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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2008

OR

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

For the transition period from to

Commission file number 0-23827

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

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

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

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

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

YES ☑ **NO** ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐	Accelerated filer ☑
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES ☐ **NO** ☑

The number of shares outstanding of the issuer's common stock as of August 1, 2008 was 27,066,960.

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 June 30, 2008, and the related condensed consolidated statements of income for the three-month and six-month periods ended June 30, 2008 and 2007, and the condensed consolidated statement of changes in stockholders' equity for the six-month period ended June 30, 2008, and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 2008 and 2007. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the 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 the 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 review, 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, 2007, 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 14, 2008, we expressed an unqualified opinion on those consolidated financial statements (and included an explanatory paragraph regarding the Company's adoption of Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109, effective January 1, 2007.) In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2007 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

DELOITTE & TOUCHE LLP
Boston, Massachusetts
August 11, 2008

PC CONNECTION, INC. AND SUBSIDIARIES

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

	June 30, 2008 *(unaudited)*	December 31, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 40,916**	$ 13,741
Accounts receivable, net	**193,599**	202,216
Inventories—merchandise	**64,968**	76,090
Deferred income taxes	**2,732**	2,858
Income taxes receivable	**917**	345
Prepaid expenses and other current assets	**4,000**	4,322
Total current assets	**307,132**	299,572
Property and equipment, net	**23,199**	20,831
Goodwill	**56,867**	56,867
Other intangibles, net	**2,756**	3,291
Other assets	**306**	318
Total Assets	**$390,260**	$ 380,879
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of capital lease obligation to affiliate	**$ 615**	$ 527
Accounts payable	**110,924**	111,140
Accrued expenses and other liabilities	**20,349**	20,557
Accrued payroll	**9,622**	10,816
Total current liabilities	**141,510**	143,040
Capital lease obligation to affiliate, less current maturities	**3,969**	4,309
Deferred income taxes	**7,061**	5,436
Other liabilities	**3,742**	3,784
Total Liabilities	**156,282**	156,569
Stockholders' Equity:		
Common stock	**273**	273
Additional paid-in capital	**94,878**	94,132
Retained earnings	**141,831**	131,970
Treasury stock at cost	**(3,004)**	(2,065)
Total Stockholders' Equity	**233,978**	224,310
Total Liabilities and Stockholders' Equity	**$390,260**	$ 380,879

See notes to unaudited condensed consolidated financial statements.

PC CONNECTION, INC. AND SUBSIDIARIES

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Net sales	**$449,399**	$441,122	**$873,123**	$839,302
Cost of sales	**392,559**	387,082	**763,539**	735,347
Gross profit	**56,840**	54,040	**109,584**	103,955
Selling, general and administrative expenses	**48,173**	45,005	**93,566**	89,198
Income from operations	**8,667**	9,035	**16,018**	14,757
Interest expense	**(199)**	(242)	**(361)**	(450)
Other, net	**205**	260	**364**	461
Income before taxes	**8,673**	9,053	**16,021**	14,768
Income tax provision	**(3,586)**	(3,300)	**(6,160)**	(5,630)
Net income	**$ 5,087**	$ 5,753	**$ 9,861**	$ 9,138
Weighted average common shares outstanding:				
Basic	**26,807**	26,798	**26,834**	26,740
Diluted	**26,930**	26,995	**26,952**	27,002
Earnings per common share:				
Basic	**$ .19**	$ .21	**$ .37**	$ .34
Diluted	**$ .19**	$ .21	**$ .37**	$ .34

See notes to unaudited condensed consolidated financial statements.

PC CONNECTION, INC. AND SUBSIDIARIES

PART I—FINANCIAL INFORMATION
Item 1—Financial Statements
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
Six Months Ended June 30, 2008
(Unaudited)
(*amounts in thousands*)

	Common Stock		Additional	Retained	Treasury Shares		
	Shares	Amount	Paid-In Capital	Earnings	Shares	Amount	Total
Balance—January 1, 2008	27,252	$ 273	$ 94,132	$ 131,970	(327)	$ (2,065)	$ 224,310
Stock compensation expense	—	—	531	—	—	—	531
Issuance of common stock under stock incentive plans, including income tax benefit	11	—	86	—	—	—	86
Issuance of stock under Employee Stock Purchase Plan	14	—	129	—	—	—	129
Repurchase of common stock for Treasury	—	—	—	—	(92)	(939)	(939)
Net income	—	—	—	9,861	—	—	9,861
Balance—June 30, 2008	27,277	$ 273	$ 94,878	$ 141,831	(419)	$ (3,004)	$ 233,978

See notes to unaudited condensed consolidated financial statements.

PC CONNECTION, INC. AND SUBSIDIARIES

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

	Six Months Ended June 30,	
	2008	**2007**
Cash Flows from Operating Activities:		
Net income	**$ 9,861**	$ 9,138
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**3,505**	3,472
Provision for doubtful accounts	**696**	894
Deferred income taxes	**1,751**	79
Stock compensation expense	**531**	(23)
Income tax benefit from exercise of stock options	**10**	918
Excess tax benefit from exercise of stock options	**(3)**	(358)
Loss on disposal of fixed assets	**—**	8
Changes in assets and liabilities:		
Accounts receivable	**7,921**	25
Inventories	**11,122**	(5,835)
Prepaid expenses and other current assets	**(250)**	70
Other non-current assets	**12**	(35)
Accounts payable	**(89)**	(10,168)
Accrued expenses and other liabilities	**(1,444)**	2,252
Net cash provided by operating activities	**33,623**	437
Cash Flows from Investing Activities:		
Purchases of property and equipment	**(5,465)**	(3,151)
Net cash used for investing activities	**(5,465)**	(3,151)
Cash Flows from Financing Activities:		
Proceeds from short-term borrowings	**35,345**	1,461
Repayment of short-term borrowings	**(35,345)**	(1,461)
Repayment of capital lease obligation	**(252)**	(438)
Purchase of treasury shares	**(939)**	—
Exercise of stock options	**76**	2,544
Excess tax benefit from exercise of stock options	**3**	358
Issuance of stock under Employee Stock Purchase Plan	**129**	134
Net cash (used for) provided by financing activities	**(983)**	2,598
Increase (decrease) in cash and cash equivalents	**27,175**	(116)
Cash and cash equivalents, beginning of period	**13,741**	17,582
Cash and cash equivalents, end of period	**$ 40,916**	$ 17,466

See notes to unaudited condensed consolidated financial statements.

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PC CONNECTION, INC. AND SUBSIDIARIES

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

Note 1—Basis of Presentation

The accompanying condensed consolidated financial statements of PC Connection, Inc. and its subsidiaries (the "Company," "we," "us," or "our") have been prepared in accordance with accounting principles generally accepted in the United States of America. Such principles were applied on a basis consistent with those of the financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2007 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 six months ended June 30, 2008 may not be indicative of the results expected for any succeeding quarter or the entire year ending December 31, 2008.

Revenue Recognition

Revenue on product sales is recognized at the point in time when persuasive evidence of an arrangement exists, the price is fixed and final, delivery has occurred, and there is a reasonable assurance of collection of the sales proceeds. 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 at the point of shipment or (ii) have FOB–destination specifically set out in our arrangements with federal agencies and certain commercial customers, 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.

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

Revenue for third party service contracts is recorded on a net sales recognition basis because we do not assume the risks and rewards of ownership in these transactions. For such contracts, we evaluate whether the sales of such services should be recorded as gross sales or net sales as required under the guidelines described in Staff Accounting Bulletin No. 104, "Revenue Recognition" and Emerging Issues Task Force Issue ("EITF") No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent." Under gross sales recognition, we are the primary obligor, and the entire selling process is recorded in sales with our cost to the third party service provider recorded as a cost of sales. Under net sales recognition, we are not the primary obligor, and the cost to the third party service provider is recorded as a reduction to sales, with no cost of goods sold, thus leaving the entire gross profit as the reported net sale for the transaction.

Similarly, we recognize revenue from agency sales transactions on a net sales basis. In agency sales transactions, we facilitate product sales by equipment and software manufacturers directly to our customers and receive agency, or referral, fees for such transactions. We do not take title to the products or assume any maintenance or return obligations in these transactions; title is passed directly from the supplier to our customer.

(amounts in thousands, except per share data)

Although service revenues represent a small percentage of our consolidated revenues, we offer a growing range of services, including installation, configuration, repair, and other services performed by our personnel and third-party providers. If a service is performed in conjunction with the delivery of hardware, software, or another service, then we determine whether an item included in such multiple-element arrangements constitutes a separate deliverable, in accordance with EITF 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables."

In these arrangements, an element is separated as a deliverable only when the following three conditions are met:

- The delivered item(s) has value to the customer on a standalone basis;
- There is objective and reliable evidence of the fair value of the undelivered item; and
- If the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially under our control.

Cost of Sales and Certain Other Costs

Cost of sales includes the invoice cost of the product, direct costs of packaging, inbound and outbound freight, and provisions for inventory obsolescence, adjusted for discounts, rebates, and other vendor allowances, including those pursuant to EITF Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor." Direct operating expenses relating to our purchasing function and receiving, inspection, internal transfer, warehousing, packing and shipping, and other operating expenses of our distribution center are included in selling, general and administrative ("SG&A") expenses. Total direct operating expenses relating to these functions included in SG&A expenses for the periods reported are shown below:

	Three Months Ended	Six Months Ended
June 30, 2008	$ 3,049	$ 6,116
June 30, 2007	2,728	5,516

Accounts Receivable

We perform ongoing credit evaluations of our customers and adjust credit limits based on payment history and customer creditworthiness. We maintain an allowance for estimated doubtful accounts based on our historical experience and the customer credit issues identified. We monitor collections regularly and adjust the allowance for doubtful accounts as necessary to recognize any changes in credit exposure.

Inventories—Merchandise

Inventories (all finished goods) consisting of software packages, computer systems, and peripheral equipment, are stated at cost (determined under the first-in, first-out method) or market, whichever is lower. Inventory quantities on hand are reviewed regularly, and allowances are maintained for obsolete, slow moving, and nonsalable inventory.

PC CONNECTION, INC. AND SUBSIDIARIES

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

Vendor Allowances

We receive allowances from merchandise vendors for price protections, discounts, product rebates, and other programs. These allowances are treated as a reduction of the vendor's prices and are recorded as adjustments to cost of sales or inventory, as applicable. Allowances for product rebates that require certain volumes of product sales or purchases are recorded only after the related milestones are met.

Advertising Costs and Allowances

Costs of producing and distributing catalogs are charged to expense in the period in which the catalogs are first issued. Other advertising costs are expensed as incurred.

Vendors have the ability to place advertisements in our catalogs or fund other advertising activities for which we receive advertising allowances. These vendor allowances, to the extent that they represent specific reimbursements of the underlying incremental and identifiable costs, are offset against SG&A expenses. Advertising allowances that cannot be associated with a specific program funded by an individual vendor or that exceed the fair value of advertising expense associated with that program are classified as offsets to cost of sales or inventory in accordance with EITF 02-16. Our vendor partners generally consolidate their funding of advertising and other marketing programs, and as a result, we classify substantially all vendor consideration as a reduction of cost of inventory purchases rather than a reduction of advertising expense.

Goodwill and Other Intangible Assets

We have designated January 1 of each year as the date we perform our annual impairment tests relative to goodwill. We completed the impairment review in January 2008 and determined that our goodwill and trademarks were not impaired.

	June 30, 2008
Goodwill	$ 56,867
Trademarks	1,190

Intangible assets subject to amortization at June 30, 2008 consisted of customer lists of $1,417 and a licensing agreement of $149 (net of accumulated amortization of $3,802 and $326, respectively). Intangible assets subject to amortization at December 31, 2007 consisted of customer lists of $1,893 and a licensing agreement of $208 (net of accumulated amortization of $3,326 and $267, respectively). For the three-month periods ended June 30, 2008 and 2007, we recorded amortization expenses of $267 and $268, respectively. For the six-month periods ended June 30, 2008 and 2007, we recorded amortization expenses of $535 and $536, respectively.

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

For the Year Ended December 31,	
2008	$536(*)
2009	942
2010	88
2011 and thereafter	—

(*) Represents estimated amortization expense for the six months ending December 31, 2008.

PC CONNECTION, INC. AND SUBSIDIARIES

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

Share-Based Compensation

In accordance with SFAS No. 123 (revised 2004), "Share-Based Payment," ("SFAS 123(R)"), we measure the grant date fair value of equity awards given to employees and recognize that cost, adjusted for estimated forfeitures, over the periods that such services are performed in our condensed consolidated financial statements (described in Note 5). We utilize the Black-Scholes option valuation model to assess the grant date fair value of stock option awards. We determine the fair value of nonvested stock awards using the end of day market value of our common stock on the grant date. In the second quarter of 2008, we awarded nonvested stock with post-vesting selling restrictions. Three individuals received nonvested stock where the individuals are restricted from selling more than 10% of the shares in any given year following the grant date. One individual received nonvested stock where the individual is restricted from selling more than 20% of the shares in any given year following the grant date. Such selling restrictions reduced the fair value of the awards below the grant date common stock market value. (See Note 5.)

