstanding to purchase common stock, if dilutive.

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 2004	Three Months Ended 2003	Nine Months Ended 2004	Nine Months Ended 2003
Numerator:				
Net income	**$ 2,817**	$ 2,180	**$ 6,231**	$ 5,158
Denominator:				
Denominator for basic earnings per share	**25,047**	24,741	**25,018**	24,686
Dilutive effect of unexercised employee stock options	**168**	581	**253**	372
Denominator for diluted earnings per share	**25,215**	25,322	**25,271**	25,058
Earnings per share:				
Basic	**$ .11**	$ .09	**$ .25**	$ .21
Diluted	**$ .11**	$ .09	**$ .25**	$ .21

The following unexercised stock options were excluded from the computation of diluted earnings per share for the three and nine months ended September 30, 2004 and 2003 because the exercise prices of these options were generally greater than the average market price of common shares during the respective periods:

September 30, *(amounts in thousands)*	Three Months Ended 2004	Three Months Ended 2003	Nine Months Ended 2004	Nine Months Ended 2003
Anti-dilutive stock options	**3,615**	1,165	**2,774**	1,572

Note 3—Reporting Comprehensive Income

We have no other comprehensive income in any of the periods presented. Accordingly, a separate statement of comprehensive income is not presented.

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Note 4—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.

We operate in three reportable operating segments—the "SMB" segment, which contains small- and medium-sized businesses, as well as consumers; the "Public Sector" segment, which contains federal, state, and local governmental organizations and educational institutions; and the "Large Corporate Account" segment which serves medium-to-large corporations.

Segment information applicable to the Company's reportable operating segments for the three and nine months ended September 30, 2004 and 2003 is shown below:

Three Months Ended September 30, 2004	SMB Segment	Public Sector Segment	Large Corp. Acct. Segment	Eliminations	Consolidated
Sales to external customers	$195,943	$ 77,864	$ 77,458	$ —	$ 351,265
Transfers between segments	71,281	—	—	(71,281)	—
Net sales	$267,224	$ 77,864	$ 77,458	$ (71,281)	$ 351,265
Operating income (loss) before allocations	$ 14,367	$ 1,488	$ 4,248	$ (15,262)	$ 4,841
Allocations	10,852	4,006	404	(15,262)	—
Operating income (loss)	3,515	(2,518)	3,844	—	4,841
Interest and other—net	(224)	(87)	12	—	(299)
Income (loss) before taxes	$ 3,291	$ (2,605)	$ 3,856	$ —	$ 4,542

Three Months Ended September 30, 2003	SMB Segment	Public Sector Segment	Large Corp. Acct. Segment	Eliminations	Consolidated
Sales to external customers	$179,565	$ 103,596	$ 66,259	$ —	$ 349,420
Transfers between segments	83,702	—	—	(83,702)	—
Net sales	$263,267	$ 103,596	$ 66,259	$ (83,702)	$ 349,420
Operating income (loss) before allocations	$ 11,159	$ 4,081	$ 4,147	$ (15,520)	$ 3,867
Allocations	11,371	3,737	412	(15,520)	—
Operating income (loss)	(212)	344	3,735	—	3,867
Interest and other—net	(185)	(61)	3	—	(243)
Income (loss) before taxes	$ (397)	$ 283	$ 3,738	$ —	$ 3,624

Nine Months Ended September 30, 2004	SMB Segment	Public Sector Segment	Large Corp. Acct. Segment	Eliminations	Consolidated
Sales to external customers	$597,425	$ 195,051	$ 221,759	$ —	$1,014,235
Transfers between segments	176,910	—	—	(176,910)	—
Net sales	$774,335	$ 195,051	$ 221,759	$(176,910)	$1,014,235
Operating income (loss) before allocations	$ 43,787	$ 2,532	$ 11,585	$ (46,932)	$ 10,972
Allocations	34,636	11,084	1,212	(46,932)	—
Operating income (loss)	9,151	(8,552)	10,373	—	10,972
Interest and other—net	(735)	(217)	29	—	(923)
Income (loss) before taxes	$ 8,416	$ (8,769)	$ 10,402	$ —	$ 10,049
Total assets	$200,457	$ 71,468	$ 100,790	$ (90,486)	$ 282,229
Goodwill, net	$ 1,173	$ 7,634	$ 35,959	$ —	$ 44,766

Nine Months Ended September 30, 2003	SMB Segment	Public Sector Segment	Large Corp. Acct. Segment	Eliminations	Consolidated
Sales to external customers	$544,781	$ 231,251	$ 178,483	$ —	$ 954,515
Transfers between segments	181,861	—	—	(181,861)	—
Net sales	$726,642	$ 231,251	$ 178,483	$(181,861)	$ 954,515
Operating income (loss) before allocations	$ 36,737	$ 7,623	$ 11,369	$ (46,484)	$ 9,245
Allocations	35,803	9,696	985	(46,484)	—
Operating income (loss)	934	(2,073)	10,384	—	9,245
Interest and other—net	(604)	(134)	14	—	(724)
Income (loss) before taxes	$ 330	$ (2,207)	$ 10,398	$ —	$ 8,521
Total assets	$193,790	$ 101,924	$ 82,321	$ (80,610)	$ 297,425
Goodwill, net	$ 1,173	$ 7,634	$ 24,865	$ —	$ 33,672

General and administrative expenses were charged to the reportable operating segments, based on their estimated usage of the underlying functions. Interest and other expense was charged to the segments, based on the actual costs incurred by each segment, net of interest and other income generated. The amount shown above representing total assets eliminated consists of inter-segment receivables, resulting primarily from inter-segment sales transfers reported above and from inter-segment service charges.

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

September 30, *(amounts in thousands)*	Three Months Ended 2004	Three Months Ended 2003	Nine Months Ended 2004	Nine Months Ended 2003
Segment (excludes transfers between segments)				
SMB	**$ 195,943**	$ 179,565	**$ 597,425**	$ 544,781
Public Sector	**77,864**	103,596	**195,051**	231,251
Large Account	**77,458**	66,259	**221,759**	178,483
Total	**$ 351,265**	$ 349,420	**$ 1,014,235**	$ 954,515
Sales Channel				
Outbound & Telemarketing Field Sales	**$ 258,784**	$ 272,225	**$ 751,466**	$ 738,941
Inbound Telesales	**19,292**	23,772	**62,216**	62,568
Online Internet	**73,189**	53,423	**200,553**	153,006
Total	**$ 351,265**	$ 349,420	**$ 1,014,235**	$ 954,515
Product Mix				
Notebooks & PDAs	**$ 75,894**	$ 73,012	**$ 212,044**	$ 193,539
Desktop/Servers	**48,858**	49,686	**141,351**	136,970
Storage Devices	**27,635**	31,099	**80,848**	87,616
Software	**41,958**	37,581	**122,683**	99,397
Net/Com Products	**25,703**	27,834	**73,661**	76,784
Printers & Printer Supplies	**37,065**	39,903	**113,688**	112,349
Video, Imaging & Sound	**41,407**	41,003	**122,668**	110,017
Memory & System Enhancements	**19,068**	19,778	**53,528**	54,436
Accessories/Other	**33,677**	29,524	**93,764**	83,407
Total	**$ 351,265**	$ 349,420	**$ 1,014,235**	$ 954,515

Substantially all of our net sales for the three and nine months ended September 30, 2004 and 2003 were made to customers located in the United States. Shipments to customers located in foreign countries aggregated less than 2% in each of those respective periods. All of our assets at September 30, 2004 and December 31, 2003 were located in the United States. Our primary target customers are small- to medium-sized businesses comprised of 20 to 1,000 employees, federal, state, and local governmental agencies, educational institutions, and medium-to-large corporate accounts. Except for the federal government, no single customer accounted for more than 4% of total net sales in the three and nine months ended September 30, 2004 and 2003. Net sales to the federal government accounted for $18.2 million, or 5.2% of total net sales for the three months ended September 30, 2004, and $51.8 million, or 14.8% of total net sales for the three months ended September 30, 2003. Net sales to the federal government accounted for $43.7 million, or 4.3% of total net sales for the nine months ended September 30, 2004, and $105.7 million, or 11.1% of total net sales for the nine months ended September 30, 2003. The decrease in federal government sales was due to the late 2003 cancellation of a contract by the General Services Administration ("GSA"), as discussed elsewhere in this quarterly report.

Note 5—Special Charges

In the three months ended September 30, 2004, we recorded charges of $1,500 related to our review concerning the 2003 GSA contract cancellation and costs related to securing a new GSA schedule, charges of $8 related to staff reductions, and other charges of $292, primarily related to our review of certain calendar year 2000 and 2003 transactions. We concluded our review in October 2004. We did not record any special charges in the three months ended September 30, 2003.

In the nine months ended September 30, 2004 and 2003, we recorded charges of $583 and $397, respectively, related to staff reductions, charges of $2,627 and $0, respectively, related to our review concerning the 2003 GSA contract cancellation and costs related to securing a new GSA schedule, and other special charges of $373 and $0, respectively, primarily related to our review of certain calendar year 2000 and 2003 transactions. We concluded our review of these transactions in October 2004.

A rollforward of restructuring reserves is shown below.

	Workforce Reductions	GSA Review	Other	Total
Balance December 31, 2003	$ 113	$ 237	$—	$ 350
Charges	549	439	42	1,030
Cash payments	(503)	(412)	(42)	(957)
Liabilities at March 31, 2004	159	264	—	423
Charges	26	688	39	753
Cash payments	(170)	(780)	(39)	(989)
Liabilities at June 30, 2004	15	172	—	187
Charges	8	1,500	292	1,800
Cash payments	(23)	(212)	(34)	(269)
Liabilities at September 30, 2004	$ —	$1,460	$258	$1,718

Liabilities at September 30, 2004 and December 31, 2003 are included in accrued expenses and other liabilities on the balance sheet.

Note 6—Acquisition of MoreDirect, Inc.

On April 5, 2002, we completed the acquisition of MoreDirect, Inc. (“MoreDirect”). Our annual report on Form 10-K for the year ended December 31, 2003 details this transaction. Under the terms of the agreement, MoreDirect’s shareholder continues to be eligible to earn additional consideration based upon MoreDirect achieving targeted levels of annual earnings before income taxes through December 31, 2004. For the year ended December 31, 2003, we paid $11,095 in earn-out consideration to MoreDirect’s shareholder. For the period ended December 31, 2002, we paid $10,800 in earn-out consideration. We also escrowed $10,000 in cash in April 2002 to fund a portion of these contingent payments, of which $5,000 was used to satisfy a portion of the 2002 liability paid by us in the first quarter of 2003. We used the remaining $5,000 in the first quarter of 2004 to satisfy a portion of the 2003 liability paid.

Note 7—Commitments and Contingencies

We are subject to various legal proceedings and 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 also subject to audit by various government agencies relating to sales under certain government contracts. As noted in our Annual Report on Form 10-K for the year ended December 31, 2003, the GSA, in the fourth quarter of 2003, canceled the contract that our subsidiary, GovConnection, had with that agency. Although the GSA awarded GovConnection a new contract in August 2004, we have not received an audit report or received a claim from the GSA concerning amounts that might be owed pursuant to this audit. We believe that we have provided adequate reserves to cover any claims as they relate to payment of fees required under the contract. We have reserved $1.0 million for such fees. However, we will continue to evaluate such reserves in light of additional information that comes to our attention.

We have been informally advised that audit matters related to GovConnection have been referred to the Department of Justice for its review. Such a referral exposes us to possible civil damages for non-compliance with the GSA contract. Such damages can be substantial. No reserves have been provided for such a claim because of the preliminary nature of this matter. We will continue to evaluate our reserves—as they relate to the GSA audit/Department of Justice investigation—in light of additional information that comes to our attention. The ultimate outcome of these matters cannot be determined. Future events may result in conclusions that could have a material impact, either positively or negatively, on our results of operations or financial condition. We have no indication of intentional wrongdoing by GovConnection regarding the GSA contract. In order to assist in this evaluation, we have engaged outside counsel and an independent accounting firm to review the Company's systems, policies, and procedures relative to its federal, state, and local government contracts.

Note 8—Bank Borrowing and Trade Credit Arrangements

We have a $45,000 credit facility secured by substantially all of our business assets. This facility was amended as of October 1, 2003 to give us the option, which we may exercise at anytime prior to the credit facility's maturity date, of increasing the borrowing up to $65,000. Amounts outstanding under this facility bear interest at the prime rate (4.75% at September 30, 2004). The credit facility includes various customary financial and operating covenants, including minimum net worth and maximum funded debt ratio requirements, and restrictions on the payment of dividends, and default acceleration provisions, none of which we believe significantly restricts our operations. The maximum allowable funded debt ratio under the agreement is 2.0 to 1.0; our actual funded debt ratio at September 30, 2004 was only 0.4 to 1.0. Funded debt ratio is the ratio of average outstanding advances under the facility to EBITDA (Earnings Before Interest Expense, Taxes, Depreciation, and Amortization). Borrowing availability under the agreement was $45,000 at September 30, 2004.

No borrowings were outstanding under this credit facility at September 30, 2004. The credit facility matures on December 31, 2005, at which time amounts outstanding, if any, become due.

At September 30, 2004 and December 31, 2003, 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 position in inventory financed by the financial institutions up to an aggregated amount of $45,000. The cost of such financing under these agreements is borne by the suppliers by discounting their invoices to the financial institutions as an incentive for us to purchase their products. We do not pay any interest or discount fees on such inventory financing. At September 30, 2004 and December 31, 2003, accounts payable included $7,921 and $6,397, respectively, owed to these financial institutions.

PC CONNECTION, INC. AND SUBSIDIARIES

Part I—Financial Information
Item 2—MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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," "may," "project," "will," "would," and "intend" and other similar expressions, constitute forward-looking statements. These forward-looking statements involve risks and uncertainties, and actual results may differ materially from those anticipated or expressed in such statements. Potential risks and uncertainties include, among others, those set forth under the caption "Factors That May Affect Future Results and Financial Condition" included within this section. 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 Securities and Exchange Commission.

OVERVIEW

PC Connection is a national direct marketing organization, offering a wide range of information technology products and services—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 a growing range of repair, installation, and other services performed by third-party providers. We operate through three primary business segments: (a) consumers and small- to medium-sized businesses ("SMB") through our PC Connection Sales subsidiary, (b) federal, state, and local government and educational institutions ("Public Sector") through our GovConnection subsidiary, and (c) large corporate accounts ("Large Account") through our MoreDirect subsidiary.

We generate sales through (i) outbound telemarketing and field sales contacts by account managers focused on the business, education, and government markets, (ii) inbound calls from customers responding to our catalogs and other advertising media, and (iii) our Internet Web sites.

Opportunities, Challenges, and Risks

With our sales representing less than 1% of the overall $200 billion U.S. Information Technology ("IT") market, we believe that we have an excellent opportunity to grow and gain a larger share of this market. As experienced in the last half of 2003, we continued to experience an improvement in sales productivity in the first nine months of 2004. We also implemented a number of sales and gross profit improvement initiatives in 2004, including tighter management of discounting, more extensive and focused sales training on costs and margins, and targeted improvements in sales pricing, sales incentives, and account management. With these initiatives, we expect our sales personnel to continue to generate more add-on sales, thereby further increasing sales per transaction as well as improving over-all gross profit margins during the remainder of 2004.

As noted in our 2003 Annual Report on Form 10-K, the General Services Administration ("GSA") cancelled its contract with GovConnection, following its review of our subsidiary's contract management system and procedures and the possibility of the sale of unqualified items and underpayment of required fees. We applied for a new contract, and in August 2004, the GSA awarded GovConnection authorization to sell to the federal government under a new GSA schedule. During the period ended September 30, 2004 we saw a significant year-over-year decline in our federal government sales, largely due to the loss of the GSA contract. Accordingly, our

revenues may continue to be impacted negatively as GovConnection seeks to regain sales under the new GSA contract. This matter is further discussed below in the section entitled "Factors That May Affect Future Results and Financial Condition."

The primary challenges we continue to face in effectively managing our business are: (1) continuing our sales growth while stabilizing and ultimately improving our gross profit margins in all three segments of our business, (2) continuing to improve the productivity of our sales personnel, and (3) effectively managing and leveraging our selling, general, and administrative expenses over a higher sales base. We expect competition to be even more intense in the future, which could put additional pressure on our gross profit margins.

RESULTS OF OPERATIONS

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

	Three Months Ended		Nine Months Ended	
September 30,	**2004**	**2003**	**2004**	**2003**
Net sales (in millions)	**$351.3**	$349.4	**$1,014.2**	$954.5
Net sales	**100.0%**	100.0%	**100.0%**	100.0%
Gross profit	**11.2**	10.3	**10.8**	10.6
Selling, general, and administrative (SG&A) expenses	**9.3**	9.2	**9.4**	9.6
Special charges	**0.5**	—	**0.3**	—
Income from operations	**1.4**	1.1	**1.1**	1.0

The increase in gross profit as a percentage of sales for the third quarter of 2004 offset the decrease in the first quarter of 2004 and resulted from an increased focus on gross margins and product mix. Additionally for the third quarter of 2004, we revised our estimates relating to vendor consideration in Issue No. 02-16 of the Emerging Issues Task Force (EITF 02-16) and reclassified $1.2 million of additional advertising reimbursements in excess of advertising costs incurred from SG&A expenses to cost of goods sold and inventory. Such excess advertising reimbursements were recorded as an offset to SG&A expenses, and that reclassification resulted in an increase in gross margin of 0.2% and an increase in SG&A expenses as a percentage of sales of 0.3% for the third quarter of 2004. The 2004 decrease in SG&A expenses as a percentage of net sales for the nine-month period is the result of higher sales volumes spread over relatively fixed expenses, together with various cost improvement initiatives, including the consolidation of our sales support staff. Similarly, for the nine months ended September 30, 2004, such excess advertising reclassification resulted in a 0.1% increase in gross margin and in SG&A expenses as a percentage of net sales.

Sales Distribution

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

	Three Months Ended		Nine Months Ended	
September 30,	2004	2003	2004	2003
Segment (excludes transfers between segments)				
SMB	**56%**	51%	**59%**	57%
Public Sector	**22**	30	**19**	24
Large Accounts	**22**	19	**22**	19
Total	**100%**	100%	**100%**	100%
Sales Channel				
Outbound Telemarketing & Field Sales	**74%**	78%	**74%**	77%
Inbound Telesales	**5**	7	**6**	7
Online Internet	**21**	15	**20**	16
Total	**100%**	100%	**100%**	100%
Product Mix				
Notebooks & PDAs	**21%**	21%	**21%**	20%
Desktop/Servers	**14**	14	**14**	14
Storage Devices	**8**	9	**8**	9
Software	**12**	11	**12**	10
Net/Com Products	**7**	8	**7**	8
Printers & Printer Supplies	**11**	11	**11**	12
Videos, Imaging & Sound	**12**	12	**12**	12
Memory & System Enhancements	**5**	6	**6**	6
Accessories/Other	**10**	8	**9**	9
Total	**100%**	100%	**100%**	100%

Gross Profit Margins

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

	Three Months Ended		Nine Months Ended	
September 30,	2004	2003	2004	2003
Segment				
SMB	**12.2%**	11.2%	**11.6%**	11.2%
Public Sector	**9.8**	8.0	**9.3**	8.3
Large Account	**10.2**	11.3	**10.0**	11.7
Total	**11.2%**	10.3%	**10.8%**	10.6%

Gross margins on a consolidated basis increased year over year for the three-month periods and also increased sequentially from 10.8% in the second quarter of 2004 due in part to the reclassification of additional advertising reimbursements in excess of advertising costs referred to earlier. Consolidated gross margin for the nine months ended September 30, 2004 was slightly higher than the comparable period in 2003, primarily due to our gross margin improvement initiatives implemented in the first quarter of 2004. Gross margins also vary by product mix. Sales of notebooks and PDAs continued to account for a high percentage of our overall sales in the third quarter of 2004, although they generally yield a low gross margin percentage. Our on-going efforts to improve product margins continue to focus on increasing higher margin add-on sales of accessories and other

companion products to our system sales and increasing the level of enterprise product sales and sales of third-party warranty, installation, and other services. These products and services are likely to increase our overall gross margins. We also implemented a number of sales and gross profit improvement initiatives, including tighter management of discounting, more extensive and focused sales training on costs and margins, and targeted improvements in sales pricing, sales incentives, and account management.

Operating Expenses

The following table breaks out our more significant operating expenses for the periods indicated (in millions of dollars):

September 30,	Three Months Ended 2004	Three Months Ended 2003	Nine Months Ended 2004	Nine Months Ended 2003
Personnel costs	**$ 23.2**	$ 22.7	**$ 69.3**	$ 66.5
Facilities operations	**2.3**	2.4	**7.1**	7.1
Credit card fees	**1.8**	1.8	**5.4**	5.4
Depreciation and amortization	**1.8**	2.1	**5.3**	6.5
Bad debts	**0.8**	0.8	**1.9**	2.3
Other – net, including advertising	**2.9**	2.3	**5.9**	3.9
Total	**$ 32.8**	$ 32.1	**$ 94.9**	$ 91.7
Percentage of net sales	**9.3%**	9.2%	**9.4%**	9.6%

Personnel costs continue to represent the majority of our operating expenses, with sales personnel representing the largest portion of these costs. Our other operating costs, except for credit card fees and bad debts, tend to be relatively fixed over changing sales levels. The increases in other operating costs for the three-month and nine-month periods in 2004 are attributable primarily to increased business insurance costs and net advertising costs.

YEAR-OVER-YEAR COMPARISONS

Three Months Ended September 30, 2004 Compared to Three Months Ended September 30, 2003

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

	Three Months Ended September 30,				
	2004		2003		
	Amount	% of Net Sales	Amount	% of Net Sales	% Change
Sales:					
SMB	$195.9	55.8%	$179.5	51.4%	9.1%
Public Sector	77.9	22.2	103.6	29.6	(24.8)
Large Account	77.5	22.0	66.3	19.0	16.9
Total	$351.3	100.0%	$349.4	100.0%	0.5%
Gross Profit:					
SMB	$ 23.9	12.2%	$ 20.2	11.2%	18.3%
Public Sector	7.6	9.8	8.2	8.0	(7.3)
Large Account	7.9	10.2	7.5	11.3	5.3
Total	$ 39.4	11.2%	$ 35.9	10.3%	9.7%

Net sales for the third quarter increased year over year due to increases in our SMB and Large Account segments, as explained below:

- Net sales for our SMB segment increased year over year because we improved annualized sales productivity by 8.2% while keeping our total number of sales representatives relatively unchanged during the same period. Our improvement in annualized sales productivity resulted largely from our efforts to increase add-on sales of accessories and other companion products, along with a 23% increase in average order size. Sales representatives for the SMB segment totaled 394 at September 30, 2004, up slightly from 390 at September 30, 2003.
- Net sales for our Public Sector segment decreased year over year due to a 64.8% decline in sales to the federal government. Sales to the federal government decreased as a result of the cancellation of our GovConnection subsidiary's GSA contract in late 2003. In August 2004, the GSA awarded a new contract to GovConnection. Sales to state and local government units and educational institutions, however, increased 15.1% from the third quarter of 2003. Sales account managers for the Public Sector segment totaled 104 at September 30, 2004, a decrease from 111 at September 30, 2003.
- Net sales for our Large Account segment increased year over year due to improvement in average annualized sales productivity by 26.5%. Sales representatives for this segment totaled 73 at September 30, 2004, a decrease from 79 at September 30, 2003.

Gross profit and the corresponding gross margin percentage of net sales for the third quarter increased as shown by the above table. These increases are explained below:

- Gross profit for our SMB segment increased year over year, as did its gross margin rate. In addition to the excess advertising reimbursements reclassification referred to earlier, these increases are attributable to our increased focus on margins. We have implemented a number of sales and gross profit improvement initiatives, including tighter management of discounting, more extensive and focused sales training on costs and margins, and targeted improvements in sales pricing, sales incentives, and account management.
- Gross profit for our Public Sector segment decreased year over year but at a lower rate than its percentage decrease in sales. The decrease attributable to the decline in federal government sales discussed above was largely offset by an increase in margin rate in our state and local government and educational business. This increase resulted from the same gross profit improvement initiatives as those implemented in our SMB segment.
- Gross profit for our Large Account segment increased year over year due to the increase in sales discussed above, partially offset by the decline in the gross margin rate. Changes in customer mix and continuing competitive pressures caused gross margin rates to decrease on a year-over-year basis.

Selling, general, and administrative expenses increased modestly year over year in the three months ended September 30, 2004 and also increased modestly as a percentage of sales over the comparable period in 2003. The increases are related primarily to increased variable costs, including sales personnel expense associated with higher gross profit levels, and to the excess advertising reimbursements reclassification referred to earlier.