Income Taxes

We recognize deferred income tax assets and liabilities for the differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates anticipated to be applicable to the periods in which the differences are expected to affect taxable income. On January 1, 2007, we adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109," ("FIN 48"). We account for uncertain tax positions in accordance with FIN 48. Accordingly, we report a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. We recognize interest and penalties, if any, related to unrecognized tax benefits in income tax expense. During the six months ended June 30, 2008, there were no material changes in the liability for unrecognized tax benefits. Except for the possible adjustment described in Note 7, we do not currently expect that our unrecognized tax benefits will change significantly within the next twelve months.

Use of Estimates in the Preparation of Financial Statements

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

Share Repurchase Authorization

On March 28, 2001, our Board of Directors authorized the spending of up to $15,000 to repurchase our common stock. Share purchases will be made in the open market from time to time depending on market conditions. Our current bank line of credit, however, limits repurchases made after June 2005 to $10,000 without bank approval of higher amounts.

During the six months ended June 30, 2008, we repurchased an aggregate of 91,779 shares for $939. As of June 30, 2008, we have repurchased an aggregate of 454,196 shares for $3,225. The maximum approximate dollar value of shares that may yet be purchased under the program without further bank approval is $9,061. We have issued nonvested shares from treasury stock and have reflected upon vesting the net remaining balance of treasury stock on the condensed consolidated balance sheet.

PC CONNECTION, INC. AND SUBSIDIARIES

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

Note 2—Earnings Per Share

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

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

	Three Months Ended		Six Months Ended	
June 30,	2008	2007	2008	2007
Numerator:				
Net income	$ 5,087	$ 5,753	$ 9,861	$ 9,138
Denominator:				
Denominator for basic earnings per share	26,807	26,798	26,834	26,740
Dilutive effect of employee equity awards	123	197	118	262
Denominator for diluted earnings per share	26,930	26,995	26,952	27,002
Earnings per share:				
Basic	$ .19	$ .21	$ .37	$ .34
Diluted	$ .19	$ .21	$ .37	$ .34

The following weighted average unexercised stock options were excluded from the computation of diluted earnings per share for the three and six months ended June 30, 2008 and 2007 because the exercise prices of these options were generally greater than the average market price of common stock during the respective periods:

	Three Months Ended		Six Months Ended	
June 30,	2008	2007	2008	2007
Weighted average outstanding anti-dilutive stock options	564	207	579	209

Note 3—Recently Issued Accounting Standards

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," or SFAS 157. This Statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements but rather applies under other accounting pronouncements that require or permit fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position No. 157-2, or FSP 157-2. FSP 157-2 delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. These nonfinancial items include assets and liabilities such as reporting units measured at a fair value in a goodwill impairment test and nonfinancial assets acquired and liabilities assumed in a business combination. Effective January 1, 2008, we adopted SFAS 157 for financial assets and liabilities and it did not have a significant effect on our financial position, results of operations, and cash flows.

PC CONNECTION, INC. AND SUBSIDIARIES

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

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities,” or SFAS 159, which permits companies to voluntarily choose to measure specified financial instruments and other items at fair value on a contract-by-contract basis. If the fair value option is elected, subsequent changes in fair value will be required to be reported in earnings each reporting period. This Statement is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We have not elected to measure any eligible items at fair value. Accordingly, the adoption of SFAS 159 did not have a material impact on our financial position, results of operations, and cash flows.

In December 2007, the FASB issued SFAS 141(Revised), “Business Combinations,” which is a revision of SFAS 141, “Business Combinations.” SFAS 141(Revised) establishes principles and requirements for how an acquirer in a business combination: recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and discloses information to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This Statement is effective for fiscal years beginning after December 15, 2008, and is to be applied prospectively. We are currently assessing the potential impact SFAS 141(Revised) will have on our financial statements.

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 their “reportable operating segments” in their annual and interim financial statements. Our Chief Operating Decision Maker, or CODM, evaluates our operations based on a measure of operating income. The internal organization used by our CODM to assess performance and allocate resources determines the basis for our reportable operating segments. Our CODM is our Chief Executive Officer.

Our operations are organized under three reportable operating segments—the “SMB” segment, which serves small- and medium-sized businesses, as well as consumers; the “Large Account” segment, which serves medium-to-large corporations; and the “Public Sector” segment, which serves federal, state, and local government and educational institutions—together with our Headquarters/Other group that provide services in areas such as finance, human resources, information technology, legal, communications, and marketing. Most of the operating costs associated with the corporate headquarters functions are charged to the reportable operating segments based on their estimated usage of the underlying functions. We report these charges to the operating segments as “Allocations.” Certain of the headquarters costs relating to executive oversight functions that are not allocated to the operating segments are included under the heading of “Headquarters/Other” in the tables below.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(amounts in thousands, except per share data)

Net sales represent net sales to external customers as our CODM does not review inter-segment product revenues. Segment information applicable to our reportable operating segments for the three and six months ended June 30, 2008 and 2007 is shown below:

	Three Months Ended June 30, 2008				
	SMB Segment	Large Account Segment	Public Sector Segment	Headquarters/ Other	Consolidated
Net sales	$236,375	$ 127,368	$ 85,656		$ 449,399
Operating income (loss) before allocations	$ 16,627	$ 7,526	$ 3,239	$ (18,725)	$ 8,667
Allocations	(10,948)	(864)	(3,741)	15,553	—
Operating income (loss)	$ 5,679	$ 6,662	$ (502)	$ (3,172)	$ 8,667
Selected Operating Expense:					
Depreciation and amortization	$ 75	$ 327	$ 67	$ 1,366	$ 1,835

	Three Months Ended June 30, 2007				
	SMB Segment	Large Account Segment	Public Sector Segment	Headquarters/ Other	Consolidated
Net sales	$231,935	$ 133,602	$ 75,585		$ 441,122
Operating income (loss) before allocations	$ 14,438	$ 7,810	$ 3,598	$ (16,811)	$ 9,035
Allocations	(9,500)	20	(2,724)	12,204	—
Operating income (loss)	$ 4,938	$ 7,830	$ 874	$ (4,607)	$ 9,035
Selected Operating Expense:					
Depreciation and amortization	$ 75	$ 296	$ 29	$ 1,184	$ 1,584

	Six Months Ended June 30, 2008				
	SMB Segment	Large Account Segment	Public Sector Segment	Headquarters/ Other	Consolidated
Net sales	$476,524	$ 244,576	$ 152,023		$ 873,123
Operating income (loss) before allocations	$ 34,631	$ 13,657	$ 5,465	$ (37,735)	$ 16,018
Allocations	(21,873)	(1,588)	(6,844)	30,305	—
Operating income (loss)	$ 12,758	$ 12,069	$ (1,379)	$ (7,430)	$ 16,018
Selected Operating Expense:					
Depreciation and amortization	$ 143	$ 648	$ 95	$ 2,619	$ 3,505
Balance Sheet Data:					
Total assets	$148,156	$ 155,288	$ 49,863	$ 36,953	$ 390,260

PC CONNECTION, INC. AND SUBSIDIARIES

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

	Six Months Ended June 30, 2007				
	SMB Segment	Large Account Segment	Public Sector Segment	Headquarters/ Other	Consolidated
Net sales	$465,868	$ 243,917	$ 129,517		$ 839,302
Operating income (loss) before allocations	$ 30,359	$ 13,349	$ 4,798	$ (33,749)	$ 14,757
Allocations	(20,953)	(230)	(5,695)	26,878	—
Operating income (loss)	$ 9,406	$ 13,119	$ (897)	$ (6,871)	$ 14,757
Selected Operating Expense:					
Depreciation and amortization	$ 153	$ 685	$ 57	$ 2,577	$ 3,472
Balance Sheet Data:					
Total assets	$145,840	$ 143,752	$ 40,156	$ 22,028	$ 351,776

Our operating segments' assets presented above are primarily accounts receivables, intercompany receivables, and goodwill and other intangibles. Assets for the Headquarters/Other group are managed by corporate headquarters, including cash, inventory, and property and equipment. Total assets for the Headquarters/Other group are presented net of intercompany balances eliminations of $46,169 and $64,273 for June 30, 2008 and 2007, respectively. Our capital expenditures are largely comprised of IT hardware and software purchased and software developed internally, to maintain or upgrade our management information systems. These systems serve all of our subsidiaries, to varying degrees, and as a result, our CODM does not evaluate capital expenditures on a segment basis.

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

	Three Months Ended		Six Months Ended	
June 30,	2008	2007	2008	2007
Segment (excludes transfers between segments)				
SMB	$ 236,375	$ 231,935	$ 476,524	$ 465,868
Large Account	127,368	133,602	244,576	243,917
Public Sector	85,656	75,585	152,023	129,517
Total	$ 449,399	$ 441,122	$ 873,123	$ 839,302
Product Mix				
Notebooks and PDAs	$ 69,939	$ 72,374	$ 134,040	$ 146,017
Video, Imaging and Sound	64,521	59,146	126,812	107,247
Desktop/Servers	62,035	62,479	120,444	120,007
Software	57,010	56,205	113,156	104,491
Net/Com Products	51,046	35,630	86,840	65,449
Printers and Printer Supplies	40,305	41,743	81,144	83,396
Storage Devices	36,583	39,649	79,145	74,457
Memory and System Enhancements	17,887	24,032	32,981	43,981
Accessories/Other	50,073	49,864	98,561	94,257
Total	$ 449,399	$ 441,122	$ 873,123	$ 839,302

(amounts in thousands, except per share data)

Substantially all of our net sales for the six months ended June 30, 2008 and 2007 were made to customers located in the United States. Shipments to customers located in foreign countries aggregated less than 1% in each of those respective periods. All of our assets at June 30, 2008 and December 31, 2007 were located in the United States. Our primary target customers are small- and medium-sized businesses with 20 to 1,000 employees, federal, state, and local government agencies, educational institutions, and medium-to-large corporate accounts. Except for the federal government, no single customer accounted for more than 2% of total net sales in the three and six months ended June 30, 2008 and 2007. Net sales to the federal government accounted for $23,437, or 5.2% of total net sales for the quarter ended June 30, 2008, and $18,356, or 4.2% of total net sales for the quarter ended June 30, 2007. Net sales to the federal government accounted for $46,522, or 5.3% of total net sales for the six months ended June 30, 2008, and $31,649, or 3.8% of total net sales for the six months ended June 30, 2007.

Note 5—Share-Based Compensation

In accordance with SFAS 123(R), we measure the grant date fair value of equity awards given to employees and recognize that cost, adjusted for estimated forfeitures, over the periods that such services are performed in our condensed consolidated financial statements. We utilize the Black-Scholes option valuation model to assess the grant date fair value of stock option awards. For nonvested stock awards, we use the end of day market value of our common stock on the grant dates to determine the fair value of such awards. We estimate forfeitures at the time of grant and revise, if necessary, in subsequent periods if actual forfeitures experienced differ from these estimates. We recognize share-based compensation as a component of SG&A expense. For the six months ended June 30, 2007, share-based compensation included a $167 benefit due to revisions in stock option forfeiture rates. Total share-based compensation for the periods reported is shown below:

	Three Months Ended		Six Months Ended	
June 30,	2008	2007	2008	2007
Share-based compensation	$ 324	$ 45	$ 531	$ (23)

In the six months ended June 30, 2008, our Board of Directors approved grants of stock options and nonvested stock under our 2007 Stock Incentive Plan. The stock options were granted with four-year graded vesting terms, contractual lives of ten years, and exercise prices equal to the end of day market prices of our common stock on the respective grant dates. The nonvested stock included post-vesting selling restrictions. Three individuals received nonvested stock where the individuals are restricted from selling more than 10% of the shares in any given year following the grant date. One individual received nonvested stock where the individual is restricted from selling more than 20% of the shares in any given year following the grant date. The restrictions are not cumulative, and as a result, if a recipient elects to forego selling shares in one year, the restriction period extends an additional year. Recipients of nonvested stock possess the rights of stockholders, including voting rights and the right to receive dividends. We recognize expense associated with equity awards ratably over the respective vesting periods. We previously determined the fair value of nonvested stock using the end of day market value of our common stock on the grant date. We believe that the values of these restricted awards were less than our common stock market value, but no markets exist for our common stock having a similar lack of marketability. **Accordingly, we utilized a quantitative estimate of this discount for lack of marketability, based on an Asian protective put model, Based on this analysis, the discount for the post-vesting restriction period for the awards that are restricted to selling ten percent per year was estimated at 18%, and for the awards that are restricted to selling twenty percent per year was estimated at 11%**. We did not grant any equity awards in the six months ended June 30, 2007.

(amounts in thousands, except per share data)

The following table summarizes the equity awards made in the six months ended June 30, 2008:

	2008 Grants	
	Shares	**Fair Value**
Stock options	108	$ 562
Nonvested stock awards	199	1,861

The following table summarizes the status of our nonvested shares as of June 30, 2008:

	Shares	**Weighted-Average Grant Date Fair Value**
Nonvested at January 1, 2008	32	$ 12.39
Awarded	199	9.35
Vested	—	—
Forfeited	—	—
Nonvested at June 30, 2008	231	$ 9.78

Unearned compensation costs related to the nonvested portion of outstanding nonvested stock as of June 30, 2008 was $2,003 and is expected to be recognized over a weighted-average period of approximately three years.