We have concentrated our efforts on managing our overall operating costs. Personnel costs generally account for over two-thirds of our SG&A expenses. In the first quarter of 2004, we restructured our sales support staff to provide more efficiency and effectiveness. While we plan to continue our focus on controlling discretionary expenditures, we expect that our SG&A expense may vary depending on changes in sales volume, as well as the levels of continued investments in key growth initiatives such as hiring more experienced outbound sales account managers, improving marketing programs, and deploying next generation Internet Web technology to support our sales organization.

SG&A expenses attributable to our operating segments are summarized below (dollars in millions):

	Three Months Ended September 30,				
	2004		2003		
	Amount	% of Net Sales	Amount	% of Net Sales	% Change
SMB	$ 20.1	10.2%	$ 20.4	11.4%	(1.5)%
Public Sector	8.7	11.1	7.9	7.6	10.1
Large Account	4.0	5.2	3.8	5.7	5.3
Total	$ 32.8	9.3%	$ 32.1	9.2%	2.2%

- SG&A expenses for our SMB segment decreased modestly in the three months ended September 30, 2004 compared to the same period in 2003, and also decreased as a percentage of net sales from 2003. Decreases in depreciation expense and professional fees were partially offset by an increase in net advertising expense that resulted from the excess vendor reimbursements reclassification discussed earlier.
- Our Public Sector segment's expenses increased year over year in the third quarter of 2004 but were significantly higher as a percentage of net sales than expenses for the comparable period in 2003. The significant decrease in our federal government sales described above accounted for the increase in this segment's SG&A as a percentage of sales despite the small increase in actual expense. We have retained experienced sales personnel in anticipation of our new GSA contract; a new contract was awarded in August 2004.
- SG&A expenses for our Large Account segment increased on a dollar basis but decreased as a percentage of net sales. SG&A expenses for this segment represent the lowest of the three segments as a percentage of net sales, reflecting the nature and efficiency of this segment's operating model, which feature variable cost field sales and drop-shipping.

Special charges totaled $1.8 million for the three months ended September 30, 2004. We did not incur any special charges for the three months ended September 30, 2003. A roll forward of special charges for the period presented is shown in the table below (in thousands). There were no changes in estimates in any of the periods presented.

	Workforce Reductions	GSA Review	Other	Total
Balance June 30, 2004	$ 15	$ 172	$—	$ 187
Charges	8	1,500	292	1,800
Cash payments	(23)	(212)	(34)	(269)
Balance September 30, 2004	$ —	$1,460	$258	$1,718

The legal and other professional charges for the GSA contract review represent costs of our ongoing review relating to the cancellation by the GSA in late 2003 of its contract with our subsidiary, GovConnection, and costs related to securing a new GSA schedule, which was awarded in August 2004. The other charges represent additional expenses primarily incurred in relation to our review of certain calendar year 2000 and 2003 transactions. We concluded our review of these transactions in October 2004.

Income from operations increased by $1.0 million, or 25.2%, to $4.8 million for the three months ended September 30, 2004 from the comparable period in 2003. Income from operations as a percentage of net sales increased from 1.1% in the three months ended September 30, 2003 to 1.4% in the same period in 2004. This increase was attributable to the changes in net sales, gross margin, SG&A expenses, and special charges as discussed above.

Interest expense increased slightly due to higher interest rates and higher average borrowings outstanding in 2004 as compared to 2003.

Our effective tax rate was 38.0% for the third quarter of 2004 and 39.8% for the same period in 2003. The decrease in the effective tax rate is attributable to state-by-state variations in taxable earnings.

Net income increased by $0.6 million, or 27.3%, to $2.8 million in the three months ended September 30, 2004 from $2.2 million in the three months ended September 30, 2003, principally as a result of the increase in income from operations.

Nine Months Ended September 30, 2004 Compared to Nine Months Ended September 30, 2003

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

	Nine Months Ended September 30,				
	2004		2003		
	Amount	% of Net Sales	Amount	% of Net Sales	% Change
Sales:					
SMB	$ 597.4	58.9%	$544.8	57.1%	9.7%
Public Sector	195.0	19.2	231.2	24.2	(15.7)
Large Account	221.8	21.9	178.5	18.7	24.3
Total	$1,014.2	100.0%	$954.5	100.0%	6.3%
Gross Profit:					
SMB	$ 69.3	11.6%	$ 61.3	11.2%	13.1%
Public Sector	18.1	9.3	19.2	8.3	(5.7)
Large Account	22.1	10.0	20.9	11.7	5.7
Total	$ 109.5	10.8%	$101.4	10.6%	8.0%

Net sales increased year over year due primarily to increases in our SMB and Large Account segments, as explained below:

- Net sales for our SMB segment increased year over year because we improved annualized sales productivity by 8.2% while keeping our total number of sales representatives relatively unchanged during the same period. Our improvement in annualized sales productivity resulted largely from our efforts to increase add-on sales of accessories and other companion products, along with a 23% increase in average order size. Sales representatives for the SMB segment totaled 394 at September 30, 2004, up slightly from 390 at September 30, 2003.
- Net sales for our Public Sector segment decreased year over year due to a 58.7% decline in sales to the federal government. Sales to the federal government decreased from 2003 as a result of the cancellation referred to earlier of the GSA contract in late 2003. Sales to state and local government units and educational organizations, however, increased 20.6% for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003. Sales account managers for the Public Sector segment totaled 104 at September 30, 2004, a decrease from 111 at September 30, 2003.
- Net sales for our Large Account segment increased year over year due to improvement in annualized sales productivity by 26.5%. Sales representatives for this segment totaled 73 at September 30, 2004, a decrease from 79 at September 30, 2003.

Gross profit and the corresponding gross margin percentage of net sales increased as shown by the above table. These increases are explained below:

- Gross profit for our SMB segment increased year over year, and its gross margin rate increased slightly over the same period, due in part to the reclassification of additional advertising reimbursements in excess of

advertising costs referred to earlier. Additionally, the margin rate improvements in the second and third quarters of 2004 fully offset the decline in the first quarter of 2004, due to the increased focus on margins and a shift in product mix to more profitable products. We implemented a number of sales and gross profit improvement initiatives, including tighter management of discounting, more extensive and focused sales training on costs and margins, and targeted improvements in sales pricing, sales incentives, and account management.

- Gross profit for our Public Sector segment decreased year over year due to the decline in the federal government sales discussed above, partially offset by an increase in the year-over-year gross margin rate, particularly in the second and third quarters of 2004. The first quarter margins were impacted by the aggressive sales growth promotions to state and local government and educational (SLED) institutions, which produced positive sales results, as observed above. The second and third quarter improvements resulted from increased focus on gross margin enhancement programs in our SLED business.
- Gross profit for our Large Account segment increased due to the increase in sales discussed above, partially offset by the decline in gross margin rate. Changes in customer mix and continuing competitive pressures caused this decrease in gross margin rates.

Selling, general, and administrative expenses increased modestly year over year in the nine months ended September 30, 2004 but decreased as a percentage of sales from the comparable period in 2003. As shown above, the dollar increase is largely related to increased variable costs associated with higher sales levels. These include increased sales personnel expense and net advertising expense, offset partially by lower depreciation and amortization expense.

SG&A expenses attributable to our operating segments are summarized below (dollars in millions):

	Nine Months Ended September 30,				
	2004		2003		
	Amount	% of Net Sales	Amount	% of Net Sales	% Change
SMB	$ 59.5	10.0%	$ 59.9	11.0%	(0.7)%
Public Sector	23.9	12.3	21.2	9.2	12.7
Large Account	11.5	5.2	10.6	5.9	8.5
Total	$ 94.9	9.4%	$ 91.7	9.6%	3.5%

- SG&A expenses for our SMB segment were substantially flat in the nine months ended September 30, 2004 compared to the same period in 2003, but decreased as a percentage of net sales from 2003. This segment has a relatively fixed cost structure, and the significant increase in its 2004 net sales, particularly in the first and third quarters, resulted in a correspondingly lower expense rate for those quarters. Additionally, the restructuring of our sales support staff in the first quarter of 2004 improved our efficiency and effectiveness.
- Our Public Sector segment's expenses increased in the nine months ended September 30, 2004 but were significantly higher as a percentage of net sales over the comparable period in 2003. The significant decrease in our federal government sales described above, together with our retention of experienced sales staff, accounted for the significant increase in this segment's SG&A as a percentage of net sales.
- SG&A expenses for our Large Account segment increased slightly but decreased as a percentage of net sales. SG&A expenses for this segment represent the lowest of the three segments as a percentage of net sales, reflecting the nature and efficiency of this segment's variable cost field sales and drop-shipping operating model.

Special charges totaled $3.6 million for the nine months ended September 30, 2004 and $0.4 million in the comparable period in 2003. A roll forward of special charges for the 2004 period presented is shown in the table below (in thousands). There were no changes in estimates in any of the periods presented.

	Workforce Reductions	GSA Review	Other	Total
Balance December 31, 2003	$ 113	$ 237	$ —	$ 350
Charges	583	2,627	373	3,583
Cash payments	(696)	(1,404)	(115)	(2,215)
Balance September 30, 2004	$ —	$ 1,460	$ 258	$ 1,718

We recognized $0.6 million in charges related to continued staff reductions in the nine months ended September 30, 2004 as we continued to stabilize our workforce. The legal and other professional charges for the GSA contract review represent costs of our ongoing review relating to the cancellation by the GSA in late 2003 of its contract with our subsidiary, GovConnection, and costs related to securing a new GSA schedule. The other charges represent additional expenses incurred in relation to our review of certain calendar year 2000 and 2003 transactions. We concluded our review of these transactions in October 2004.

Income from operations increased by $1.8 million, or 19.6%, to $11.0 million for the nine months ended September 30, 2004 from $9.2 million for the comparable period in 2003. Income from operations as a percentage of net sales was 1.1% and 1.0% for the nine-month periods ended September 30, 2004 and 2003, respectively.

Interest expense increased slightly due to higher interest rates and higher average borrowings in 2004 as compared to 2003.

Our effective tax rate was 38.0% for the nine months ended September 30, 2004 and 39.5% for the same period in 2003. The decrease in effective rate is attributable to state-by-state variations in taxable earnings.

Net income increased by $1.0 million, or 19.2%, to $6.2 million in the nine months ended September 30, 2004 from $5.2 million in the nine months ended September 30, 2003, principally as a result of the increase in income from operations.

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 operational needs, capital expenditures for computer equipment and software used in our business, and more recently, earn-out payments related to our 2002 acquisition of MoreDirect.

We believe that funds generated from operations, together with available credit under our bank line of credit, will be sufficient to finance our working capital, capital expenditure, and other requirements at least for the next twelve calendar months. We expect our capital needs for the next twelve months to consist primarily of capital expenditures of between $3 and $4 million, payments on capital and operating lease obligations of approximately $4.3 million, and an additional payment under our MoreDirect merger agreement. (For further discussion, see “MoreDirect Merger Agreement” under “Factors Affecting Sources of Liquidity.”) We expect to meet our cash requirements for the remainder of 2004 through a combination of cash on hand, cash generated from operations, and, if necessary, additional borrowings under our bank line of credit.

Our ability to continue funding our planned growth, both internally and externally, is dependent upon our ability to generate sufficient cash flow from operations or to obtain additional funds through equity or debt financing, or from other sources of financing, as may be required. While at this time we do not anticipate needing

any additional sources of financing to fund our operations, if demand for information technology products declines, our cash flows from operations may be substantially affected. See also related risks listed below under “Factors That May Affect Future Results and Financial Condition.”

Summary Sources and Uses of Cash

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

	Nine Months Ended	
September 30,	**2004**	**2003**
Net cash provided by operating activities	**$ 18.5**	$ 15.3
Net cash used for investing activities	**(8.5)**	(7.7)
Net cash (used for) provided by financing activities	**(5.6)**	0.3
Increase in cash and cash equivalents	**$ 4.4**	$ 7.9

Cash provided by operations increased year over year for the nine months ended September 30, 2004, compared to the same period in 2003 due primarily to a decrease in receivables and an increase in accrued expenses partially offset by a decrease in payables. Our receivables decreased due to improved collection efforts and lower federal government sales. Our overall Days Sales Outstanding, calculated on a quarterly basis, improved to 41 days at September 30, 2004, down from 48 days at September 30, 2003 and unchanged from 41 days at June 30, 2004.

At September 30, 2004, we had $90.6 million in outstanding accounts payable. Such accounts are generally paid within 30 days of incurrence and will be financed by cash flows from operations or short-term borrowings under the line of credit. This amount includes $7.9 million payable to two financial institutions under security agreements to facilitate the purchase of inventory. 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 consisted primarily of required earn-out payments due to the former shareholder of MoreDirect. These payments totaled $11.1 million and $10.8 million for the nine months ended September 30, 2004 and 2003, respectively. Additionally, such cash used includes our capital expenditures in periods presented, primarily for computer equipment and capitalization of internally developed software.

Cash used by financing activities in the nine months ended September 30, 2004 related primarily to a reduction in our net borrowings by $5.6 million under our bank line of credit, whereas there was no such decrease in the comparable period of 2003.

Debt Instruments, Contractual Agreements, and Related Covenants

Below is a summary of certain provisions of our credit facilities and other contractual obligations. It is qualified in its entirety by the terms of the actual agreements, which are on file with the Securities and Exchange Commission. For more information about the restrictive covenants in our debt instruments and inventory financing agreements, see “Factors Affecting Sources of Liquidity.” 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 provides us with a borrowing capacity of up to $45 million, based on sufficient levels of trade receivables to meet borrowing base requirements, and depending on meeting minimum EBITDA (earnings before interest, taxes, depreciation, and amortization) and equity requirements, described below under “Factors Affecting Sources of Liquidity.” Amounts outstanding under this facility bear

interest at the prime rate (4.75% at September 30, 2004). No borrowings were outstanding under this credit facility at September 30, 2004. Substantially all of our assets are collateralized as security for this facility, and all of our subsidiaries are guarantors under the line of credit. Borrowing availability under the line was $45.0 million at September 30, 2004. In late 2003, we negotiated an extension of this credit facility to December 31, 2005 and an option to increase the facility up to $65 million at any time prior to its maturity date.

This facility operates under an automatic cash management program whereby disbursements in excess of available cash are added as borrowings at the time disbursement checks clear the bank, and available cash receipts are first applied against any outstanding borrowings and then invested in short-term qualified cash investments. Accordingly, borrowings under the line are classified as current.

Inventory Trade Credit Arrangements. We have 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 financing up to an aggregate of $45 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.

Capital Lease. We have a fifteen-year lease for our corporate headquarters with an affiliated company related through common ownership. We are required to make lease payments aggregating from $0.9 million to $1.1 million per year, plus 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. See the Liquidity Table below for contractual obligations for lease commitments under these leases.

Earn-out Provisions of MoreDirect Merger Agreement. We completed the acquisition of MoreDirect in April 2002. Under the terms of this agreement, we are required to make additional payments to the MoreDirect shareholder if certain earnings levels are achieved through December 31, 2004. In 2004, we paid $11.1 million in earn-out consideration for the year ending December 31, 2003. Final payment will be due in 2005 if MoreDirect achieves its earnings target in 2004 and is expected to be funded from cash provided by operating activities and our existing bank line of credit. We escrowed $10.0 million in 2002 in connection with this acquisition to be available for these additional payments to the MoreDirect shareholder. This escrowed amount has been used to make such additional payments.

Liquidity Table for Contractual Obligations. The following table sets forth information with respect to our long-term obligations payable in cash as of September 30, 2004 (in thousands):

	Payments Due By Period				
	Total	**Less Than 1 Year**	**1 – 3 Years**	**3 – 5 Years**	**More Than 5 Years**
Contractual Obligations:					
Capital lease obligation[1]	$ 9,969	$ 1,025	$2,051	$2,146	$ 4,747
Operating lease obligations	4,682	3,235	1,329	118	—
Total	$14,651	$ 4,260	$3,380	$2,264	$ 4,747

(1) Including interest, excluding taxes, insurance, and common area maintenance charges.

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, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

Factors Affecting Sources of Liquidity

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

Bank Line of Credit. Our credit facility contains certain financial ratios and operational covenants and other restrictions (including restrictions on additional debt, guarantees, dividends and other distributions, investments, and liens) with which we and all of our subsidiaries must comply. Any failure to comply with these covenants would not only prevent us from borrowing additional funds under this line of credit, but would also constitute a default. 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 EBITDA for the trailing four quarters) must not be more than 2.0 to 1.0. Our actual funded debt ratio at September 30, 2004 was 0.4 to 1.0.
- Minimum Consolidated Net Worth must be at least $125.0 million, plus 50% of consolidated net income for each quarter since December 31, 2001 (with loss quarters not counted). Such amount was calculated at September 30, 2004 as $133.7 million, whereas our actual consolidated stockholders' equity at this date was $163.8 million.

The borrowing base under this facility is set at 80% of qualified commercial receivables, plus 50% of qualified government receivables, less $20 million of the formula availability which must be held in reserves. As of September 30, 2004, the full amount of the facility was available for additional borrowings.

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.

MoreDirect Merger Agreement. The merger agreement with MoreDirect contemplates an earn-out period of three years following the closing whereby if MoreDirect maintains certain earnings before income tax, or EBIT, levels, additional payments will be made to MoreDirect's shareholder. Under the merger agreement, earn-out payments are tied to EBIT levels targeted to grow at a 15% rate per year. The maximum payment we would make for 2004 under the earn-out provisions of the merger agreement is $21.7 million, assuming MoreDirect maintains 200% of the targeted EBIT level for that year. If MoreDirect maintains less than 60% of the targeted EBIT level for 2004, no payment would be required under the earn-out provisions of the merger agreement. We have made earn-out payments of $10.8 million and $11.1 million relating to MoreDirect's EBIT levels in 2002 and 2003, respectively. We believe we will be able to meet our obligations to MoreDirect and its stockholder under the merger agreement.

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.

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 future.

FACTORS THAT MAY AFFECT FUTURE RESULTS AND FINANCIAL CONDITION

Our future results and financial condition are dependent on our ability to continue to successfully market, sell, and distribute information technology products and services, including computers, hardware, and software. Inherent in this process are a number of factors that we must successfully manage in order to achieve a favorable financial condition and favorable operating results. Potential risks and uncertainties that could affect our future financial condition and operating results include, without limitation, the following factors:

We experienced a decline in sales in 2002 and 2001, and there is no assurance that we will be able to avoid further decreases in revenues.

Our net sales declined to $1.19 billion in 2002 from $1.44 billion in 2000. In 2003 our net sales increased to $1.31 billion, largely due to the April 2002 acquisition of MoreDirect. We believe we would have experienced a greater decline in our net sales for 2002 if it had not been for that acquisition. If our revenues decline again in the future, we may not be able to reduce our staffing levels and operating expenses in a timely manner to avoid significant losses from operations.

We may also experience quarterly fluctuations and seasonality which could impact our business.

Several factors have caused our sales and results of operations to fluctuate and we expect these fluctuations to continue on a quarterly basis. Causes of these fluctuations include:

- changes in the overall level of economic activity;
- changes in the level of business investment in information technology products;
- the condition of the personal computer industry in general;
- shifts in customer demand for hardware and software products;
- industry shipments of new products or upgrades;
- the timing of new merchandise and catalog offerings;
- fluctuations in response rates;
- fluctuations in postage, paper, shipping, and printing costs and in merchandise returns;
- adverse weather conditions that affect response, distribution, or shipping;
- shifts in the timing of holidays;
- changes in our product offerings;
- changes in consumer demand for information technology products; and
- changes in vendor distribution of products.

We base our operating expenditures on sales forecasts. If revenues do not meet expectations in any given quarter, our operating results could suffer.

In addition, customer response rates for our catalogs and other marketing vehicles are subject to variations. The first and last quarters of the year generally have higher response rates while the two middle quarters typically have lower response rates.

Despite our August 2004 award of an authorization to sell to the federal government under a new General Services Administration schedule, our sales to that organization may not regain prior years' sales levels, which would negatively impact our business.

In November 2003 we were advised that the GSA cancelled its contract with our subsidiary, GovConnection, following a review of its contract management system and procedures that may have resulted in

the sale of unqualified items or underpayment of required fees. The matter has been referred to the Department of Justice for review, and we are cooperating in that review. While we were recently awarded authorization in August 2004 to resume selling to the federal government under a new GSA schedule, our 2004 sales may continue to be adversely impacted as we attempt to expand our product offerings under this schedule and regain this business. Revenues for 2003 under the GSA contract were approximately $79 million. We believe the GSA contract, if it had remained in effect, would have provided us with 2004 revenues generally comparable to the 2003 levels reported.

We are exposed to inventory obsolescence due to the rapid technological changes occurring in the personal computer industry.

The market for personal computer products is characterized by rapid technological change and the frequent introduction of new products and product enhancements. Our success depends in large part on our ability to identify and market products that meet the needs of customers in that marketplace. In order to satisfy customer demand and to obtain favorable purchasing discounts, we have and may continue to carry increased inventory levels of certain products. By so doing, we are subject to the increased risk of inventory obsolescence. Also, in order to implement our business strategy, we intend to continue, among other things, to place larger than typical inventory stocking orders, and increase our participation in first-to-market purchase opportunities. We may also participate in end-of-life-cycle purchase opportunities and market products on a private-label basis, which would increase the risk of inventory obsolescence. In addition, we sometimes acquire special purchase products without return privileges. There can be no assurance that we will be able to avoid losses related to obsolete inventory. In addition, manufacturers are limiting return rights and are also taking steps to reduce their inventory exposure by supporting "build-to-order" programs authorizing distributors and resellers to assemble computer hardware under the manufacturers' brands. These trends reduce the costs to manufacturers and shift the burden of inventory risk to resellers like us which could negatively impact our business.

We acquire products for resale from a limited number of vendors; the loss of any one of these vendors could have a material adverse effect on our business.

We acquire products for resale both directly from manufacturers and indirectly through distributors and other sources. The five vendors supplying the greatest amount of goods to us constituted 62% and 64% of our total product purchases in the nine months ended September 30, 2004 and 2003, respectively. Among these five vendors, purchases from Ingram Micro, Inc. represented 27% and 22% of our total product purchases in the nine months ended September 30, 2004 and 2003, respectively. Purchases from Tech Data Corporation comprised 13% and 15% of our total product purchases in the nine months ended September 30, 2004 and 2003, respectively. Purchases from Hewlett-Packard Company ("HP") represented 11% and 16% of our total product purchases in the nine months ended September 30, 2004 and 2003, respectively. No other vendor supplied more than 10% of our total product purchases in the nine months ended September 30, 2004 and 2003, respectively. If we were unable to acquire products from Ingram, HP, or Tech Data, we could experience a short-term disruption in the availability of products and such disruption could have a material adverse effect on our results of operations and cash flows.

Substantially all of our contracts and arrangements with our vendors that supply significant quantities of products are terminable by such vendors or us without notice or upon short notice. Most of our product vendors provide us with trade credit, of which the net amount outstanding at September 30, 2004 was $90.6 million. Termination, interruption, or contraction of relationships with our vendors, including a reduction in the level of trade credit provided to us, could have a material adverse effect on our financial position.

Some product manufacturers either do not permit us to sell the full line of their products or limit the number of product units available to direct marketers such as us. An element of our business strategy is to continue to increase our participation in first-to-market purchase opportunities. The availability of certain desired products, especially in the direct marketing channel, has been constrained in the past. We could experience a material adverse effect to our business if we are unable to source first-to-market purchase or similar opportunities, or if we face the reemergence of significant availability constraints.

We may experience a reduction in the incentive programs offered to us by our vendors.

Some product manufacturers and distributors provide us with incentives such as supplier reimbursements, payment discounts, price protection, rebates, and other similar arrangements. The increasingly competitive computer hardware market has already resulted in the following:

- reduction or elimination of some of these incentive programs;
- more restrictive price protection and other terms; and
- reduced advertising allowances and incentives, in some cases.

Many product suppliers provide us with co-op advertising support and in exchange we feature their products in our catalogs. This support significantly defrays our catalog production expense. In the past, we have experienced a decrease in the level of co-op advertising support available to us from certain manufacturers. The level of co-op advertising support we receive from some manufacturers may further decline in the future. Such a decline could increase our selling, general, and administrative expenses as a percentage of sales and have a material adverse effect on our cash flows.

We face many competitive risks.