We utilize the Black-Scholes option valuation model to assess the grant date fair value of stock options and value each grant as a single award. The application of this model requires certain key input assumptions, including expected volatility, option term, and risk-free interest rates. Expected volatility is based on the historical volatility of our common stock. The expected option term is estimated using the historical exercise behavior of employees and directors. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve corresponding to the stock option's average life. The key weighted average assumptions we used to apply this pricing model were as follows:

	2008 Awards
Risk-free interest rates	2.79%
Volatility	57.8%
Expected term of option grants	4.8 years
Dividend yield	0%

We have historically settled stock option exercises with newly issued common shares and expect to continue this practice. The following table summarizes our stock option exercises for the periods presented:

Six Months Ended June 30,	**2008**	**2007**
Options exercised	11	304
Cash proceeds from exercised options	$77	$2,544
Intrinsic value of exercised options	$38	$2,417

PC CONNECTION, INC. AND SUBSIDIARIES

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(amounts in thousands, except per share data)

The following table sets forth our stock option activity for the three months ended June 30, 2008:

	Option Shares	Weighted Average Exercise Price	Weighted Average Fair Value	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding, January 1, 2008	876	$ 12.99			
Granted	108	10.27	$ 5.22		
Exercised	(11)	7.14			
Expired	(10)	11.67			
Outstanding, June 30, 2008	963	$ 12.77		6.07	$ 1,002
Vested and expected to vest	873	$ 12.92		5.76	$ 953
Exercisable, June 30, 2008	530	$ 14.49		3.87	$ 612

Unearned compensation cost related to the unvested portion of outstanding stock options as of June 30, 2008 was $2,261 and is expected to be recognized over a weighted-average period of approximately 2.4 years.

Note 6—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.

A federal income tax audit is currently being conducted by the Internal Revenue Service, as explained in Note 7. We are also subject to audits by states on sales and income taxes, unclaimed property, and other assessments. A multi-state unclaimed property audit is in progress, and certain sales tax audits may be imminent. While management believes that known liabilities have been adequately provided for, it is too early to determine the ultimate outcomes of such audits. Such outcomes could have a material impact on our results of operations and financial condition.

Note 7—Income Taxes

We file one consolidated U.S. federal income tax return that includes all of our subsidiaries as well as several consolidated, combined, and separate company returns in many U.S. state tax jurisdictions. The tax years 2004—2007 remain open to examination by the major taxing jurisdictions in which we file, and an Internal Revenue Service (“IRS”) audit of the 2005 tax year commenced in November 2007. The IRS issued a notice of proposed adjustment on July 17, 2008, that increases taxable income in 2006 by $1,510; an amount the IRS asserts is the punitive portion of a General Services Administration (“GSA”) settlement payment made in 2006 and deducted in that year. We paid $2,550 to the GSA to settle all claims made after a GSA contract administration review. We disagree with the proposed adjustment and are assessing the matter. An unfavorable resolution could have a material negative effect on our results of operations and cash flows in the subsequent period in which an adjustment is recorded and the corresponding tax is paid.

Note 8—Bank Borrowing and Trade Credit Arrangements

We have a $50,000 credit facility collateralized by substantially all of our business assets. This facility also gives us the option of increasing the borrowing amount by an additional $30,000 at substantially the same terms. Amounts outstanding under this facility bear interest at the prime rate (5.00% at June 30, 2008). The facility also gives us the option of obtaining Eurodollar Rate Loans in multiples of $1,000 for various short-term durations. The credit facility includes various customary financial ratios and operating covenants, including minimum net worth and maximum funded debt ratio requirements, and restrictions on the payment of dividends, repurchase of our common stock, and default acceleration provisions, none of which we believe significantly restricts our operations. Funded debt ratio is the ratio of average outstanding advances under the credit facility to EBITDA (Earnings Before Interest Expense, Taxes, Depreciation, and Amortization). The maximum allowable funded debt ratio under the agreement is 2.0 to 1.0; our actual funded debt ratio at June 30, 2008 was less than 0.1 to 1.0.

No borrowings were outstanding under this credit facility at June 30, 2008 or December 31, 2007. The credit facility matures on October 15, 2012, at which time amounts outstanding become due.

At June 30, 2008, we had security agreements with two financial institutions to facilitate the purchase of inventory from various suppliers under certain terms and conditions. The agreements allow a collateralized first position in certain branded products inventory financed by these financial institutions up to an aggregate 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 June 30, 2008 and December 31, 2007, accounts payable included $9,001 and $12,197, respectively, owed to these financial institutions.

Note 9—Related-Party Transactions

We lease our corporate headquarters from an affiliated company related to us through common ownership under a fifteen-year lease. Lease payments for the facility commenced in December 1998, and we have the option to renew the lease for two additional terms of five years each. We also lease a facility adjacent to our corporate headquarters from this affiliated company on a month-to-month basis. During the first quarter of 2008, a construction project was commenced by the owner to convert the building’s usage to general office space. We expect to lease this facility on a long-term basis after construction is completed.

PC CONNECTION, INC. AND SUBSIDIARIES

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

Our management's discussion and analysis of our financial condition and results of operations include the identification of certain trends and other statements that may predict or anticipate future business or financial results that are subject to important factors that could cause our actual results to differ materially from those indicated. See Item 1A "Risk Factors" of this Quarterly Report on Form 10-Q.

OVERVIEW

We are a leading direct marketer of a wide range of information technology ("IT") 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 installation, configuration, repair, and other services performed by our personnel and third-party providers. We operate through three primary business segments: (a) consumers and small- to medium-sized businesses, or SMBs, through our PC Connection Sales subsidiaries, (b) large corporate accounts, or Large Account, through our MoreDirect subsidiary, and (c) federal, state, and local government and educational institutions, or Public Sector, through our GovConnection subsidiary.

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

As a value added reseller in the IT supply chain, we do not manufacture IT hardware or software. We are dependent on our suppliers that consist of manufacturers and distributors that historically have sold only to resellers rather than to end users. Certain manufacturers have on many occasions attempted to sell directly to our customers, thereby eliminating our role. Consolidation in this industry is more evident than ever, as further streamlining of our supply chain occurs. If more of our suppliers were to succeed in selling to our customers directly, including the electronic distribution of software products, our financial condition, results of operations, and cash flows could be negatively affected.

Market conditions and technology advances significantly affect the demand for our products and services. Virtual delivery of software products and advanced Internet technology providing customers enhanced functionality have substantially increased customer expectations, requiring us to invest more heavily in our own IT development to meet these new demands. As buying trends change and electronic commerce continues to grow, customers become more sophisticated and have more choices than ever before. Customers are also better able to make price comparisons through the Internet, thereby increasing price competition. These conditions could have a negative effect on our financial condition, results of operations, and cash flows.

The primary challenges we face in effectively managing our business are (1) increasing our revenues in the face of a weak economic environment while also improving our gross profit margins in all three business segments, (2) recruiting, retaining, and improving the productivity of our sales personnel, and (3) effectively managing and leveraging our selling, general and administrative, or SG&A, expenses over a higher sales base. With only moderate growth projected, at best, in the overall IT industry, any significant sales growth for us must come through increased market share. Competition is expected to be even more intense in the future, which could put more pressure on margins.

We believe that our customers are increasingly seeking total IT solutions, rather than simply specific IT products. Through the formation of our services subsidiary, ProConnection, Inc., we are able to provide customers complete IT solutions, from identifying their needs, to designing, developing, and managing the integration of products and services to implement their IT projects. Such service offerings carry much higher margins than traditional product sales. Additionally, the technical certifications of our service engineers permit us to offer higher-end, more complex products that also carry higher gross margins. We expect these service offerings and technical certifications to continue to play a role in sales generation and gross margins in this competitive environment.

We seek to recruit, retain, and increase the productivity of our sales personnel through training, mentoring, financial incentives based on performance, and updating and streamlining our information systems to make our operations more efficient. We are currently undertaking a major modification and upgrade of our sales order processing and customer management system that is expected to improve sales productivity. In addition, we actively monitor and manage our expense structure in order to obtain better leverage of our operating costs.

RESULTS OF OPERATIONS

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

	Three Months Ended		Six Months Ended	
June 30,	**2008**	**2007**	**2008**	**2007**
Net sales *(in millions)*	$ 449.4	$ 441.1	$ 873.1	$ 839.3
Net sales	100.0%	100.0%	100.0%	100.0%
Gross margin	12.6	12.3	12.5	12.4
Selling, general and administrative expenses	10.7	10.3	10.7	10.6
Income from operations	1.9%	2.0%	1.8%	1.8%

Our year-over-year increase in net sales for the three and six months ended June 30, 2008 resulted from sales growth in our SMB and Public Sector segments, as explained below. Operating margins decreased year over year in the second quarter of 2008 as higher operating costs offset improved gross profit margins, compared to the second quarter of 2007. Operating margins were unchanged year over year in the first half of 2008 as improved gross profit margins were offset by a corresponding increase in SG&A expenses as a percentage of net sales, compared to the second quarter of 2007.

Net Sales Distribution

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

	Three Months Ended		Six Months Ended	
June 30,	**2008**	**2007**	**2008**	**2007**
Business Segment				
SMB	53%	53%	55%	56%
Large Account	28	30	28	29
Public Sector	19	17	17	15
Total	100%	100%	100%	100%
Product Mix				
Notebooks and PDAs	16%	16%	15%	17%
Videos, Imaging and Sound	14	13	15	13
Desktop/Servers	14	14	14	14
Software	13	13	13	13
Net/Com Products	11	8	10	8
Printers and Printer Supplies	9	10	9	10
Storage Devices	8	9	9	9
Memory and System Enhancements	4	6	4	5
Accessories/Other	11	11	11	11
Total	100%	100%	100%	100%

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Our highest year-over-year growth category was Net/Com Products, which grew 43% in the second quarter of 2008 compared to the prior year period, reflecting industry demand for total IT solutions products. Video, Imaging and Sound was our second highest growth category, with strong video product sales driving the majority of this growth.

Gross Profit Margins

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

June 30,	Three Months Ended 2008	Three Months Ended 2007	Six Months Ended 2008	Six Months Ended 2007
Business Segment				
SMB	14.0%	13.3%	14.0%	13.4%
Large Account	11.8	11.3	11.3	11.1
Public Sector	10.0	10.8	10.1	11.2
Total	12.6%	12.3%	12.5%	12.4%

Consolidated gross profit dollars increased for the three and six months ended June 30, 2008 due to larger net sales and improved gross profit margins, as compared to the prior year periods. Gross profit margins improved year over year in the second quarter of 2008 primarily due to increased vendor allowances.

Cost of Sales and Certain Other Costs

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

June 30,	Three Months Ended 2008	Three Months Ended 2007	Six Months Ended 2008	Six Months Ended 2007
Purchasing/Distribution Center	0.68%	0.62%	0.70%	0.66%

Operating Expenses

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

June 30,	Three Months Ended 2008	Three Months Ended 2007	Six Months Ended 2008	Six Months Ended 2007
Personnel costs	$ 32.1	$ 29.8	$ 63.2	$ 59.6
Advertising, net	5.7	5.1	9.8	9.7
Facilities operations	2.2	2.2	4.8	4.6
Credit card fees	1.9	2.0	3.8	4.0
Depreciation and amortization	1.8	1.6	3.5	3.5
Bad debts	0.2	0.4	0.5	0.6
Other, net	4.3	3.9	8.0	7.2
Total	$ 48.2	$ 45.0	$ 93.6	$ 89.2
Percentage of net sales	10.7%	10.3%	10.7%	10.6%

Personnel costs represent the majority of our operating expenses, with sales personnel representing the largest portion of these costs. Incremental variable compensation related to increased gross profits and additional investments in sales personnel contributed to the year-over-year increase in personnel costs in the three and six months ended June 30, 2008.

Year-Over-Year Comparisons

Three Months Ended June 30, 2008 Compared to Three Months Ended June 30, 2007

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

	Three Months Ended June 30,				
	2008		2007		
	Amount	% of Net Sales	Amount	% of Net Sales	% Change
Sales:					
SMB	$236.4	52.6%	$231.9	52.6%	1.9%
Large Account	127.4	28.4	133.6	30.3	(4.6)
Public Sector	85.6	19.0	75.6	17.1	13.2
Total	$449.4	100.0%	$441.1	100.0%	1.9%
Gross Profit:					
SMB	$ 33.2	14.0%	$ 30.8	13.3%	7.8%
Large Account	15.1	11.8	15.1	11.3	—
Public Sector	8.5	10.0	8.1	10.8	4.9
Total	$ 56.8	12.6%	$ 54.0	12.3%	5.2%

Net sales for the second quarter of 2008 increased compared to the second quarter of 2007 due to higher sales levels achieved by the SMB and Public Sector segments, as explained below:

- Net sales for the SMB segment increased modestly in the second quarter of 2008 reflecting softer demand for IT solutions. Despite the uncertain economic climate, our SMB sales representatives increased corporate sales by 4% year over year in the second quarter of 2008, by adding new business customers and acquiring a greater share of existing customers' IT purchases. Decreased consumer sales continued to mitigate overall SMB growth, reflecting our focus on more diverse marketing programs designed to reach our business customers. Average annualized sales productivity decreased 3% year over year in the second quarter of 2008 due the hiring of sales representatives. Sales representatives for our SMB segment totaled 456 at June 30, 2008, an increase from 439 at June 30, 2007.
- Net sales for the Large Account segment decreased 5% year over year, reflecting, we believe, an industry-wide decline in IT spending by large account customers. Enhancements in sales support activities and growth in service revenues contributed to a 5% increase in average annualized sales productivity in the second quarter of 2008. Sales representatives for our Large Account segment totaled 95 at June 30, 2008, a decrease from 101 at June 30, 2007.
- Net sales for the Public Sector segment in the second quarter of 2008 increased year over year primarily due to increased higher education sales and additional federal government sales made under federal government contracts. Average annualized sales productivity in the second quarter of 2008 increased by 9% year over year primarily due to the success of our federal sales representatives. Sales representatives for our Public Sector segment totaled 116 at June 30, 2008, an increase from 112 at June 30, 2007.