The direct marketing industry and the computer products retail business, in particular, are highly competitive. We compete with consumer electronics and computer retail stores, including superstores. We also compete with other direct marketers of hardware and software and computer-related products, including an increasing number of Internet retailers. Certain hardware and software vendors, such as HP, IBM, and Apple, who provide products to us, are also selling their products directly to end users through their own catalogs, stores, and over the Internet. We compete not only for customers, but also for co-op advertising support from personal computer product manufacturers. Some of our competitors have larger catalog circulations and customer bases and greater financial, marketing, and other resources than we do. In addition, some of our competitors offer a wider range of products and services than we do and may be able to respond more quickly to new or changing opportunities, technologies, and customer requirements. Many current and potential competitors also have greater name recognition, engage in more extensive promotional activities, and adopt more aggressive pricing policies than us. We expect competition to increase as retailers and direct marketers who have not traditionally sold computers and related products enter the industry.

We cannot assure you that we can continue to compete effectively against our current or future competitors. In addition, price is an important competitive factor in the personal computer hardware and software market and we cannot assure you that we will not face increased price competition. If we encounter new competition or fail to compete effectively against our competitors, our business may be harmed.

In addition, product resellers and direct marketers are combining operations or acquiring or merging with other resellers and direct marketers to increase efficiency. Moreover, current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to enhance their products and services. Accordingly, it is possible that new competitors or alliances among competitors may emerge and acquire significant market share.

We face and will continue to face significant price competition.

Generally, pricing is very aggressive in the personal computer industry and we expect pricing pressures to continue. An increase in price competition could result in a reduction of our profit margins. There can be no assurance that we will be able to offset the effects of price reductions with an increase in the number of customers, higher sales, cost reductions, or otherwise. Also, our sales of personal computer hardware products are generally producing lower profit margins than those associated with software products. Such pricing pressures could result in an erosion of our market share, reduced sales, and reduced operating margins, any of which could have a material adverse effect on our business.

The methods of distributing personal computers and related products are changing and such changes may negatively impact us and our business.

The manner in which personal computers and related products are distributed and sold is changing, and new methods of distribution and sale, such as online shopping services, have emerged. Hardware and software manufacturers have sold, and may intensify their efforts to sell, their products directly to end users. From time to time, certain manufacturers have instituted programs for the direct sales of large order quantities of hardware and software to certain major corporate accounts. These types of programs may continue to be developed and used by various manufacturers. Some of our vendors, including Apple, Hewlett-Packard, and IBM, currently sell some of their products directly to end users and have stated their intentions to increase the level of such direct sales. In addition, manufacturers may attempt to increase the volume of software products distributed electronically to end users. An increase in the volume of products sold through or used by consumers of any of these competitive programs or distributed electronically to end users could have a material adverse effect on our results of operations.

We could experience system failures which would interfere with our ability to process orders.

We depend on the accuracy and proper use of our management information systems including our telephone system. Many of our key functions depend on the quality and effective utilization of the information generated by our management information systems, including:

- our ability to manage inventory and accounts receivable collection;
- our ability to purchase, sell, and ship products efficiently and on a timely basis; and
- our ability to maintain operations.

Interruptions could result from natural disasters as well as power loss, telecommunications failure, and similar events.

Our management information systems require continual upgrades to most effectively manage our operations and customer database. Although we maintain some redundant systems with full data backup, a substantial interruption in management information systems or in telephone communication systems would substantially hinder our ability to process customer orders and thus could have a material adverse effect on our business.

We rely on the continued development of electronic commerce and Internet infrastructure development.

We have had an increasing amount of sales made over the Internet in part because of the growing use and acceptance of the Internet by end users. No one can be certain that acceptance and use of the Internet will continue to develop or that a sufficiently broad base of consumers will adopt and continue to use the Internet and other online services as a medium of commerce. Sales of computer products over the Internet do not currently represent a significant portion of overall computer product sales. Growth of our Internet sales is dependent on potential customers using the Internet in addition to traditional means of commerce to purchase products. We cannot accurately predict the rate at which they will do so.

Our success in growing our Internet business will depend in large part upon the development of an infrastructure for providing Internet access and services. If the number of Internet users or their use of Internet resources continues to grow rapidly, such growth may overwhelm the existing Internet infrastructure. Our ability to increase the speed with which we provide services to customers and to increase the scope of such services ultimately is limited by and reliant upon the speed and reliability of the networks operated by third parties and these networks may not continue to be developed.

We depend heavily on third-party shippers to deliver our products to customers.

We ship approximately 64% of our products to customers by DHL Worldwide Express D/B/A "DHL," with the remainder being shipped by United Parcel Service, Inc. and other overnight delivery and surface services. A strike or other interruption in service by these shippers could adversely affect our ability to market or deliver products to customers on a timely basis.

We may experience potential increases in shipping, paper, and postage costs, which may adversely affect our business if we are not able to pass such increases on to our customers.

Shipping costs are a significant expense in the operation of our business. Increases in postal or shipping rates and paper costs could significantly impact the cost of producing and mailing our catalogs and shipping customer orders. Postage prices and shipping rates increase periodically and we have no control over future increases. We have a long-term contract with DHL whereby DHL ships products to our customers. We believe that we have negotiated favorable shipping rates with DHL. We generally invoice customers for shipping and handling charges. There can be no assurance that we will be able to pass on to our customers the full cost, including any future increases in the cost, of commercial delivery services such as DHL.

We also incur substantial paper and postage costs related to our marketing activities, including producing and mailing our catalogs. Paper prices historically have been cyclical and we have experienced substantial increases in the past. Significant increases in postal or shipping rates and paper costs could adversely impact our business, financial condition, and results of operations, particularly if we cannot pass on such increases to our customers or offset such increases by reducing other costs.

Privacy concerns with respect to list development and maintenance may materially adversely affect our business.

We mail catalogs and send electronic messages to names in our proprietary customer database and to potential customers whose names we obtain from rented or exchanged mailing lists. Worldwide public concern regarding personal privacy has subjected the rental and use of customer mailing lists and other customer information to increased scrutiny. Any domestic or foreign legislation enacted limiting or prohibiting these practices could negatively affect our business.

We face many uncertainties relating to the collection of state sales or use tax.

We presently collect sales tax on sales of products to residents in many states. Taxable sales to customers were approximately 25% of our net sales during the year ended December 31, 2003 and approximately 25% of our net sales for the nine months ended September 30, 2004. Various states have sought to impose on direct marketers the burden of collecting state sales taxes on the sales of products shipped to their residents. In 1992, the United States Supreme Court affirmed its position that it is unconstitutional for a state to impose sales or use tax collection obligations on an out-of-state mail-order company whose only contacts with the state are limited to the distribution of catalogs and other advertising materials through the mail and the subsequent delivery of purchased goods by United States mail or by interstate common carrier. However, legislation that would expand the ability of states to impose sales tax collection obligations on direct marketers has been introduced in Congress on many occasions. Due to its presence on various forms of electronic media and other factors, our contact with many states may exceed the contact involved in the Supreme Court case. We cannot predict the level of contact that is sufficient to permit a state to impose on us a sales tax collection obligation. If the Supreme Court changes its position or if legislation is passed to overturn the Supreme Court's decision, the imposition of a sales or use tax collection obligation on us in states to which we ship products would result in additional administrative expenses to us, could result in price increases to our customers, and could reduce demand for our product.

We are dependent on key personnel.

Our future performance will depend to a significant extent upon the efforts and abilities of our senior executives. The competition for qualified management personnel in the computer products industry is very intense, and the loss of service of one or more of these persons could have an adverse effect on our business. Our success and plans for future growth will also depend on our ability to hire, train, and retain skilled personnel in all areas of our business, including sales account managers and technical support personnel. There can be no assurance that we will be able to attract, train, and retain sufficient qualified personnel to achieve our business objectives.

We are controlled by two principal stockholders.

Patricia Gallup and David Hall, our two principal stockholders, beneficially own or control, in the aggregate, approximately 68% of the outstanding shares of our common stock. Because of their beneficial stock ownership, these stockholders can continue to elect the members of the Board of Directors and decide all matters requiring stockholder approval at a meeting or by a written consent in lieu of a meeting. Similarly, such stockholders can control decisions to adopt, amend, or repeal our charter and our bylaws, or take other actions requiring the vote or consent of our stockholders and prevent a takeover of us by one or more third parties, or sell or otherwise transfer their stock to a third party, which could deprive our stockholders of a control premium that might otherwise be realized by them in connection with an acquisition of us. Such control may result in decisions that are not in the best interest of our public stockholders. In connection with our initial public offering, the principal stockholders placed substantially all shares of common stock beneficially owned by them into a voting trust, pursuant to which they are required to agree as to the manner of voting such shares in order for the shares to be voted. Such provisions could discourage bids for our common stock at a premium as well as have a negative impact on the market price of our common stock.

PC CONNECTION, INC. AND SUBSIDIARIES

Part I—Financial Information

Item 3—QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We invest cash balances in excess of operating requirements in short-term securities, generally with maturities of 90 days or less. In addition, our unsecured credit agreement provides for borrowings which bear interest at variable rates based on the prime rate. We had no borrowings outstanding pursuant to our credit agreement as of September 30, 2004. We believe that the effect, if any, of reasonably possible near-term changes in interest rates on our financial position, results of operations, and cash flows should not be material. Our credit agreement exposes earnings to changes in short-term interest rates since interest rates on the underlying obligations are variable. However, as noted above, there were no borrowings outstanding on the credit agreement at September 30, 2004. A change in earnings resulting from a hypothetical 10% increase or decrease in interest rates is not material.

Item 4—CONTROLS AND PROCEDURES

Our management, with the participation of our Chief Executive Officer and Interim Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a -15(e) and 15d - 15(e) under the Exchange Act) as of September 30, 2004. Based on this evaluation, our Chief Executive Officer and Interim Chief Financial Officer concluded that, as of September 30, 2004, our disclosure controls and procedures were (1) designed to ensure that material information relating to us, including our consolidated subsidiaries, is made known to our Chief Executive Officer and Interim Chief Financial Officer by others within those entities, particularly during the period in which this report was being prepared and (2) after consideration of the changes described in the following paragraphs, effective, in that they provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms.

Upon the request of the Chief Executive Officer and Chairman of our Board of Directors, the Audit Committee of our Board conducted a review of certain transactions that occurred in 2000 and 2003. This review was completed in October 2004. Although the Audit Committee determined that no adjustments to our financial statements were required, it concluded that there were instances in which existing internal controls relating to the authorization, review and processing of such transactions were overridden, and document retention policies with respect to certain vendor rebates were not followed or were deficient. Accordingly, we have taken and are taking certain corrective actions in the fourth quarter of 2004. These actions include enhancing management review procedures over significant sales and rebate transactions, and modifying our document retention policies relating to rebate-related vendor reporting as necessary. We have evaluated and are realigning certain senior management responsibilities and authority.

Concurrent with the completion of our documentation and testing of our internal controls over financial reporting, and as a matter of course, we will arrange for additional Sarbanes-Oxley training for our management personnel. In addition, we have implemented an on-line business-ethics training program for substantially all employees of our organization.

No change in our internal control over financial reporting (as defined in Rules 13a – 15(f) and 15d – 15(f) under the Exchange Act) occurred during the fiscal quarter ended September 30, 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting, other than as described above.

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PC CONNECTION, INC. AND SUBSIDIARIES

Part II—Other Information

Item 1—Legal Proceedings

Not applicable.

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

(a) The following table provides information about purchases by the Company during the quarter ended September 30, 2004 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (1)
07/01/04-07/31/04	—	$ —	—	$ 12,714,000
08/01/04-08/31/04	—	—	—	$ 12,714,000
09/01/04-09/30/04	—	—	—	$ 12,714,000
Total:	—	$ —	—	$ 12,714,000

(1) Our Board of Directors approved the repurchase by us of shares of our common stock having a value of up to $15.0 million in the aggregate pursuant to a repurchase program announced on March 28, 2001.

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

(a) Exhibits

Exhibit Number	Description
10.52	Amendment, dated September 7, 2004 to the Lease Agreement between Merrimack Services Corporation and The Hillsborough Group, dated January 5, 2000, for property located at 706 Route 101A, Merrimack, New Hampshire.
10.53	Amendment, dated September 24, 2004 to the Lease Agreement between Merrimack Services Corporation and Bronx II, LLC, dated October 27, 1988, as amended for property located in Marlborough, Massachusetts.
10.54	Separation Agreement by and between the Company and Mark A. Gavin, dated October 20, 2004.
15	Letter on unaudited interim financial information.
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 Treasurer and Interim 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 Treasurer and Interim Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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PC CONNECTION, INC. AND SUBSIDIARIES
September 30, 2004

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized.

PC CONNECTION, INC. AND SUBSIDIARIES

November 15, 2004	By:	/s/ PATRICIA GALLUP
		Patricia Gallup **Chairman of the Board, President, and Chief Executive Officer**
November 15, 2004	By:	/s/ JACK FERGUSON
		Jack Ferguson **Treasurer and Interim Chief Financial Officer**

Exhibit 10.52

LEASE AMENDMENT

BY THIS INDENTURE OF LEASE, dated January 5, 2000, commencing May 1, 2005,

The Hillsborough Group, a General Partnership, duly authorized under the laws of the State of New Hampshire, with a principal place of business at 436 South River Road, Building B, Bedford, County of Hillsborough and State of New Hampshire (hereinafter called "Lessor") leases to Merrimack Services Corporation (a subsidiary of PC Connection, Inc.), with a principal place of business located at Route lOlA, 730 Milford Road, Merrimack, New Hampshire 03054 (hereinafter called "Lessee"):

A 9,688 S.F. Building, more or less, located at 706 Route lOlA, Merrimack, NH, for a term of one (1) year, commencing May 1, 2005 for a base rent of $14.00 per square foot which is equal to an annual rent of $135,632 payable in equal monthly installments of $11,302.67 in advance on the 1st day of each month, commencing with the first month of the term, to EastPoint Properties, Inc., at 436 South River Road, Building B, Bedford NH, all on the terms described in Paragraphs 5 through 19, as well as the late payment clause in Paragraph 4, of the current lease for the building dated January 5, 2000.

Lessee shall have the right to renew the lease for the entire building for one additional one (1) year term as follows: May 1, 2006 - April 30, 2007. All provisions of the Lease shall continue during the renewal term, with the exception of the 'base rent'. The base rent will be established by obtaining a factor from the previous twelve months, from the Northeast Urban Area Consumer Price Index (CPI) as published by the Department of Labor, and applying this factor to the existing base rent. This process will be completed by the Lessor and presented to the Lessee in writing no later than 5:00 P.M. on June 1, 2005. Lessee must exercise this option in writing delivered to Lessor on or before 5:00 P.M. on August 1, 2005 or Lessee loses all rights to extend this Lease, and Lessor may begin work to replace the windows and entrance to the building as described in paragraph 12 of the original lease any time after August 1, 2005. If Lessee exercises this option, the term of the one-year extension shall commence on May 1, 2006.

IN WITNESS WHEREOF, the parties have caused this lease to be executed on the day and date first above written. This lease shall be binding on all parties as well as their respective successors, assigns, heirs, executors and administrators.

LESSOR:

HILLSBOROUGH GROUP

/S/ Patty St. Laurent

Witness

By: /S/ A. DeSaulnier

Its: Agent

LESSEE:

MERRIMACK SERVICES CORPORATION

/S/ Robert A. Pratt

Witness

By: /S/ Mark A. Gavin

Its: President

Exhibit 10.53

FIFTH AMENDMENT TO LEASE

THIS FIFTH AMENDMENT TO LEASE (this "Fifth Amendment") is made and entered into this 24th day of September, 2004 ("Execution Date") by and between Bronx II, LLC, successor-in-interest to Rosewood III Associates, L.P. ("Landlord") and Merrimack Services Corporation, successor-in-interest to PC Connection Sales of Massachusetts, successor to PC Connection Inc., successor to Merisel Americas, Inc., successor to Microamerica, Inc. ("Tenant").

W I T N E S S E T H:

WHEREAS, Landlord and Tenant have heretofore entered into that certain Lease, dated October 27, 1988, as amended by Lease Amendment dated October 27, 1988, a Second Lease Amendment dated November 12, 1997, a Third Amendment to Lease dated December 8, 1998 and a Fourth Amendment to Lease dated August 30, 2001 (collectively, the "Lease"), demising 41,988 square feet of office space ("Demised Premises") located on the second (2nd) floor of the building within that certain building commonly known as 293 Boston Post Road West, Marlborough, Massachusetts (the "Building"); and

WHEREAS, Tenant wishes to: (i) permit the Lease to expire with respect to a portion of the Demised Premises, containing 22,106 square feet on the second (2nd) floor of the Building ("Expiring Premises"), substantially as shown hatched on Exhibit A, Fifth Amendment to Lease, a copy of which is attached hereto and incorporated by reference herein; and (ii) extend the Term of the Lease in respect of the remaining portion of the Demised Premises, containing 19,882 square feet on the second (2nd) floor (west) of the Building ("Remainder Premises"), substantially as shown cross-hatched on Exhibit A, Fifth Amendment to Lease, a copy of which is attached hereto and incorporated by reference herein;

NOW, THEREFORE, in consideration of the premises herein contained, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Landlord and Tenant hereby agree as follows:

1. EXTENSION OF TERM OF LEASE IN RESPECT OF REMAINDER PREMISES

The Term of the Lease in respect of the Remainder Premises is hereby extended for an additional term commencing on January 1, 2005 and expiring as of December 31, 2008 ("Additional Term"). Said Additional Term shall be upon all of the same terms and conditions of the Lease in effect immediately preceding the commencement of such

Additional Term (including, without limitation, Tenant's obligation to pay for electricity, pursuant to Section 4.2.3 of the Lease), except as follows:

A. Annual Fixed Rent during the extended Term shall be as follows:

Time Period	Annual Fixed Rent	PSF	Per Month
January 1, 2005 - December 31, 2005:	$ 318,112.08	$16.00	$26,509.34
January 1, 2006 - December 31, 2006:	$ 328,053.00	$16.50	$27,337.75
January 1, 2007 - December 31, 2007:	$ 337,994.04	$17.00	$28,166.17
January 1, 2008 - December 31, 2008:	$ 347,935.00	$17.50	$28,994.58

B. The Tax Base during the Additional Term shall be the actual amount of Taxes for calendar year 2005.

C. The Operating Expense Base during the Additional Term shall be the actual amount of Operating Expenses for calendar year 2005, determined as though the Building were 95% occupied.

D. Tenant's Share of Tax and Operating Expense Escalation during the Additional Term shall be 10%.

E. In the event that any of the provisions of the Lease are inconsistent with this Amendment or the state of facts contemplated hereby, the provisions of this Amendment shall control.

2. <u>EXPIRATION OF LEASE IN RESPECT OF EXPIRING PREMISES</u>

The Term of the Lease in respect of the Expiring Premises shall terminate effective as of December 31, 2004 ("Expiring Premises Termination Date"). Tenant shall, on or before the Expiring Premises Termination Date, vacate the Expiring Premises and deliver the Expiring Premises to Landlord in the condition in which Tenant is required pursuant to the Lease to deliver the Expiring Premises at the expiration or prior termination of the Term of the Lease. Tenant's obligation to vacate the Expiring Premises on or before the Expiring Premises Termination Date is contingent upon Landlord's timely performance in substantially completing Landlord's Work according to the schedule agreed to by the parties, as set forth in Section 3 below. In the event Landlord does not substantially complete Landlord's Work according to said schedule, the Expiring Premises Termination Date shall be the later of: (x) December 31, 2004, or (y) substantial completion of Landlord's Work.

3. LANDLORD’S WORK

Landlord shall, at Landlord’s cost and expense, perform the following work (“Landlord’s Work”) in the Remainder Premises:

(i) installing the demising wall separating the Deleted Premises from the Remainder Premises, and separately demising the electrical and mechanical utilities;

(ii) Patch and touch-up the paint using building standard paint;

(iii) Carpet the cubicle area using building standard carpet;

(iv) Relocate the movable partition located on the other side of the floor to the existing kitchen area, in accordance with the plan attached hereto as Exhibit A;

(v) Create an opening in the kitchen area, in accordance with the plan attached hereto as Exhibit A;

(vi) Install plumbing in the kitchen area, in accordance with the plan attached hereto as Exhibit A;

(vii) Remove long center island in the kitchen area; and

(viii) Provide access to the freight elevator area, in accordance with the plan attached hereto as Exhibit A.

Landlord’s Work shall be performed at a time mutually agreed upon by both Landlord and Tenant. In connection with Landlord’s Work, Landlord shall coordinate such work with Tenant to minimize any disruption of Tenant’s business, provided however, that Tenant shall not be entitled to any diminution in rental value on account of the performance of Landlord’s Work. In no event shall Landlord have any liability to Tenant based upon the performance of Landlord’s Work.

4. SECURITY DEPOSIT

The parties hereby acknowledge that Landlord is holding a security deposit in the amount of Fifty-Seven Thousand Five Hundred Sixty-Nine and 99/100 Dollars ($57,569.99) pursuant to Article 11 of the Lease, as amended by the Second Lease Amendment. The parties hereby further acknowledge that, provided Tenant is not in default under the Lease as of the Execution Date of this Fifth Amendment, that the Lease is then in full force and effect and that Tenant has not previously defaulted beyond the expiration of any applicable grace periods, Landlord shall refund to Tenant Twenty-Eight Thousand Five Hundred Sixty-Nine and 99/100 Dollars ($28,569.99) from the security deposit upon execution and delivery of the Fifth Amendment to Lease and shall retain the balance of the security deposit in the amount of Twenty-Nine Thousand and 00/100 Dollars ($29,000.00) (“Remaining Security Deposit”). Said Remaining Security Deposit shall continue to be held by Landlord during the Additional Term in accordance with the terms and conditions of said Article 11 of the Lease.

5. <u>OPTION TO EXTEND</u>

A. Tenant shall have the option to extend the term of the Lease for two (2) additional two (2) year periods (collectively, the “Option Terms”). The first option term (“First Option Term”) shall commence as of January 1, 2009 and terminate as of December 31, 2010 and the second option term (“Second Option Term”) shall commence as of January 1, 2011 and terminate as of December 31, 2013. The terms and conditions of the Lease shall apply during each Option Term except for Base Rent which will be adjusted as provided.

B. To exercise the First Option Term, Tenant shall provide written notice to Landlord on or before April 1, 2008 and to exercise the Second Option Term, Tenant shall provide written notice to Landlord on or before April 1, 2010 (“Option Notice”). Failure of Tenant to timely exercise the First Option Term shall terminate the First Option Term and the Second Option Term.

C. The Annual Fixed Rent during each Option Term shall be 95% of the Fair Market Rental, as defined in Paragraph 5 D of the Fourth Amendment to Lease; provided, however, that in no event shall the Annual Fixed Rent during the First Option Term be less than the last month’s Annual Fixed Rent payable by Tenant under the Lease and further provided, that in no event shall the Annual Fixed Rent during the Second Option Term be less than the last month’s Annual Fixed Rent payable by Tenant under the Lease during the First Option Term.

6. <u>TENANT’S EARLY TERMINATION OPTION</u>

A. On the condition (which condition Landlord may waive, at its election, by written notice to Tenant at any time) that Tenant is not in default of its covenants and obligations under the Lease, both at the time that Tenant gives Tenant’s Termination Notice, as hereinafter defined, and as of the Effective Termination Date, as hereinafter defined, then Tenant shall have the right (“Early Termination Right”) to terminate the term of the Lease effective as of December 31, 2006 (“Effective Termination Date”) by giving Landlord written notice (“Tenant’s Termination Notice”) on or before April 1, 2006, and by paying to Landlord, at the time that Tenant gives Tenant’s Termination Notice to Landlord, the Early Termination Fee, as hereinafter defined.

B. If Tenant timely and properly exercises its Early Termination Right and pays to Landlord the Early Termination Fee, then the term of the Lease shall terminate as of the Effective Termination Date, and Annual Fixed Rent and other charges shall be apportioned as of said Effective Termination Date.

C. For the purposes hereof, the “Early Termination Fee” shall be equal to One Hundred Thirty-Six Thousand Six Hundred Eighty-Eight and 75/100 Dollars ($136,688.75).

D. In the event that Tenant fails timely to give Tenant’s Termination Notice or to pay the Early Termination Fee, Tenant shall have no right to terminate the term of the Lease pursuant to this Paragraph 6, time being of the essence of this Paragraph 6.