Gross profit for the second quarter of 2008 increased compared to the second quarter of 2007 in dollars and as a percentage of net sales, as explained below:

- Gross profit for the SMB segment increased year over year due to increases in both net sales and gross profit margins. Gross profit margins benefited from increased vendor allowances as well as improved execution by our sales force which led to increased invoice profit margins.
- Gross profit for the Large Account segment in the second quarter of 2008 was unchanged year over year as an increased gross margin rate offset a decrease in net sales. The margin rate improved year over year due to increased freight margins and additional vendor consideration in the second quarter of 2008.
- Gross profit for the Public Sector segment in the second quarter of 2008 increased in dollars but decreased as a percentage of net sales compared to the second quarter of 2007. Lower net agency fee revenues in the second quarter of 2008 adversely impacted gross profit margins compared to the prior year.

Selling, general and administrative expenses in the second quarter of 2008 increased in dollars and as a percentage of sales compared to the second quarter of 2007.

SG&A expenses attributable to our operating segments and Headquarters/Other group are summarized below (dollars in millions):

	Three Months Ended June 30,				
	2008		2007		
	Amount	% of Net Sales	Amount	% of Net Sales	% Change
SMB	$ 27.5	11.6%	$ 25.9	11.2%	6.2%
Large Account	8.4	6.6	7.2	5.4	16.7
Public Sector	9.1	10.6	7.3	9.7	24.7
Headquarters/Other	3.2		4.6		(30.4)
Total	$ 48.2	10.7%	$ 45.0	10.3%	7.1%

- SG&A expenses for the SMB segment increased year over year in both dollars and as a percentage of net sales. Increased personnel costs and allocation expense of centralized headquarter services led to larger operating expenses in the second quarter of 2008. Personnel expense increased due to the hiring of sales representatives. The operating costs of corporate headquarters and other support functions are charged to the reportable operating segments based on their estimated usage of the underlying functions.
- SG&A expenses for the Large Account segment increased in dollars and as a percentage of net sales compared to the prior year period. An increase in allocation expense of centralized headquarter services, larger net advertising expense, and investments in sales support activities in the second quarter of 2008 led to the year-over-year increase in operating expenses.
- SG&A expenses for the Public Sector segment increased in both dollars and as a percentage of net sales in the second quarter of 2008. These year-over-year increases were attributable to increased net advertising expense and increased allocation expense of centralized headquarter services in the second quarter of 2008.
- SG&A expenses for the Headquarters/Other group decreased in dollars year over year as increased allocations to the operating segments offset an increase in personnel expense. Personnel expense increased year over year due to the transfer of service personnel from our Large Account segment, which consolidated our service technicians and other related personnel into our Headquarters/Other group.

Income from operations for the second quarter of 2008 decreased by $0.4 million to $8.7 million, compared to the second quarter of 2007. Income from operations as a percentage of net sales decreased to 1.9% for the second quarter of 2008 compared to 2.0% for the second quarter of 2007. Our operating income decreased year over year in both dollars and as a percentage of net sales in the second quarter of 2008 primarily due to the increase in operating expenses discussed above.

Interest expense for the second quarter of 2008 decreased due to lower interest incurred for our capital lease compared to the second quarter of 2007.

Our effective tax rate was 41.3% for the second quarter of 2008 compared to 36.5% for the second quarter of 2007. Our tax rate for the second quarter of 2008 was impacted by an increase in state jurisdictions in which we file. Except for the effect of a possible tax assessment resulting from the IRS audit and notice of proposed adjustment described in Note 7 to the financial statements, we expect our effective tax rate to approximate 39% in future periods.

Net income for the second quarter of 2008 decreased by $0.7 million to $5.1 million, compared to $5.8 million, for the second quarter of 2007, as a result of the decrease in income from operations and the increase in our effective tax rate.

Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007

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

	Six Months Ended June 30,				
	2008		2007		
	Amount	% of Net Sales	Amount	% of Net Sales	% Change
Sales:					
SMB	$476.5	54.6%	$465.9	55.5%	2.3%
Large Account	244.6	28.0	243.9	29.1	0.3
Public Sector	152.0	17.4	129.5	15.4	17.4
Total	$873.1	100.0%	$839.3	100.0%	4.0%
Gross Profit:					
SMB	$ 66.5	14.0%	$ 62.4	13.4%	6.6%
Large Account	27.7	11.3	27.0	11.1	2.6
Public Sector	15.3	10.1	14.6	11.3	4.8
Total	$109.5	12.5%	$104.0	12.4%	5.3%

Net sales for the six months ended June 30, 2008 increased compared to the six months ended June 30, 2007 due to higher sales levels achieved by all three business segments, as explained below:

- Net sales for the SMB segment increased in the first half of 2008 due to modest growth in corporate outbound sales. Our SMB outbound sales representatives increased corporate sales by 6% year over year in the six months ended June 30, 2008, by adding new business customers and acquiring a greater share of existing customers' IT purchases. Decreased consumer sales mitigated overall SMB growth, reflecting our focus on more diverse marketing programs designed to reach our business customers. Sales representatives for our SMB segment totaled 456 at June 30, 2008, an increase from 439 at June 30, 2007.
- Net sales for the Large Account segment was unchanged year over year in the six months ended June 30, 2008, reflecting soft demand for IT solutions from large account customers. Sales representatives for our Large Account segment totaled 95 at June 30, 2008, a decrease from 101 at June 30, 2007.

- Net sales for the Public Sector segment in the first half of 2008 increased 17% from the six months ended June 30, 2007 due to increased higher education sales and additional sales made under federal government contracts in 2008. Sales representatives for our Public Sector segment totaled 116 at June 30, 2008, an increase from 112 at June 30, 2007.

Gross profit for the six months ended June 30, 2008 increased compared to the six months ended June 30, 2007 in dollars in all three segments, as explained below:

- Gross profit for the SMB segment increased year over year due to increases in both sales and gross profit margins. Gross profit margins benefited from additional vendor allowances and improved execution by our sales force which led to increased invoice profit margins in the first half of 2008 compared to the prior year period.
- Gross profit for the Large Account segment in the first half of 2008 increased despite level year-over-year sales. Gross profit margins improved 20 basis-points year over year as increased vendor consideration offset slightly lower invoice product margins.
- Gross profit for the Public Sector segment in the first half of 2008 increased in dollars but decreased as a percentage of net sales compared to the six months ended June 30, 2007. Lower net agency fee revenues in the six months ended June 30, 2008 adversely impacted gross profit margins compared to the prior year.

Selling, general and administrative expenses in the six months ended June 30, 2008 increased in dollars and as a percentage of net sales compared to the six months ended June 30, 2007.

SG&A expenses attributable to our operating segments and Headquarters/Other group are summarized below (dollars in millions):

	Six Months Ended June 30,				
	2008		2007		
	Amount	% of Net Sales	Amount	% of Net Sales	% Change
SMB	$ 53.8	11.3%	$ 53.0	11.4%	1.5%
Large Account	15.6	6.4	13.9	5.7	12.2
Public Sector	16.8	11.1	15.4	11.9	9.1
Headquarters/Other	7.4		6.9		7.2
Total	$ 93.6	10.7%	$ 89.2	10.6%	4.9%

- SG&A expenses for the SMB segment increased year over year in dollars. An increase in allocation expense of centralized headquarter services offset lower net advertising expense during the first half of 2008 compared to the prior year period. The operating costs of corporate headquarters and other support functions are charged to the reportable operating segments based on their estimated usage of the underlying functions. Incremental variable compensation associated with higher revenues and gross profit dollars also contributed to the year-over-year increase.
- SG&A expenses for the Large Account segment increased in dollars and as a percentage of net sales compared to the prior year period. An increase in allocation expense of centralized headquarter services, investments in sales activities, and increased net advertising expense expenses contributed to the year-over-year increases.
- SG&A expenses for the Public Sector segment increased in dollars and but declined as a percentage of net sales in the six months ended June 30, 2008. The year-over-year dollar increase was attributable to increased net advertising expense as well as an increase in allocation expense of centralized headquarter services. Improved operating expense leverage resulted in the year-over-year decrease in SG&A expenses as a percentage of net sales.

- SG&A expenses for the Headquarters/Other group increased year over year in dollars in the first half of 2008 due to increased personnel headcount and additional investments in our information technology systems. Personnel expense increased year over year due to the transfer of service personnel from our Large Account segment, which consolidated our service technicians and other related personnel into our Headquarters/Other group.

Income from operations for the six months ended June 30, 2008 increased by $1.2 million to $16.0 million, compared to $14.8 million in the six months ended June 30, 2007. Income from operations as a percentage of net sales was unchanged at 1.8% for the six months ended June 30, 2008, compared to the six months ended June 30, 2007. Our operating income increased year over year in dollars in the first half of 2008 primarily due to increased gross profits, as explained above.

Interest expense for the six months ended June 30, 2008 decreased by $0.1 million compared to the six months ended June 30, 2007 due to lower interest incurred for our capital lease.

Our effective tax rate was 38.4% for the six months ended June 30, 2008, unchanged compared to the 38.1% rate we experienced for the six months ended June 30, 2007. Except for the effect of a possible tax assessment resulting from the IRS audit and notice of proposed adjustment described in Note 7 to the financial statements, we expect our effective tax rate to approximate 39% in future periods.

Net income for the six months ended June 30, 2008 increased by $0.7 million to $9.9 million, compared to the six months ended June 30, 2008, primarily because 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 working capital for operational needs, capital expenditures for computer equipment and software used in our business, and as opportunities arise, possible acquisitions of new businesses.

We believe that funds generated from operations, together with available credit under our bank line of credit and inventory trade credit agreements, will be sufficient to finance our working capital, capital expenditure, and other requirements for at least the next twelve months. We expect to meet our cash requirements for the next twelve months through a combination of cash on hand, cash generated from operations, and if necessary, borrowings on our bank line of credit, as follows:

- *Cash on Hand*. At June 30, 2008, we had approximately $40.9 million in unrestricted accounts.
- *Cash Generated from Operations*. We expect to generate cash flows from operations in excess of operating cash needs by generating earnings and balancing net changes in inventories and receivables with compensating changes in payables to generate a positive cash flow. Historically, we have consistently generated positive cash flows from operations.
- *Credit Facilities*. As of June 30, 2008, our $50.0 million bank line of credit was available for borrowing. This line of credit can be increased, at our option, to $80.0 million for approved acquisitions or other uses authorized by the bank. Borrowings are, however, limited by certain minimum collateral and earnings requirements, as described more fully below.

Our ability to continue funding our planned growth, both internally and externally, is dependent upon our ability to generate sufficient cash flow from operations or to obtain additional funds through equity or debt financing, or from other sources of financing, as may be required. While 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 Item 1A, "Risk Factors."

Summary of Sources and Uses of Cash

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

June 30,	Six Months Ended 2008	2007
Net cash provided by operating activities	$ 33.6	$ 0.4
Net cash used for investing activities	(5.4)	(3.1)
Net cash (used for) provided by financing activities	(1.0)	2.6
Increase (decrease) in cash and cash equivalents	$ 27.2	$ (0.1)

Cash provided by operating activities increased by $33.2 million in the six months ended June 30, 2008 compared to the six months ended June 30, 2007. Cash flow provided by operations in the first half of 2008 resulted primarily from net income before depreciation and amortization and decreases in accounts receivable and inventory. Inventory decreased by $11.1 million from the 2007 year-end balance largely due to the shipment of 2007 staged customer roll-outs in the first quarter of 2008. Inventory turns was 24 turns for the second quarter of 2008 and 22 turns for the second quarter of 2007. Accounts receivable decreased by $8.6 million from December 31, 2007 levels, despite an increase in days sales outstanding, or DSOs. DSOs were 45 days for the second quarter of 2008, compared to 42 days for the second quarter of 2007. We attribute the increase in DSOs to increased public sector sales that generally have longer payment terms compared to our business customers. Cash flow provided by operations in the six months ended June 30, 2007 resulted primarily from net income before depreciation and amortization offset in part by an increase in inventories and a decrease in accounts payable.

At June 30, 2008, we had $110.9 million in outstanding accounts payable. Such accounts are generally paid within 30 days of incurrence, or earlier when favorable cash discounts are offered. This balance will be financed by cash flows from operations or short-term borrowings under the line of credit. This balance includes $9.0 million payable to two financial institutions under inventory trade credit agreements we use to finance our purchase of certain inventory, secured by the inventory so financed. We believe we will be able to meet our obligations under our accounts payable with cash flows from operations and our existing line of credit.

Cash used for investing activities increased by $2.3 million in the six months ended June 30, 2008 compared to the prior year period. These activities include our capital expenditures, primarily for purchases of computer equipment and software and capitalization of internally-developed software. We completed an extensive desktop upgrade in the first quarter of 2008 that accounted for the majority of this year-over-year increase. We expect total capital expenditures in 2008 to be between $9.0 million and $10.0 million.