7. SIGNAGE

Tenant shall have the right, at Tenant’s sole cost and expense and subject to local governmental codes, regulations and permits, to install a sign containing Tenant’s name on the second (2nd) floor façade of the Building. The size, form and placement of such sign shall be subject to Landlord’s prior written approval. Tenant shall be responsible for the maintenance of such sign during the Term of the Lease. Tenant shall have the right, subject to Landlord’s reasonable approval, to modify and upgrade such sign during the Term of the Lease. Tenant shall remove the sign at the expiration or early termination of the Term of the Lease and shall repair any damage caused by such removal. In the event Tenant elects to install such sign, then, from and after the date that Landlord completes construction of the monument sign for the Building, Tenant shall pay to Landlord additional rent in the amount of Nineteen Thousand Eight Hundred Eighty-Two and 00/100 Dollars ($19,882.00) per annum (“Signage Rent”), payable in monthly installments in advance together with Tenant’s monthly payments of Annual Fixed Rent. If Tenant elects to remove such sign, Tenant shall have no further obligation to pay Signage Rent and Tenant shall have no further right to re-install such sign. Tenant shall repair any damage caused by such removal. Landlord shall provide reasonable assistance to tenant to secure any necessary permits for the exterior facade sign.

8. BROKERAGE

Each party hereto warrants and represents that it has dealt with no real estate broker or agent other than CB/Richard Ellis/Whittier Partners and Spaulding & Slye (the “Brokers”) in connection with this Fifth Amendment and agrees to defend, indemnify and save the other party harmless from and against any and all claims for commissions or fees arising out of this Fifth Amendment which, as to the respective parties, are inconsistent with such party’s warranties and representations. Landlord shall be responsible for any commissions or fees owned to the Brokers in connection with this Fifth Amendment in accordance with separate agreements between the Brokers and Landlord.

9. VACANCY NOTICE

Landlord shall use reasonable efforts to notify Tenant of available space within the Building.

10. INAPPLICABLE AND DELETED LEASE PROVISIONS

A. Articles 3.1 and 3.2 of the Lease and Exhibits C and D to the Lease, Paragraph 3 of the Third Amendment to Lease and Paragraph 2 of the Fourth Amendment to Lease shall have no applicability during the Additional Term.

B. Article 13 of the Lease and Paragraphs 5A, B and C of the Fifth Amendment to Lease are hereby deleted and are of no further force or effect.

11. LEASE CONFIRMED

As modified hereby, the Lease and all of its terms and provisions are hereby authorized, ratified and confirmed. In the event of any conflicts or inconsistencies between the terms and provisions contained in this Fifth Amendment to Lease and the Lease, the terms and provisions of this Fifth Amendment to Lease shall control.

12. CAFETERIA

The parties hereby acknowledge that the cafeteria in the Building has been closed. Once and for so long as the Building reaches an 85% occupancy rate, Landlord agrees to re-open and operate the cafeteria, provided that Landlord can find an operator reasonably satisfactory to Landlord who is willing to open and operate the cafeteria at no cost to Landlord. Further, during such time as the cafeteria is closed, Landlord shall provide food service to the tenants of the Building through an offsite vendor, provided that Landlord can find an outside vendor reasonably satisfactory to Landlord who is willing to provide such food service at no cost to Landlord.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Second Amendment under seal as of the date first above written.

LANDLORD:
BRONX II, LLC

By: PRINCIPAL OFFICE
INVESTORS, LLC, Its
Sole Member

By: PRINCIPAL LIFE
INSURANCE COMPANY,
Its Administrative Member

By: /s/ Richard J. Messa

Name: Richard J. Messa
Its: Senior Asset Manager

By: /s/ Mark F. Scholz

Name: Mark F. Scholz
Its: Asset Management

Date Signed: 9/30/2004

TENANT:
MERRIMACK SERVICES CORPORATION

By: /s/ Mark Gavin

Name: Mark Gavin
Its: President

Date Signed: 9/27/04

CONFIRMATION OF LEASE GUARANTY

The undersigned, as Guarantor of the above-referenced Lease pursuant to a Lease Guaranty dated as of August 30, 2001, hereby acknowledges and agrees that the term "Lease" as defined in said Lease Guaranty shall mean the above-referenced Lease, as amended through and including the foregoing Fifth Amendment to Lease, and hereby consents to the foregoing Fifth Amendment to Lease and confirms and agrees that said Lease Guaranty shall remain in full force and effect in accordance with the terms thereof with respect to the Lease, as amended through and including the foregoing Fifth Amendment to Lease.

EXECUTED UNDER SEAL as of the date first above written.

GUARANTOR:
PC CONNECTION, INC.

By: /s/ Mark Gavin, CFO

(Name) (Title)
Hereunto Duly Authorized

STATE OF NEW HAMPSHIRE)
) ss. September 27, 2004
COUNTY OF HILLSBOROUGH)

Personally appeared, Mark Gavin, CFO of PC Connection, Inc., who acknowledged that he executed the foregoing instrument as his free act and deed and the free act and deed of the corporation, before me.

/s/ Eileen Gagnon

Notary Public

Separation Agreement

AGREEMENT made as of the 20th day of October, 2004 by and between PC Connection, Inc., a Delaware corporation with offices at 730 Milford Road, Merrimack, New Hampshire, 03054 ("PC Connection" or the "Company") and Mark Gavin ("Mr. Gavin" or "you") (collectively, "the Parties").

WHEREAS, Mr. Gavin has been employed by PC Connection as its Chief Financial Officer;

WHEREAS, the parties wish to resolve amicably Mr. Gavin's separation from the Company and establish the terms of Mr. Gavin's severance arrangement;

NOW, THEREFORE, in consideration of the promises and conditions set forth herein, the sufficiency of which is hereby acknowledged, the Company and Mr. Gavin agree as follows:

1. **Resignation.** The Company and you agree that your separation from the Company will be characterized as a resignation.
2. **Transition Period.** From October 21, 2004 until November 19, 2004 (the "Transition Period"), the Parties agree that, in exchange for the payment of his current salary and benefits by PC Connection, Mr. Gavin shall render reasonable, necessary and requested consulting services during regular and customary business days and hours in order to assist PC Connection in the transition of his services to a replacement chief financial officer.
3. **Ongoing Cooperation.** You agree to reasonably cooperate with the Company and its attorneys and auditors with respect to any and all ongoing audits, internal investigations and investigations by any regulatory authority.
4. **Severance Benefits.**

    (a) In return for your execution of the instant Agreement, PC Connection will pay you salary continuation payments at your base rate of $ 260,000 per annum, less all applicable state and federal taxes, for a period of six months, commencing on November 20, 2004 (the Severance Pay Period).

    (b) PC Connection represents that you are currently vested in 156,250 stock options under your Incentive Stock Option Agreement ("Option Agreement") with varying exercise prices. As provided in your Option Agreement, you shall have 30 days or 90 days depending on the plan in which to exercise the vested stock options.

    (c) PC Connection represents that you are currently not vested in 286,250 additional stock options under the Option Agreement and these non-vested options will terminate.

    (d) If, in addition to signing this Agreement, you choose to sign and return the Covenant Not to Compete and Disclose Confidential Information and Assignment of Rights ("Covenant Not to Compete") attached to this Agreement as Attachment A, the Company shall pay you, in addition to the severance benefits outlined in this paragraph, the enhanced severance benefits described in the "Description of Enhanced Severance Benefits" attached to this Agreement as Attachment B.

5. **Non-Disparagement.** You agree that that as a condition for payment to you of the consideration described herein, you will not make any false, disparaging or derogatory statements to any media outlet, industry group, financial institution, or current or former employee, consultant, client or customer of the Company regarding the Company or any of its directors, officers, employees, agents or representatives or about the Company's business affairs and financial condition, absent actual or threatened litigation or regulatory investigation, or as required by law. Nothing herein shall prevent you from providing information, documentation and/or testimony in connection with any investigation or action by any governmental or regulatory authority which you believe to be true.

   Likewise, the Executive Officers and Directors of the Company agree not make any false, disparaging or derogatory statements to any media outlet, industry group, financial institution, prospective employer or current or former employee, consultant, client or customer of the Company regarding Mr. Gavin, unless required by law.

6. **Return of Company Property.** Upon the expiration of the Transition Period, you agree to return all keys, ID badges, credit cards, cellular phones, computers, diskettes, and other data storage and retrieval devices, software and other materials and documents belonging to PC Connection or any affiliate. You also agree that you will not retain any copies of any such material.

7. **Rights in Work Product.** You confirm that you have disclosed to PC Connection all ideas and inventions and intellectual property (collectively, "Inventions") that arose from work performed by you for, on behalf of, at the expense of, or on the premises of PC Connection or any other affiliate. Inventions include, without limitation, any ideas for improvements or alternatives to PC Connection's operations and technology. You understand that under the terms of your agreements with PC Connection, PC Connection owns all rights in the Inventions and you agree to cooperate with PC Connection in executing any necessary applications, assignments or similar forms respecting the Inventions.

8. **Continuing Effect and Extension of Covenant.** You acknowledge your obligation to keep confidential all non-public information concerning the Company which you acquired during the course of your employment with the Company, as stated more fully in the Code of Business Conduct and Ethics ("Ethics Agreement") you executed annually during your employment, which remains in full force and effect.

9. **Confidentiality**. To the extent permitted by law, the Parties understand and agree that, as in exchange for the agreements herein contained and as a condition for payment to Mr. Gavin of the consideration herein described, the Parties, their agents and representatives shall keep the terms and contents of this Agreement, and the contents of the negotiations and discussions resulting in this Agreement, including, the contents and negotiations resulting in the Enhanced Severance Benefits described in Attachment B, as confidential and none of the above shall be disclosed to any third party except to the extent required by federal or state law, in response to a request or investigation by a regulatory authority, or as otherwise agreed to in writing by the other Party, provided however, that this section does not preclude you from discussing the terms of this Agreement with your immediate family, attorneys and tax advisors, provided however, that before any such discussion, any such person must first agree to keep the terms of this Agreement confidential.

10. **Complete Agreement.** This Agreement together with the Covenant Not to Compete, Ethics Agreement, and the Option Agreement and together with Attachments A and B constitute the parties' entire agreement with respect to its subject matter and supersedes all prior negotiations, discussions, and agreements with respect to the same subject matter, including, but not limited to your offer letter dated February 5, 1998.

11. **Release.** In consideration of the payment of the severance benefits, you hereby fully, forever, irrevocably and unconditionally release, remise, discharge PC Connection, its officers, directors, stockholders, corporate affiliates, subsidiaries, parent companies, agents and employees (each in their individual and corporate capacities (hereinafter the "Released Parties") from any and all liabilities, obligations, debts, demands, actions, torts, breaches, causes of action, suits, accounts, covenants, agreements, contingencies, promises, understandings, damages, expenses, compensation, or claims that you now have, may have or ever had against the Released Parties, whether in law or in equity, or whether known or unknown, during all relevant time periods, including but not limited to any claims arising out of your employment with or separation from PC Connection, including, but not limited to all employment discrimination claims under Title VII of the Civil Rights Act of 1964, 42 U.S.C. §2000e et seq., the Age Discrimination in Employment Act (ADEA), 29 U.S.C. § 621 et seq. and the Older Workers Benefit Protection Act (OWBPA); the Americans With Disabilities Act of 1990, 42 U.S.C., §12101 et seq., the Family and Medical Leave Act, 29 U.S.C. § 2601 et seq.; all claims arising out of the Fair Credit Reporting Act, 15 U.S.C. §1681 et seq., the Employee Retirement Income Security Act of 1974 ("ERISA"), 29 U.S.C. §1001 et seq., the New Hampshire Law Against Discrimination, N.H. Rev. Stat. Ann. § 354-A:1 et seq., N.H. Rev. Stat. Ann. § 275:36 et seq. (New Hampshire equal pay law), the New Hampshire Whistleblowers' Protection Act, N.H. Rev. Stat. Ann. § 275-E:1 et seq., all as amended; all common law claims including, but not limited to, actions in tort, defamation and breach of contract; and any claim or damage arising out of your employment with or separation from the Company (including a claim for retaliation) under any common law theory or any federal, state or local statute or ordinance not expressly referenced above; provided, however, that nothing in this Agreement prevents you from filing, cooperating with, or participating in any proceeding before the EEOC or a state Fair Employment Practices Agency (except that you acknowledge that you may not be able to recover any monetary benefits in connection with any such claim, charge or proceeding) or cooperating fully with any federal regulatory authority.

12. **Acknowledgments.** You acknowledge that you have been given twenty-one (21) days to consider this Agreement and that the Company advised you to consult with an attorney of your own choosing prior to signing this Agreement. Further, you acknowledge that you may revoke this Agreement for a period of seven (7) days after you execute this Agreement, and the Agreement shall not be effective or enforceable until the expiration of this seven (7) day revocation period. You understand and agree that by entering into this letter agreement you are waiving any and all rights or claims you might have under The Age Discrimination in Employment Act, as amended by The Older Workers Benefit Protection Act, and that you have received consideration beyond that to which you were previously entitled.

13. **Voluntary Assent.** You affirm that no other promises or agreements of any kind have been made to or with you by any person or entity whatsoever to cause you to sign this Agreement, and that you fully understand the meaning and intent of this Agreement. You state and represent that you have carefully read this Agreement, understand the contents herein, freely and voluntarily assent to all of the terms and conditions hereof, and sign your name of your own free act.

14. **<u>Nature of Agreement</u>.** You understand and agree that this Agreement is a severance and settlement agreement and does not constitute an admission of liability or wrongdoing on the part of you or the Company.

15. **<u>Amendment</u>.** This Agreement shall be binding upon the Parties and may not be abandoned, supplemented, changed or modified in any manner, orally or otherwise, except by an instrument in writing of concurrent or subsequent date signed by a duly authorized representative of the Parties hereto. This Agreement is binding upon and shall inure to the benefit of the Parties and their respective agents, assigns, heirs, executors, successors and administrators.

16. **<u>Waiver of Rights</u>.** No delay or omission by either of the Parties in exercising any rights under this Agreement shall operate as a waiver of that or any other right. A waiver or consent given by either of the Parties on any one occasion shall be effective only in that instance and shall not be construed as a bar or waiver of any right on any other occasion.

17. **<u>Validity</u>.** Should any provision of this Agreement be declared or be determined by any court of competent jurisdiction to be illegal or invalid, the validity of the remaining parts, terms, or provisions shall not be affected thereby and said illegal or invalid part, term or provision shall be deemed not to be a part of this Agreement.

18. **<u>Applicable Law</u>.** This Agreement shall be governed by the laws of the State of New Hampshire, without regard to conflict of laws provisions. The Parties hereby irrevocably submits to the jurisdiction of the courts of the State of New Hampshire, or if appropriate, a federal court located in State of New Hampshire (which courts, for purposes of this Agreement, are the only courts of competent jurisdiction), over any suit, action or other proceeding arising out of, under, or in connection with this Agreement or its subject matter.

19. **<u>Counterparts</u>.** This Agreement may be executed in two (2) signature counterparts, each of which shall constitute an original, but all of which taken together shall constitute but one and the same instrument.

IN WITNESS WHEREOF, PC Connection and Mark Gavin have each caused this Agreement to be executed on the date set forth below.

Agreed:

PC Connection, Inc.

By: /s/ Brad Mousseau	/s/ Mark Gavin
Brad Mousseau, V.P. H.R.	Mark Gavin
10/20/04	10/20/04
Date	Date

ATTACHMENT A

COVENANT NOT TO COMPETE AND DISCLOSE CONFIDENTIAL INFORMATION AND ASSIGNMENT OF RIGHTS

NON COMPETE AGREEMENT

This Covenant entered into October, 20th 2004 by and between _Mark Gavin (Employee), residing at 11 Morgan Lane, Keene, NH 03431 with: PC Connection, Inc.; _X PC Connection Sales Corp.; Merrimack Services Corp.; PC Connection Sales of Massachusetts, Inc., all Delaware corporations with offices at 730 Milford Road, Merrimack, New Hampshire, and members of the PC Connection, Inc. affiliated group of companies ("PC Connection").

Whereas, PC Connection is engaged in the sales, marketing, and service of computer and networking hardware, software, peripherals, and service primarily through telephone and electronic commerce throughout the United States; and

Whereas, the business PC Connection is engaged in is extremely competitive and success depends in great part on developing, protecting and maintaining confidential information concerning plans, strategies, products, customers lists, vendor lists, pricing, business techniques, and training methods, and seeks by this Covenant to protect said information; and

Whereas, Employee acknowledges that in the course of his or her employment with PC Connection he or she may have access to information that is valuable and confidential to PC Connection, the improper disclosure of which or engagement in unfair competition involving such information will seriously damage PC Connection;

Now, therefore, in consideration of the mutual covenants contained herein, PC Connection and Employee agree as follows:

1. NO COMPETITION WITH PC CONNECTION.

(a) While employed by any of the PC Connection companies, Employee shall not own, manage, operate, control, consult for, aid or be employed by any entity that is substantially similar to or directly competes with any business conducted by PC Connection, including, but not limited to, the design, development and production of the particular projects Employee will have worked on or been involved with.

(b) For the period of twelve (12) months following any termination of employment for any reason or for no reason, Employee, either as an employee of another entity, independently or otherwise, shall not compete with PC Connection by (i) engaging in the design, development, production, marketing or sale of goods or services directly in competition with PC Connection or engaging in projects substantially similar to those Employee worked on or was involved with on behalf of PC Connection, whether or not the projects, in whole or in part, involved confidential information or trade secrets, (ii) soliciting sales in competition with PC Connection from PC Connection's established customers with whom Employee had other than incidental contact during

his or her employment with PC Connection or (iii) soliciting other employees to leave PC Connection in order to undertake other employment. (c) Employee represents and certifies that he or she is not currently subject to a non-competition, non-disclosure, confidentiality or other agreement that may affect his or her ability to perform work required by PC Connection.

2. NO DISCLOSURE OF TRADE SECRETS AND CONFIDENTIAL INFORMATION

(a) Employee acknowledges that some elements of PC Connection's business constitute trade secrets, are and must remain confidential, and are of value to PC Connection, and that unauthorized disclosure of such elements will cause PC Connection irreparable harm. PC Connection's trade secrets and/or confidential information include but are not limited to: identities of customers, customer lists and other information about customers used by PC Connection, sales, marketing and financial information, designs, diagrams, schematics, plans, specifications and other technical information, oral and written agreements with vendors and distributors, pricing methods, purchasing and sales contacts, computer programs, sales figures and PC Connection's short range and long range product, sales, marketing, expansion, diversification, financing and similar plans, regardless of whether stored in any tangible medium or of the type of medium in which it is stored, used or contained and whether contained in created materials reflecting such information, excepting information which is generally known outside PC Connection or which becomes generally known outside PC Connection by publication other than by or as a result of an unauthorized act or omission by or involving the Employee or another. Created materials include any documents, memoranda, notes, notebooks, reports, studies, programs, data, drawings, schematics, ideas, discoveries and any other item of information generated by or for PC Connection stored or contained in any medium, including materials that Employee created individually or together with others whether during or outside of regular working hours so long as they were created for the benefit of PC Connection or by utilizing Company time, resources, materials or information.

(b) Employee shall not disclose trade secrets or confidential information to anyone except authorized Company officers, agents and employees, unless specifically directed by an officer of PC Connection.

(c) Employee shall deliver to PC Connection all confidential information, created materials and trade secrets, whether written or contained in any other medium, which are in his or her possession or under his or her control, promptly upon request. Employee shall not take any confidential information, created materials and trade secrets, whether written or contained in any other medium, or hardware outside PC Connection's premises without the express consent of an officer of PC Connection and shall return all such things promptly upon termination of employment with PC Connection.

(d) Employee acknowledges that the obligation not to disclose confidential information and trade secrets is a continuing one, which shall remain in force and binding upon the Employee after his employment with PC Connection is terminated for any reason and until such time as the information is no longer confidential and does not constitute a trade secret.

3. **ASSIGNMENT.** Employee understands that all original work created by him or her in the context of his employment is "work for hire" and is created for the exclusive benefit of PC Connection. Employee hereby assigns any and all rights he or she may have in any intellectual property or other information arising from work performed as an Employee of PC Connection or any work performed for, on behalf of, at the expense of, or on the premises of PC Connection, including, but not limited to, rights to patents, mask works, copyrights, trade secrets, trademarks, and trade names. Employee agrees to execute assignments of the rights to said intellectual property or other information and to do such other things as are necessary to secure these rights in PC Connection from time to time upon its request.

4. **INJUNCTIVE RELIEF**. In the event Employee breaches any of the foregoing provisions, PC Connection will suffer irreparable harm and shall be entitled to injunctive relief.

5. **CONSIDERATION.** The consideration for Employee's obligations under this Covenant include one or more of the following: PC Connection (a) hiring Employee, (b) providing continued employment in one of the PC Connection, Inc. group of companies, (c) granting Employee a promotion and/or pay increase.

6. GENERAL. This Covenant represents the entire agreement between the parties relating to the subject matter covered, and may not be modified except by a writing signed by both parties. This Covenant shall inure to the benefit of PC Connection, its successors and assigns. If any provision in this Covenant is deemed illegal or unenforceable, the offending provision shall either be modified to make it legal and enforceable while retaining as far as possible the original intent of the provision or, if that is not possible, it shall be stricken; the remainder of the Covenant to continue in full force and effect. This Covenant shall be construed and enforced under and in accordance with the law of the State of New Hampshire.

Employee acknowledges that he or she has read and understands this Covenant and has had an opportunity to discuss any questions with PC Connection Personnel Manager or Legal Counselor with independent counsel of his or her choice. Employee understands and agrees that this Covenant does not change the at-will nature of his employment with PC Connection.

Agreed:

PC Connection	Employees
By: /s/ Brad Mousseau	/s/ Mark Gavin
Brad Mousseau, VP HR	Mark Gavin
Print name/title	print name

ATTACHMENT B
DESCRIPTION OF ENHANCED SEVERANCE BENEFITS

If you sign and return the **[Non-Compete, Non-Solicitation Agreement]** attached to this Agreement as Attachment A, the Company will provide to you the following enhanced severance benefits:

a) The Company will pay to you an additional 6 months of salary continuation at your base rate of $260,000.00 (the "Enhanced Severance Pay Period"), less all applicable state and federal taxes. This Enhanced Severance pay will be paid in accordance with the Company's normal payroll procedures, and will commence at the conclusion of the Severance Pay Period.

b) Provided you timely elect to continue receiving group medical insurance pursuant to the federal "COBRA" law, 29 U.S.C. § 1161 etseq., the Company will continue to pay the same portion of your health and dental coverage premiums that it provides for similar employees, during both the Severance Pay Period and the Enhanced Severance Pay Period, or until you become eligible for other coverage, whichever comes first. During this period, the Company will continue to deduct the employee contribution to such benefits from your salary continuation payments. Thereafter, you may elect to continue receiving group medical insurance and all premium costs shall be paid by you on a monthly basis for as long as, and to the extent that, you remain eligible for COBRA continuation. You should consult the COBRA materials to be provided by the Company for details regarding these benefits.

c) Executive outplacement services will be arranged for you with Lee Hecht Harrison. Such services will continue throughout both the Severance Pay Period and the Enhanced Severance Pay Period. The cost of the outplacement services will be paid by the Company.

d) Upon the execution of this Agreement, the Company agrees to provide to Gavin a laptop computer similar in make, style and condition to the one utilized by him during his employment with the Company.

e) The Company agrees to make every effort to provide Gavin and his counsel with a copy of any press release related to Gavin's separation from the Company as soon as possible, but prior to its release to the public.

Exhibit 15

November 10, 2004

PC Connection, Inc.
730 Milford Road
Merrimack, New Hampshire

We have made a review, in accordance with standards of the Public Company Accounting Oversight Board (United States), of the unaudited interim financial information of PC Connection, Inc. and subsidiaries for the periods ended September 30, 2004 and 2003, as indicated in our report dated November 10, 2004; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended September 30, 2004, is incorporated by reference in Registration Statement Nos. 333-91584, 333-66450, 333-40172, 333-83943, 333-69981, 333-50847, 333-50845, and 333-106652 on Form S-8.

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is 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

Exhibit 31.1

CERTIFICATIONS

I, Patricia Gallup, 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)) 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) [Not applicable];
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 15, 2004

/s/ PATRICIA GALLUP

Patricia Gallup
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Jack Ferguson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PC Connection, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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) [Not applicable];
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 15, 2004

/s/ JACK FERGUSON

Jack Ferguson
Treasurer and Interim Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q of PC Connection, Inc. (the “Company”) for the period ended September 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Patricia Gallup, 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.

/s/ PATRICIA GALLUP

Dated: November 15, 2004

Patricia Gallup
President and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to PC Connection, Inc. and will be retained by PC Connection, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q of PC Connection, Inc. (the “Company”) for the period ended September 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Jack Ferguson, Treasurer and Interim 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.

/s/ JACK FERGUSON

Dated: November 15, 2004

Jack Ferguson
Treasurer and Interim Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to PC Connection, Inc. and will be retained by PC Connection, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.