Cash used for financing activities in the six months ended June 30, 2008 was attributable largely to our purchase of treasury shares that totaled $0.9 million in the six months ended June 30, 2008. Cash provided by financing activities in the six months ended June 30, 2007 benefited from proceeds of $2.5 million from the exercise of common stock options under employee stock plans.

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 condensed 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 $50.0 million at the prime rate (5.00% at June 30, 2008). In addition, we have the option to increase the facility by an additional $30.0 million, based on sufficient levels of trade receivables to meet borrowing base requirements, and depending on meeting minimum EBITDA (earnings before interest expense, taxes, depreciation, and amortization) and equity requirements, described below under “Factors Affecting Sources of Liquidity.” The facility also gives us the option of obtaining Eurodollar Rate Loans in multiples of $1.0 million for short-term durations. Substantially all of our assets are collateralized as security for this facility, and all of our subsidiaries are guarantors under the line of credit. The entire $50 million facility was available for borrowing at June 30, 2008.

This facility, which matures in October 2012, operates under an automatic cash management program whereby disbursements in excess of available cash are added as borrowings at the time disbursement checks clear the bank, and available cash receipts are first applied against any outstanding borrowings and then invested in short-term qualified cash investments. Accordingly, borrowings under the line are classified as current.

*Inventory Trade Credit Agreement*s. We have additional security agreements with two financial institutions to facilitate the purchase of inventory from various suppliers under certain terms and conditions. These agreements allow a collateralized first position in certain branded products inventory financed by these financial institutions. Although the agreements provide for up to 100% financing on the purchase price, up to an aggregate of $45.0 million, any outstanding financing must be fully secured by available inventory. We do not pay any interest or discount fees on such inventory financing; such costs are borne by the suppliers as an incentive for us to purchase their products. Amounts outstanding under such facilities, equal to $9.0 million as of June 30, 2008, are recorded in accounts payable, and the inventory financed is classified as inventory on the condensed consolidated balance sheet.

Capital Leases. We have a 15-year lease for our corporate headquarters with an affiliated company related through common ownership. We are required to make lease payments under this agreement aggregating approximately $1.1 million per year. In addition to the rent payable under the facility lease, we are required to pay real estate taxes, insurance, and common area maintenance charges.

Operating Leases. We also lease facilities from our principal stockholders and facilities and equipment from third parties under non-cancelable operating leases.

Sports Marketing Commitments. We have entered into multi-year sponsorship agreements with the Boston Red Sox and the New England Patriots that extend to 2010 and 2013, respectively. These agreements, which grant us various marketing rights and seating arrangements, require payments aggregating $0.3 million to $1.6 million per year.

Off-Balance Sheet Arrangements. We do not have any other off-balance sheet arrangements that have or are reasonably likely to have, a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

Contractual Obligations. The disclosures relating to our contractual obligations in our Annual Report on Form 10-K for the year ended December 31, 2007 have not materially changed since we filed that report.

Factors Affecting Sources of Liquidity

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

Bank Line of Credit. Our credit facility contains certain financial ratios and operational covenants and other restrictions (including restrictions on additional debt, guarantees, stock repurchases, dividends and other distributions, investments, and liens) with which we and all of our subsidiaries must comply. Any failure to comply with these covenants would 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 June 30, 2008 was 0.01 to 1.0, as average borrowings against our credit facility were minimal during the second quarter of 2008.
- Minimum Consolidated Net Worth must be at least $150.0 million, plus 50% of consolidated net income for each quarter, beginning with the quarter ended June 30, 2006 (loss quarters not counted). Such amount was calculated at June 30, 2008 as $173.3 million. Our actual consolidated stockholders' equity at June 30, 2008 was $234.0 million.

The borrowing base under this facility is set at 80% of qualified commercial receivables, plus 50% of qualified government receivables. As of June 30, 2008, the entire $50.0 million facility was available for 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.

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.

RECENTLY ISSUED FINANCIAL ACCOUNTING STANDARDS

In September 2006, the Financial Accounting Standards Board, or FASB, issued SFAS No. 157, "Fair Value Measurements," or SFAS 157. This Statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements but rather applies under other accounting pronouncements that require or permit fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position No. 157-2, or FSP 157-2. FSP 157-2 delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. These nonfinancial items include assets and liabilities such as reporting units measured at a fair value in a goodwill impairment test and nonfinancial assets acquired and liabilities assumed in a business combination. Effective January 1, 2008, we partially adopted SFAS 157 for financial assets and liabilities and it did not have a significant effect on our financial position, results of operations, and cash flows.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," or SFAS 159, which permits companies to voluntarily choose to measure specified financial instruments and other items at fair value on a contract-by-contract basis. If the fair value option is elected, subsequent changes in fair value will be required to be reported in earnings each reporting period. This Statement is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We have not elected to measure any eligible items at fair value. Accordingly, the adoption of SFAS 159 did not have a material impact on our financial position, results of operations, and cash flows.

In December 2007, the FASB issued SFAS 141(Revised), “Business Combinations,” which is a revision of SFAS 141, “Business Combinations.” SFAS 141(Revised) establishes principles and requirements for how an acquirer in a business combination: recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and discloses information to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This Statement is effective for fiscal years beginning after December 15, 2008, and is to be applied prospectively. We are currently assessing the potential impact SFAS 141(Revised) will have on our financial statements.

SUMMARY OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our critical accounting policies have not materially changed from those discussed in our Annual Report on Form 10-K for the year ended December 31, 2007.

INFLATION

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

PC CONNECTION, INC. AND SUBSIDIARIES

PART I—FINANCIAL INFORMATION
Item 3—QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our market risk has not changed materially from that disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

PC CONNECTION, INC. AND SUBSIDIARIES

PART I—FINANCIAL INFORMATION
Item 4—CONTROLS AND PROCEDURES

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2008. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives as described above. Based on the evaluation of our disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2008, our disclosure controls and procedures were effective at the reasonable assurance level.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended June 30, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1A. Risk Factors

Statements contained or incorporated by reference in this Quarterly Report on Form 10-Q that are not based on historical fact are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. These forward-looking statements regarding future events and our future results are based on current expectations, estimates, forecasts, and projections and the beliefs and assumptions of our management including, without limitation, our expectations with regard to the industry's rapid technological change and exposure to inventory obsolescence, availability and allocations of goods, reliance on vendor support and relationships, competitive risks, pricing risks, and the overall level of economic activity and the level of business investment in information technology products. Forward-looking statements may be identified by the use of forward-looking terminology such as "may," "could," "will," "expect," "estimate," "anticipate," "continue," or similar terms, variations of such terms, or the negative of those terms.

We cannot assure investors that our assumptions and expectations will prove to have been correct. Important factors could cause our actual results to differ materially from those indicated or implied by forward-looking statements. Such factors that could cause or contribute to such differences include those factors discussed below. We undertake no intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. If any of the following risks actually occur, our business, financial condition, or results of operations would likely suffer.

We have experienced variability in sales, and there is no assurance that we will be able to maintain profitable operations.

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;
- the condition of the personal computer industry in general;
- changes in the level of business investment in information technology products;
- shifts in customer demand for hardware and software products;
- variations in levels of competition;
- 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;
- changes in our product offerings; and
- changes in vendor distribution of products.

Our results also may vary based on our ability to hire and retain sales representatives and other essential personnel, as well as our success in integrating acquisitions into our business, and their relative costs.

We base our operating expenditures on sales forecasts. If our revenues do not meet anticipated levels 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 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, placing larger than typical inventory stocking orders of selected products and increasing our participation in first-to-market purchase opportunities. We may also, from time to time, make large inventory purchases of certain end-of-life products 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 taking steps to reduce their inventory exposure by supporting "configure-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 71% of our total product purchases in each of the six months ended June 30, 2008 and 2007. Among these five vendors, purchases from Ingram Micro Inc. represented 25% of our total product purchases in each of the six months ended June 30, 2008 and 2007. Purchases from Tech Data Corporation comprised 18% and 17% of our total product purchases in the six months ended June 30, 2008 and 2007, respectively. Purchases from Hewlett-Packard Company ("HP") represented 12% and 14% of our total product purchases in the six months ended June 30, 2008 and 2007, respectively. No other vendor supplied more than 10% of our total product purchases in the six months ended June 30, 2008 and 2007, 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 June 30, 2008 was $110.9 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 increasing 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 advertising allowances, and in exchange, we feature their products in our catalogs and other marketing vehicles. These vendor allowances, to the extent that they represent specific reimbursements of incremental and identifiable costs, are offset against SG&A expenses. Advertising allowances that cannot be associated with a specific program funded by an individual vendor or that exceed the fair value of advertising expense associated with that program are classified as offsets to cost of sales or inventory. In the past, we have experienced a decrease in the level of vendor consideration available to us from certain manufacturers. The level of such consideration we receive from some manufacturers may decline in the future. Such a decline could decrease our gross margin and have a material adverse effect on our earnings and cash flows.

The failure to comply with our public sector contracts could result in, among other things, fines or liabilities.

Revenues from the public sector segment are derived from sales to federal, state, and local government departments and agencies, as well as to educational institutions, through various contracts and open market sales. Government contracting is a highly regulated area. Noncompliance with government procurement regulations or contract provisions could result in civil, criminal, and administrative liability, including substantial monetary fines or damages, termination of government contracts, and suspension, debarment, or ineligibility from doing business with the government. Our current arrangements with these government agencies allow them to cancel orders with little or no notice and do not require them to purchase products from us in the future. The effect of any of these possible actions by any government department or agency could adversely affect our financial position, results of operations, and 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 CDW Corporation, Insight Enterprises, Inc., and Dell Inc., who are much larger than we are. Certain hardware and software vendors, such as HP, Lenovo, 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 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. 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 pricing policies that are more aggressive than ours. We expect competition to increase as retailers and direct marketers who have not traditionally sold computers and related products enter the industry.

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 cannot provide assurance that we can continue to compete effectively against our current or future competitors. If we encounter new competition or fail to compete effectively against our competitors, our business may be harmed.

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, HP, and Lenovo, 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.

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, including those resulting from natural disasters as well as power loss, telecommunications failure, and similar events, 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 level of sales made over the Internet in part because of the growing use and acceptance of the Internet by end users. Sales of computer products over the Internet represent a significant and increasing 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 increasingly sophisticated 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 sophistication, speed, reliability, and cost-effectiveness of the networks operated by third parties, and these networks may not continue to be developed or be available at prices consistent with our required business model.

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

Many of our customers elect to have their purchases shipped by an interstate common carrier, such as DHL, United Parcel Service, or FedEx Corporation. 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, our primary freight carrier. 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. World-wide 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 and use tax.

We collect and remit sales and use taxes in states in which we have either voluntarily registered or have a physical presence. Various states have sought to impose on direct marketers the burden of collecting state sales and use 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 and use tax collection obligations on direct marketers has been introduced in Congress on many occasions. Additionally, certain states have adopted rules that require companies and their affiliates to register in those states as a condition of doing business with those state agencies.

Moreover, due to our presence on various forms of electronic media and other operational factors, our contacts with many states may exceed the limited contacts involved in the Supreme Court case. We cannot predict the level of contacts that is sufficient to permit a state to impose on us a sales or use tax collection obligation. Two of our competitors have elected to collect sales and use taxes in all states. If the Supreme Court changes its position, or if legislation is passed to overturn the Supreme Court's decision, or if a court were to determine that our contacts with a state exceed the constitutionally permitted contacts, 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 tax liability for past sales as well as 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 representatives 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 64% 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 our Company. 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.

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

The following table provides information about our purchases during the quarter ended June 30, 2008 of equity securities that we have registered pursuant to Section 12 of the Exchange Act:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plan or Programs
04/01/08 – 04/30/08	—	—	—	$ 11,775,098
05/01/08 – 05/31/08	—	—	—	$ 11,775,098
06/01/08 – 06/30/08	—	—	—	$ 11,775,098
Total	—	—	—	$ 11,775,098

(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 the Program. The Program does not have a fixed expiration date.

Item 4—Submission of Matters to a Vote of Security Holders

At the 2008 Annual Meeting of Stockholders of the Company (the “Annual Meeting”) on May 21, 2008, the following matters were acted upon by the stockholders of the Company:

1. The election of six Directors.
2. The approval of the Executive Bonus Plan.
3. The ratification of the selection by the Audit Committee of Deloitte & Touche LLP as the Company’s independent registered public accounting firm for the current fiscal year.

The number of shares of common stock issued, outstanding, and eligible to vote as of the record date of April 2, 2008 was 26,835,837. The results of the voting on each of the matters presented to stockholders at the Annual Meeting are set forth below:

1. Election of Directors:

Nominees	Votes For	Votes Withheld
Patricia Gallup	21,042,836	4,620,959
David Hall	21,046,780	4,617,015
Bruce Barone	24,728,109	935,686
David Beffa-Negrini	21,026,280	4,637,515
Joseph Baute	24,706,109	957,686
Donald Weatherson	24,726,614	937,181

2. Approval of the Company’s Executive Bonus Plan:

Votes For	Votes Against	Votes Abstain
25,147,651	497,719	18,422

3. Ratification of the selection by the Audit Committee of Deloitte & Touche LLP as the Company’s independent registered public accounting firm for the current fiscal year:

Votes For	Votes Against	Votes Abstain
25,639,837	21,887	2,068

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Item 5—Other Information

On August 11, 2008, our subsidiary Merrimack Services Corporation entered into a lease agreement with G&H Post LLC, a company affiliated with Patricia Gallup, our Chairman and Chief Executive Officer, and David Hall, a board member, for property located in Merrimack, New Hampshire. The lease has a term of ten years and requires a monthly payment of $18,726 in year one of the lease. The rent for subsequent years shall be subject to adjustment to reflect increases in a local consumer price index, but such adjustments shall not exceed an increase of 5.0% for any given year. The lease agreement also provides Merrimack Services Corporation an option to renew the lease for two additional two-year terms, at the then comparable market rate.

Item 6—Exhibits

Exhibit Number	Description
10.1*	Lease agreement between Merrimack Services Corporation and G&H Post LLC, dated August 11, 2008, for property located in Merrimack, New Hampshire.
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 Executive Vice President, Treasurer, and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of the Company's President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of the Company's Executive Vice President, Treasurer, and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

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SIGNATURES

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

PC CONNECTION, INC. AND SUBSIDIARIES

Date: August 11, 2008

By: /S/ PATRICIA GALLUP

Patricia Gallup
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: August 11, 2008

By: /S/ JACK FERGUSON

Jack Ferguson
Executive Vice President, Treasurer, and
Chief Financial Officer
(Principal Accounting and Financial Officer)

Exhibit 10.1

LEASE AGREEMENT

732 Milford Road
Merrimack, NH. 03054-4631

This Lease is made this August 11, 2008 by and between G&H Post, LLC, a New Hampshire limited liability company with an address at P.O. Box 385, Gilsum, NH 03448 (hereinafter called “Lessor”), and Merrimack Services Corporation dba PC Connection Services, a Delaware corporation with offices at 730 Milford Road Merrimack, NH 03054-4631 (hereinafter called “Lessee”).

1. Premises.

1.1 In consideration of the rents, agreements and conditions herein reserved and contained on the part of Lessee to be paid, performed and observed, Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, for the term herein set forth, approximately 18,786 square feet encompassing the building known as 732 Milford Road, Merrimack, New Hampshire. (Hereinafter referred to as the “Premises” The Premises are a portion of “the property” consisting of both 730 and 732 Milford Road. Lessee shall also have the right to use, in common with other tenants, the parking areas, pedestrian walkways, landscaped and planted areas, and other areas and facilities intended for use by all tenants of the Property (“Common Areas”).

2. Term.

2.1 The term of this Lease (the “Term”) shall be for ten years (10), commencing on the date of Lessor’s completion of the Tenant Improvements (hereinafter defined) (the “Commencement Date.”) Lessor shall construct leasehold improvements in accordance with plans and specifications prepared by Sheerr McCrystal Palson Architecture, Inc. (“Tenant Improvements”). The Plans shall be subject to Lessee’s approval. Once Lessee has approved the Plans, Lessor shall construct the Tenant Improvements. Lessor shall not be obligated to expend more than $15.33/SF on Tenant improvements, and Lessor shall competitively bid all such improvement work and make available to Lessee for its review and approval all information reasonably requested by Lessee to verify such costs. Any cost approved by Lessee in constructing the Tenant Improvements in excess of $15.33/SF shall be paid by Lessee. The allocation of funds is defined by attachment “A” to this Lease. The parties agree that attachment A will be replaced by a final attachment “A” when the costs are final.

2.2 Lessor agrees to use reasonable efforts to expedite the Tenant Improvements. The Tenant Improvements shall be deemed complete (and shall serve as the lease commencement date) when a final certificate of occupancy has been issued and the Premises are ready for occupancy by Lessee as certified by Lessor’s architect with the exception of minor items which can be fully completed without material interference with Lessee and other items which because of the season or weather or the nature of the item are not practicable to do at the time, provided that none of said items is necessary to make the Premises tenantable for the permitted uses.

2.3 Lessor shall permit Lessee access for installing equipment and furnishings in the Premises prior to the Term if it can be done without material interference with completion of the Tenant Improvements. All construction work required or permitted by this Lease shall be done in a good and workmanlike manner and in compliance with all applicable laws and all lawful ordinances, regulations and orders of governmental authority. Either party may inspect the work of the other at reasonable times and promptly shall give notice of observed defects.

2.4 Lessee’s obligation to pay rent under Section 3 below shall commence on the Commencement Date which is July 25, 2008.

3. Base Rent; Taxes; CAM

3.1 Lessee shall pay to Lessor rent for the Premises, in the amount provided in Section 3.2, in advance, on the first day of each calendar month during the Term, at P.O. Box 385, Gilsum, NH 03448 (or at such other place as may be designated in writing by Lessor).

3.2 The base rent (“Base Rent”) for year 1 of the term hereof shall be the sum of $12.00 per square foot or $225,432 per year payable monthly, in advance, in installments of $18,786 (the "Base Rent"). The Base Rent for subsequent years shall be subject to adjustment to reflect increases to the United States Bureau of Labor Statistics Consumer Price Index, All Items, All Urban Consumers, Boston-Cambridge-Quincy, MA-NH MSA or such other renamed local index covering “All Items” for the Boston, Massachusetts metropolitan statistical area (the “Index”), but such adjustments shall not exceed an increase higher than 5.0% for any given year. Each one (1) year anniversary of the commencement date of the Lease will be referred to as the adjustment date (each an “Adjustment Date”). Base Rent adjustment shall be as follows:

3.2.1 As of each Adjustment Date , the Base Rent shall be adjusted as provided in paragraph 3.2 to reflect changes in the Index as follows:

(1) For the first annual adjustment (commencing on the first day following the Expiration of the first year of the term of this Lease), the basis for computing such adjustment shall be the Index most recently published prior to the beginning of the first year of the term (“Beginning Index”). If the Index most recently published prior to the first Adjustment Date (“Extension Index”) has increased over the Beginning Index, the Base Rent for one-year period commencing as of such first Adjustment date shall be the result obtained by multiplying the annual Base Rent in effect on the day of the Adjustment Date (i.e. the annual rental for year one by a fraction, the numerator of which is the Extension Index and the denominator of which is the Beginning Index).

(2) For all subsequent annual adjustments, the Base Rent shall be adjusted in the same manner as that for the first annual adjustment provided; however, that the rental base shall be the rental in effect just prior to the then applicable Adjustment Date, the Extension Index for the preceding period shall be the Beginning Index and the Extension Index shall be the Index most recently published prior to the then applicable Adjustment Date.

(3) If for any Adjustment Date the Index most recently published following the Adjustment Date has not increased over, or has decreased from, the Beginning Index for that period, no escalation in Base Rent shall be required on that Adjustment Date, and the Base Rent shall remain at it’s then current rate until the next Adjustment Date. At no time, will the escalation in Base Rent exceed 5%.

If the Index is changed in any manner, including without limitation, a change in the base year or month, the Index shall be converted in accordance with the conversion factor published by the United States Department of Labor, Bureau of Labor Statistics. If the Index is discontinued or revised during the term of this Lease, such other government index or computation with which it is replaced shall be used in order to obtain substantially the same result as would be obtained if the Index had not been discontinued or revised. If the parties shall be unable to agree upon a successor index, the Parties shall refer the choice of a successor index to arbitration in accordance with the rules of the American Arbitration Association.

3.3 In the event that any monthly installment of rent accruing under this Lease shall not be paid when due, Lessee shall pay to Lessor (i) a late charge of $500, due as of the due date of the monthly installment, and (ii) any bank penalty or late charges and mortgage interest incurred by Lessor because of said delayed payment of rent, and, in the event that said delay in payment of rent becomes a default under Section 14, then the delayed payment of rent shall bear interest from the date said delayed payment becomes a default at a rate of one percent (1%) per annum over the prime rate (the base rate on corporate loans at large U.S. money center commercial banks) as published in the Money Rates section of the Wall Street Journal or other equivalent publication if the Wall Street Journal no longer publishes such information , at the time when said rent payment is due.

3.4 Lessee to Pay Proportionate Share of Taxes. Lessee shall pay as additional rent, its Proportionate Share (as defined in Section 3.9 below) of all amounts payable by Lessor with respect to real estate taxes due with respect to the Property, including, without limitation, ad valorem taxes and assessments, general and special taxes and assessments, taxes on real estate rental receipts, or any other tax imposed upon or levied against real estate, or upon owners of real estate as such rather than persons generally, extraordinary as well as ordinary, foreseeable and unforeseeable, including taxes imposed on leasehold improvements which are assessed against Lessor, payable with respect to or allocable to the Property together with the reasonable cost (including fees of attorneys, consultants and appraisers) of any negotiation, contest or appeal pursued by Lessor in an effort to reduce any such tax, assessment or charge, all of the above being collectively referred to herein as "Taxes." "Taxes" shall not include any income, profit, business or gross receipt tax or capital levy, nor any inheritance, estate, succession, transfer, gift, franchise or corporation tax levied or imposed upon Lessor, nor any real estate transfer tax, mortgage lien tax, documentary stamp tax, recording fees or the like.

3.5 Payment. Lessee's Proportionate Share of Taxes shall be paid by Lessee in monthly installments on the date Base Rent is paid. Monthly payments shall be based on estimates made by Lessor from time to time. Lessor may reestimate Lessee's proportionate share of Taxes and thereafter adjust Lessee's monthly installments to reflect more accurately Lessee's Proportionate Share of Taxes. Within one hundred twenty (120) days after Lessor's receipt of tax bills, Lessor will notify Lessee of the amount of Taxes for the tax year in question and the amount of Lessee's Proportionate Share thereof. Any overpayment or deficiency in Lessee's payment of its proportionate share of Taxes shall be adjusted between Lessor and Lessee, and Lessor and Lessee hereby agree that Lessee shall pay Lessor or Lessor shall credit to Lessee's account (or, if such adjustment is at the end of the Term, Lessor shall pay Lessee), as the case may be, within fifteen (15) days of the aforesaid notice to Lessee, such amounts as may be necessary to effect such adjustment. Failure of Lessor to provide such notice within the time prescribed shall not relieve Lessor or Lessee of their respective obligations hereunder. Lessee shall not be responsible for any interest, fines or penalties due to the taxing authorization arising out of Lessor's failure to pay the Taxes when due, provided that Lessee has complied with its obligations under this Section 3.

3.6 Management and Operation of Common Areas. Lessee will operate and maintain, or will cause to be operated and maintained, the Common Areas in a good, clean, and neat condition, and to cause snow to be removed from the parking lot and walkways all in a reasonable manner deemed by Lessor to be appropriate and in the best interests of the Property, and consistent with other similar first class office buildings. Notwithstanding the foregoing, if Lessee does not continue to lease the building located at 730 Milford Road, Merrimack, New Hampshire, at anytime during the term of this Lease, then Lessor will operate and maintain the Common Areas as set forth in this Section 3.6. Lessor will have the right (i) to establish, modify and enforce rules and regulations with respect to the Common Areas which rules are commercially reasonable for Property of similar size in similar locations; (ii) to enter into, modify and terminate easement and other agreements pertaining to the use and maintenance of the Common Areas, (iii) to temporarily close all or any portion of the Common Areas to such extent as may, in the opinion of Lessor, be necessary to prevent a dedication thereof or the accrual of any rights to any person or to the public therein; and (iv) to close temporarily any or all portions of the Common Areas which may in the opinion of Lessor, be necessary to perform Lessor's repairs or maintenance; and (v) to do and perform such other acts in and to said areas and improvements as, in the exercise of good business judgment, Lessor shall determine to be advisable and in the best interest of the Property. In no event shall Lessor alter the Common Areas in such a way as to reduce the number of parking spaces available to Lessee below or to otherwise materially interfere with the operation of Lessee's business.

3.7 Expense of Common Areas and Operating Costs. Lessee will pay directly the Operating Costs (as defined in Section 3.9 below) with the exception of Taxes (see Section 3.4 and 3.5) and Lessor's insurance (see Section 10 and below). Notwithstanding the foregoing, if Lessee does not continue to lease the building located at 730 Milford Road, Merrimack, New Hampshire at any time during the term of this Lease, then Lessor will pay directly Operating Costs as set forth in this Section 3.7 and Lessee will pay to Lessor, as additional rent, its Proportionate Share (as defined in Section 3.9) of Lessor's Operating Costs on the same terms as provided in this Section 3.7 for insurance costs. With respect to insurance, Lessor may estimate Lessee's monthly installments and thereafter adjust Lessee’s monthly installments to reflect more accurately Lessor’s insurance cost. Within one hundred twenty (120) days (or such additional time thereafter as is reasonable under the circumstances) after the end of each twelve (12) month period, Lessor shall deliver to Lessee a copy of Lessor’s insurance bill(s) for such twelve (12) month period and the monthly installments paid or payable shall be adjusted between Lessor and Lessee, and Lessee shall pay Lessor or Lessor shall credit Lessee’s account (or, if such adjustment is at the end of the Term, Lessor shall pay Lessee), as the case may be, within fifteen (15) days of receipt of such bill, such amounts as may be necessary to effect such adjustment.

3.8 “Operating Costs” Defined. The term “Operating Costs” means all costs and expenses reasonably incurred by or on behalf of Lessor in operating, managing, insuring, securing and maintaining the Property and the common areas pursuant to Section 3.6 including, but not limited to, all costs and expenses of operating, maintaining, repairing, lighting, signing, cleaning, painting, striping, policing and security of the Common Areas; alarm and life safety systems; insurance, including, without limitation, liability insurance for personal injury, death and property damage, all-risks casualty insurance (including coverage against fire, flood, theft or other casualties), worker’s compensation insurance or similar insurance covering personnel, fidelity bonds for personnel, insurance against liability for assault and battery, defamation and claims of false arrest occurring on and about the Common Areas, the costs and expenses of maintenance of all exterior glass; maintenance of sprinkler systems; removal of water, snow, ice, trash and debris; installing and renting of signs for the Property as a whole; fire protection; maintenance and repair of utility systems serving the Property, including, but not limited to, water, sanitary sewer and storm water lines and other utility lines, pipes and conduits; costs and expenses of repair or replacement of awnings, paving, curbs, walkways, landscaping, drainage, pipes, ducts, conduits and similar items, lighting facilities; costs and expenses of planting, replanting, replacing and displaying flowers, shrubbery and planters; costs of providing light and power to the Common Areas; cost of water services, if any, ; parcel pick-up and delivery services. Notwithstanding anything to the contrary in this Section 3.9, Operating Costs shall not include any costs incurred for repairs or replacements which would be classified under the Internal Revenue Code as “capital” in nature (except for items built or installed at Lessee’s request and/or any repairs occasioned by the act or neglect of Lessee, its assignees, sub lessees, servants, agents, employees, invitees, licensees or concessionaires).

3.9 “Proportionate Share” defined: For purposes of this Lease, Lessee’s Proportionate Share shall equal the rentable area of the Premises divided by the rentable area of all space available to lease on the Property from time to time. Lessee’s Proportionate Share shall be modified proportionately in the event Lessee occupies additional space within.

4. Use.

4.1 The Premises shall be used for office, storage, retail uses, telemarketing and storage of inventory.

4.2 Lessee shall not use or occupy or permit the Property and/or Premises to be used or occupied, nor do or permit anything to be done in or on the Property and/or Premises, in a manner which will in any way violate any certificate of occupancy affecting the Property and/or Premises, or make void or void able any insurance then in force with respect thereto, which will make it impossible to obtain fire or other insurance required to be furnished by Lessor hereunder, or which will cause or be likely to cause structural damage to the building or any part thereof, or which will constitute a public or private nuisance, and shall not use or occupy or permit the Property and/or Premises to be used or occupied in any manner which will violate any present or future laws or regulations of any governmental authority.

5. Obligation to Repair.

5.1 Repairs To Be Made By Lessor. Lessor, at its expense, will make, or cause to be made, structural repairs to exterior walls, structural columns, structural girders, roof, roof deck and roof penetrations and structural floors which collectively enclose the Premises (excluding, however, all doors, door frames, storefronts, windows and glass). Lessor shall not be required to make any repairs to items built or installed at Lessee's request and/or any repairs occasioned by the act or neglect of Lessee, its assignees, sub lessees, servants, agents, employees, invitees, licensees or concessionaires. If the Premises should become in need of repairs required to be made by Lessor hereunder, Lessee shall give immediate written notice thereof to Lessor, and Lessor shall not be responsible in any way for failure to make any such repairs until a reasonable time shall have elapsed after the giving of such written notice.

5.2 Repairs To Be Made By Lessee. All repairs to the Premises, or any installations, equipment or facilities therein, other than those repairs required to be made by Lessor pursuant to Section 5.1, shall be made by Lessee at its expense. Without limiting the generality of the foregoing, Lessee will keep the interior of the Premises, together with all electrical, plumbing and other mechanical installations therein and the heating ventilating and air-conditioning system, in good order and repair and will make all replacements from time to time required thereto at its expense; provided, however, that Lessee shall not be required to make any repairs which are capital in nature (other than to items built or installed at Lessee's request and/or any repairs occasioned by the act or neglect of Lessee, its assignees, sub lessees, servants, agents, employees, invitees, licensees or concessionaires, as set forth in Section 5.1), the cost of which shall be borne by Lessor and performed by Lessor. Lessee will surrender the Premises at the expiration of the Term or at such other time as it may vacate the Premises in as good condition as when received, excepting depreciation caused by ordinary wear and tear, damage by Casualty, unavoidable accident or Act of God. Any damage or injury sustained by any person because of mechanical, electrical, plumbing or any other equipment or installations, whose maintenance and repair shall be the responsibility of Lessee, shall be paid for by Lessee, and Lessee hereby agrees to indemnify and hold Lessor harmless from and against all claims, actions, damages and liability suffered by Lessor in connection therewith, including, but not limited to reasonable attorneys' and other professional fees.

5.3 Damage to Premises. Lessee will repair promptly at its expense any damage to the Premises, and, upon demand, shall reimburse Lessor (as Additional Rent) for the reasonable cost of the repair of any damage elsewhere in the Property, caused by Lessee, its agents, servants, employees, or contractors, invitees or customers. If Lessee shall fail to commence such repairs within twenty (20) days after notice to do so from Lessor, Lessor may make or cause the same to be made and Lessee agrees to pay Lessor promptly upon Lessor's demand, as Additional Rent. Lessee shall not be responsible for any damage caused by Lessor's gross negligence or misconduct.

6. Right to Alter and Improve

6.1 Lessee may not make any additions and alterations, structural or otherwise, to the Premises without prior approval in writing from the Lessor . In any case where any addition, alteration or improvement would require the consent of any institution which holds any mortgage, Lessee shall also procure such consent before undertaking such addition, alteration or improvement.

6.2 All work done in connection with any addition, improvement or alteration shall be done in a good and workmanlike manner and in compliance with the building and zoning laws and with all other laws, ordinances, orders, rules, regulations, and requirements of all federal, state and municipal governments and the appropriate departments, commissions, boards, and offices thereof, and in accordance with the orders, rules and regulations of the board of fire underwriters or any other body, now or hereafter constituted, exercising similar functions and Lessee shall procure, at its own cost, certificates of occupancy and other certificates and permits if required by law.

6.3 Lessee will not permit any mechanic's, materialmen's or other liens to stand against the property for work or material furnished to Lessee; provided that Lessee shall have the right to contest the validity of any lien or claim. If Lessee has not caused such lien or liens to be dismissed within ninety (90) days of notice thereof;

Lessee shall post a bond to ensure that upon final determination of the validity of such lien or claim and Lessee shall immediately pay any judgment rendered against it, with all proper costs and charges, and shall have such lien released without cost to Lessor.

6.4 Changes and Additions to Property. Lessor reserves the right at any time and from time to time to (a) make or permit changes or revisions to the Property including additions to, subtractions from, arrangements of, alterations of, modifications of; or supplements to, the building areas, walkways, driveways, parking area, or other Common Areas, b) construct improvements and to make alterations thereof or additions thereto and to build additional stories on or in any such building(s) provided, however, that no such changes, rearrangements or other construction have a material adverse impact on the operation of Lessee's business at the Premises.

7. Removal of Improvements. With the exception of that machinery and equipment and personal property referenced in Section 8.1 and 8.2 below, all permanent light fixtures, paneling and other wall coverings, partitions, insulation, water system, carpets and wall to wall floor coverings, air conditioning, heating, ceiling tiles and all other permanent improvements which are installed by Lessee and enhance the Premises shall become the property of Lessor at the expiration of this Lease, or at its earlier termination for any cause herein provided for; provided, however, if Lessor shall so direct in writing at the time Lessee requests Lessor's approval for the installation thereof, Lessee shall remove any alterations, additions and improvements to the Premises so specified by Lessor made by it during the term hereof, not mentioned above, and shall restore the Premises to their condition as at the beginning of the term hereof, reasonable wear and tear, casualty and taking by eminent domain excepted. If Lessor shall not give such written direction to Lessee, all such alterations, additions, and improvements shall become and remain the property of Lessor.

8. Machinery and Equipment—Trade Fixtures.

8.1 Lessee agrees that all machinery and equipment and appurtenances thereto, installed in the Premises by it or by any employee, agent or subcontractor of Lessee, or by any sub lessee of Lessee, which cannot be removed from the leased Premises without permanent and substantial damage to the Premises shall be and become part of the realty and shall be and become the property of Lessor and shall not be removed from the Premises without the written consent of Lessor.

8.2 All machinery and equipment and appurtenances thereto installed in the Premises by Lessee or by any employee, agent or subcontractor of Lessee, or by any sub lessee of Lessee, which may be removed from the Premises without permanent and substantial damage to the Premises; and,

8.3 All furniture, furnishings and movable trade fixtures, including movable office dividers, installed in the Premises shall be deemed to remain personal property and all such machinery, equipment, appurtenances, furniture, furnishings and movable trade fixtures including movable office dividers, of Lessee or of any employee, agent or subcontractor or sub lessee of Lessee may be removed prior to the expiration of this Lease or its earlier termination for any cause herein provided for; but Lessee shall repair any damage occasioned by such removal and shall reasonably restore the Premises to their condition as at the beginning of the term hereof, reasonable wear and tear, taking by eminent domain, and damage insurance under the standard New Hampshire fire insurance policy with extended coverage excepted to the extent of such coverage.

8.4 Any such property which may be removed pursuant to subparagraphs 8.2 and 8.3, and which is not so removed prior to the expiration or earlier termination of this Lease may be removed from the Premises by Lessor and stored for the account of Lessee; and if Lessee shall fail to reclaim such property within sixty (60) days following such expiration or earlier termination of this Lease, such property shall be deemed to have been abandoned by Lessee and may be appropriated, sold, destroyed, or otherwise disposed of by Lessor without notice to Lessee and without obligation to account therefor. Lessee shall pay to Lessor the costs incurred by Lessor in moving, storing, selling, destroying, or otherwise disposing of any such property.

9. Utilities.

9.1 Provision of Utilities. Lessor will provide, or cause to be provided to the Premises water, electricity, telephone, sanitary sewer, heat, ventilation and air conditioning. Lessee shall arrange for the furnishing to the Premises of such utility services as it may require, as well as for the installation of all meters or other devices. Lessee shall be solely responsible for and shall promptly pay, as and when the same become due and payable, all charges for water, sewer, electricity, gas, telephone and any other utility used or consumed in the Premises and supplied by a public utility or public authority or any other person, firm or corporation, including Lessor, supplying the same.

9.2 Lessor, in its sole discretion, shall have the right, from time to time, to alter the method and source of supply to the Premises of electricity or any other utility, and Lessee agrees to execute and deliver to Lessor such documentation as may be required to effect such alteration, provided, however that Lessee shall not be required to bear any portion of the cost of such alteration or to incur any additional financial obligation as a result of such alteration.

9.3 Lessee shall not at any time overburden or exceed the capacity of the mains, feeders, ducts, conduits, or other facilities by which such utilities are supplied to, distributed in or serve the Premises. If Lessee desires to install any equipment which shall require additional utility facilities or utility facilities of a greater capacity than the facilities provided by Lessor, such installation shall be subject to Lessor’s prior approval of Lessee’s plans and specifications therefor which approval shall not be unreasonably withheld or delayed. If such installation is approved by Lessor, Lessee shall cause the same to be installed in a good and workmanlike manner and in compliance with Sections 7.3 and 12.4.

9.4 Discontinuances and Interruptions of Utility Services. Unless caused by Lessor, Lessor shall not be liable to Lessee in damages or otherwise (i) if any utility shall become unavailable from any public utility company, public authority or any other person or entity supplying or distributing such utility, or (ii) for any interruption in any utility service (including, without limitation, any heating, ventilation, air-conditioning or sprinkler) caused by the making of any necessary repairs or improvements or by any cause beyond Lessor’s reasonable control, and the same shall not constitute a termination of this Lease or an eviction of Lessee, provided, however, that Lessor shall use diligent efforts to restore such utilities.

10. Insurance.

10.1 Throughout the lease term, Lessee shall keep the Premises continuously insured as herein below set forth paying as the same become due all premiums in respect thereto:

10.1.a insurance to the extent of $3,000,000 per accident against liability for bodily injury, including death resulting there from, and to the extent of $3,000,000 per accident against liability for damage to property including loss of use thereof, incurring on or in any way related to the Premises or any part thereof;

10.1.b Contents Insurance—Lessor shall not be liable to Lessee for loss or damage to production machinery and equipment, furnishings, fixtures, inventory or other personal property, unless caused by Lessor’s negligence or willful misconduct;

Lessor shall maintain the following insurance coverages (the cost of which shall be an Operating Cost):

(a) Broad Form Fire and Extended Coverage Insurance in an amount equal to the full current replacement value of the building and improvements on the Property, naming Lessor and the holder of any mortgage on the Premises as insured parties; and,

(b) Rental Value Insurance covering risk of loss of rental due to the occurrence of any of the hazards insured against by the Fire and Extended Coverage Insurance referenced in (a) above, in an amount not less than the then applicable Base Rent, which insurance shall name only Lessor as insured.

10.2 Additional Provisions Respecting Insurance. All insurance required in Section 10 hereof shall be taken out and maintained in generally recognized responsible insurance companies qualified to do business in the State of New Hampshire. All documents evidencing such insurance carried by Lessee shall name Lessor as an additional insured and, at the request of Lessor, shall contain standard mortgage clauses covering any mortgages and shall contain a waiver by the insurers against Lessor and Lessee or their agents because of any act of negligence thereof. A certificate or certificates of the insurers that such insurance is in force and effect shall be deposited with Lessor prior to the expiration of any such policy. Lessee shall furnish Lessor with evidence satisfactory to Lessor that the policy has been renewed or replaced or is no longer required by this Lease. All insurance policies required to be procured under Section 10 shall be in form, coverage and amounts reasonably satisfactory to Lessor. All such policies shall provide that no policy shall be terminated, canceled or otherwise modified unless thirty (30) days' prior written notice is given to Lessor.

10.3 Advances by Lessor. In the event Lessee shall fail to maintain the full insurance coverage required by this Lease or shall fail to keep the Premises in safe condition, or shall fail to keep the building in good repair and good operating condition, Lessor may (but shall be under no obligation to) take out the required policies of insurance and pay the premiums on the same or make the required repairs, renewals and replacements; and all amounts so advanced therefor by Lessor shall become additional rent due from Lessee to Lessor, which rent, together with interest, from the date of payment by Lessor at a rate of one percent (1%) per annum over the prime rate (the base rate on corporate loans at large U.S. money center commercial banks) as published in the Money Rates section of the Wall Street Journal or other equivalent publication if the Wall Street Journal no longer publishes such information at the time of payment thereof by Lessor, Lessee agrees to pay to Lessor on demand.

10.4 Waiver of Subrogation. Lessee and Lessor each hereby waive any and all rights of recovery against the other, or against the officers, employees, agents and representatives of the other, for loss of or damage to such waiving party or its property or the property of others under its control to the extent that such loss or damage is insured against under any insurance policy in force at the time of such loss or damage. Each party shall obtain clauses in the policies of insurance required hereunder pursuant to which the insurance carrier or carriers waive all right of subrogation against the waiving party with respect to losses payable under such policies.

11. Damage Destruction and Condemnation.

11.1 Damage and Destruction. If the Premises shall be damaged, in whole or in part, by fire or casualty or action of public authority in consequence thereof:

11.1.a The rent hereinbefore reserved, or adjust and proportional share thereof, according to the nature and extent of the injuries sustained, shall be suspended or abated until Lessor shall have repaired or restored the Premises to substantially their condition at the time of their damage; or,

11.1.b If the Premises are, by such damage, rendered unsuitable for Lessee's use for more than 180 days, this Lease shall be terminated at the election of Lessor or Lessee, or their respective legal representatives, any such election to be made by written notice given to Lessor or Lessee, as the case may be, within thirty (30) days after such damage or destruction occurs, and if any such election is made, this Lease shall terminate in accordance therewith as of the date of such damage or destruction.

In the event of any damage or destruction, and this Lease is not to terminate as aforesaid, Lessor shall exercise its best efforts immediately to commence and complete such repairs or restoration; provided Lessor shall not be required to expend more than the net proceeds of insurance in repairing such damage, unless, if the damage is more extensive than is compensable by such net proceeds, Lessee after receiving notice of the amount of coverage or amount of money so due Lessor, agrees, by immediate written notice to Lessor, to furnish the excess amount required to repair or restore.

11.2 Condemnation. If the Premises or any portion thereof are taken under the power of eminent domain, or sold under the threat of the exercise of said power (all of which are herein called "condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than twenty-five percent (25%) of the floor area of the improvements on the Premises is taken by condemnation or any material portion of the parking area available to Lessee, Lessee may, at Lessee's option to be exercised in writing only within ten (10) days after Lessor shall have given Lessee written notice of such taking, terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the rent shall be reduced in the proportion that the floor area taken bears to the total floor area of the building situated on the Premises. Any award for the taking of all or any part of the Premises under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold or for the taking of the fee, or as severance damages;

PROVIDED, HOWEVER, that Lessee shall be entitled to any award for relocation expenses or for loss of or damage to Lessee's trade fixtures and removable personal property. In the event that this Lease is not terminated by reason of such condemnation, Lessor shall, to the extent of severance damages initially received by Lessor in connection with such condemnation, repair any damage to the Premises caused by such condemnation except to the extent that Lessee has been reimbursed therefor by the condemning authority. Lessor shall pay any amount in excess of such severance damages required to complete such repair.

12. Special Covenants.

12.1 Quiet Enjoyment and Condition of Premises. Lessor shall put Lessee in possession of the leased Premises at the beginning of the Term hereof, and Lessee, upon paying the rent and observing the other covenants and herein upon its part to be observed, shall peaceably hold and enjoy the Premises. Notwithstanding the previous sentence, Lessee hereby acknowledges that the Property may have new construction and/or be under renovation during the term of this Lease and agrees that any such new construction or renovation shall not be a violation of Lessee's right to quiet enjoyment provided that such new construction or renovation does not materially interfere with the operation of Lessee's business. Except for the Lessee Improvements to be made by Lessor, Lessee hereby accepts the Premises in their condition existing as of the date of the execution hereof; provided, however, that Lessor shall deliver the Premises to Lessee in compliance with all applicable zoning, municipal, county and state laws, ordinances and regulations governing and regulating the use of the Premises Lessee acknowledges that neither Lessor nor Lessor's agent has made any representation or warranty as to the suitability of the Premises for the conduct of Lessee's business and that Lessee has made an inspection of the Premises.

2.2 Lessor's Right of Access to the Premises. Lessee agrees that Lessor, and its duly authorized agents shall have the right at all reasonable times, with the prior consent of Lessee, which consent will not unreasonably be withheld, to enter upon the Premises and to examine and inspect the Premises; provided that in the event of an emergency Lessor shall have the right to enter the Premises for any purpose connected with Lessor's rights, duties or obligations under this Lease. Lessee further agrees that Lessor and its duly authorized agents shall have such rights of access to the building as may be reasonably necessary for the proper maintenance of the building in the event of failure by Lessee to perform its obligations under Section 5.1 hereof.

12.3 Notice of Lease. Lessor, upon the written request of Lessee, shall at any time join in an execution of a notice or a memorandum of lease as may be deemed necessary by Lessee, all in proper form for recording or filing in the appropriate offices, setting forth the existence and terms of this Lease, and Lessor and Lessee shall take all such action as may be necessary to permit such recording or filing.

12.4 Access for Renting. During the last six (6) months of the Term, Lessor, or any agent or employee of Lessor, shall have free access to the Premises at all reasonable hours, with the prior consent of Lessee, which consent will not unreasonably be withheld, to exhibit and inspect the same and to take measurements in connection with any leasing or prospective leasing or construction of the Premises. Lessor shall have the right to enter onto the Premises at all reasonable hours, with the prior consent of Lessee, which consent will not unreasonably be withheld, during the sixty (60) days prior to the expiration of the Term and during such time may place in the windows and doors of the building such usual “For Rent” or “For Sale” signs as may be reasonably necessary in the advertising of the Premises.

13. Assignment and Subleasing.

This Lease may not be assigned by Lessee or subleased by Lessee as a whole or in part, without the express written consent of Lessor, which written consent shall not be unreasonably withheld, if the following conditions are met by Lessee:

13.1 No sublease shall relieve Lessee from primary liability for any of its obligations hereunder, and in the event of any such sublease Lessee shall continue to remain primarily liable for payment of the rents specified above and for performance and observance of the other covenants, warranties, representations and agreements on its part herein provided to be performed and observed by it to the same extent as though no sublease had been made. Additionally, Lessee shall share (on the basis of 75% to Lessor and 25% to Lessee) any rent under an assignment or sublease which is in excess of the rent due under this Lease. Such excess rent shall be considered base rent payments for the purposes of this Lease and shall be due when base rent payments are due;

13.2 The sublease shall assume the obligations of Lessee hereunder to the extent of the interest subleased; and,

13.3 Lessee shall, within thirty (30) days prior to the delivery thereof, furnish or cause to be furnished to Lessor a true and complete copy of each such assumption of obligations and sublease, as the case may be in order that Lessor may examine the same for the purpose of giving its consent as referred to hereinabove.

13.4 Assignment shall include a change in the majority ownership of Lessee.

13.5 Notwithstanding Sections 13.1 thru 13.3 Lessor may, at its sole discretion, elect to terminate this Lease by giving Lessee notice of Lessors exercise of this right and enter into a new lease with said assignee or sublessee, in which event this Lease shall terminate on the date specified by Lessor in such notice and Lessee shall have not further obligations under this Lease as of the date of termination.

14. Events of Default and Remedies.

14.1 Events of Default Defined. The following shall be “events of default” under this Lease and the terms “events of default” or “default” shall mean, whenever they are used in this Lease, any one or more of the following events:

14.1.a failure by Lessee to pay the rents required to be paid at the times specified therein and continuation of said failure for a period of ten (10) days after it is due. Notwithstanding the foregoing, Lessee shall be entitled to one written notice of payment default each lease year and the cure period associated with said written notice shall be ten (10) days from said written notice);

14.1.b failure by Lessee to observe and perform any covenants, condition or agreement on its part in this Lease to be observed or performed, other than as referred to in subsection 14.1.a, for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, given to Lessee by Lessor, or if the nature of said default is such that a period in excess of thirty (30) days is required in order to cure it and Lessee has, upon notice of the default as aforesaid, immediately commenced and has continued within said thirty (30) day period to prosecute the curing of said default with all due diligence, then said period of thirty (30) days shall be extended for such period as shall be required by Lessee to cure same;

14.1.c filing by Lessee of a voluntary petition, or the filing against Lessee of an involuntary petition, in bankruptcy not discharged within sixty (60) days, or failure by Lessee promptly to lift any execution, garnishment or attachment of such consequence as will impair its ability to carry on its business at the Premises, or the commission by Lessee of any act of bankruptcy, or the insolvency of Lessee, or adjudication of Lessee as a bankrupt, or assignment by Lessee under the bankruptcy laws of the United States of America or of any state not discharged within sixty (60) days, or the entry by Lessee into an agreement of composition with its creditors, the institution of any proceedings for any relief of Lessee under any bankruptcy or insolvency laws or any laws relating to the relief of debtors, readjustment of indebtedness arrangements, composition or extension not discharged within sixty (60) days, or Lessee is generally not paying its debts as they become due; or,

14.1.d if any person shall levy upon or take this leasehold or any part thereof upon execution, attachment or other process of law.

14.2 Remedies on Default. Whenever any event of default referred to in Section 14.1 hereof shall have happened and be subsisting, Lessor may immediately or at any time thereafter and without demand or notice enter upon the leased premises or any part thereof in the name of the whole and repossess the same as of Lessor's former estate and expel Lessee and those claiming through or under Lessee and remove their effects forcibly if necessary, without being deemed guilty of any manner of trespass and without prejudice to any remedies which might otherwise be used for arrears of rent or preceding breach of covenant, and upon such entry this Lease shall terminate, and Lessor may, at its option, declare all installments of rent payable for the remainder of the Term hereof to be immediately due and payable, whereupon the same shall become immediately due and payable. Lessee covenants that, in case of such termination under the provisions of statute by reason of the default of Lessee, Lessee shall remain and continue liable to Lessor in an amount equal to the total rent reserved for the balance of the Term hereof plus all additional rent reserved for the balance of the Term hereof less the net amounts (after deducting the reasonable expenses of reletting, repair, renovation or demolition) which Lessor realizes from the reletting of the Premises. As used in this Section, the term "additional rent" means the value of all considerations other than rent agreed to be paid or performed by Lessee hereunder, including, without limiting the generality of the foregoing, taxes, assessments, and insurance premiums. Lessor shall have the obligation to take reasonable steps to mitigate the damages caused by Lessee's default hereunder, including reletting the leased premises, and shall have the right from time to time to relet the leased premises upon such terms as it may reasonably deem fit, provided such terms are reasonably in accordance with the general market for the Premises in the area. If a sufficient sum shall not be thus realized to yield the net rent required under this Lease, Lessee agrees to satisfy and pay all deficiencies as they may become due during each month of the remaining Term of this Lease. Nothing herein contained-shall be deemed to require Lessor to await the date whereon this Lease, or the Term hereof, would have expired had there been no default by Lessee, or no such termination or cancellation. Lessee expressly waives service of any notice of intention to reenter and waives and all right to recover or regain possession of the leased premises, or to reinstate or redeem this Lease as may be permitted or provided for by or under any statute or law now or hereafter in force and effect.

14.3 No Remedy Exclusive. No remedy herein conferred upon or reserved to Lessor is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Lease or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle Lessor to exercise any remedy reserved to it in this Section, it shall not be necessary to give any notice, other than such notice as may be herein expressly required.

14.4 Agreement to Pay Attorneys' Fees and Expenses. In the event Lessee should be proven to be in default under any of the provisions of this Lease and Lessor should employ attorneys or incur other expenses for the collection of rent or the enforcement of performance or observance of any obligation or agreement on the part of Lessee herein contained, Lessee agrees that it will on demand therefor pay to Lessor the reasonable fees of such attorneys and such other expenses so incurred by Lessor.

14.5 No Additional Waiver Implied by One Waiver. In the event any agreement contained in this Lease should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

15. Indemnity.

15.1 Indemnity. Lessee shall indemnify and hold Lessor harmless from and against any and all claims arising from Lessee’s use of the Premises, or from the conduct of Lessee’s business or from any activity, work or things done, permitted or suffered by Lessee in or about the Premises or elsewhere and shall further indemnify and hold Lessor harmless from and against any and all claims arising from any breach or default in the performance of any obligation on Lessee’s part to be performed under the terms of this Lease, or arising from any negligence of Lessee, or any of Lessee’s agents, contractors, or employees, and from and against all costs, reasonable attorneys’ fees, expenses and liabilities incurred in the defense of any such claim or any action or proceeding brought thereon; and in case any action or proceeding is brought against Lessor by reason of any such claim, Lessee, upon notice from Lessor, shall defend the same at Lessee’s expense. Lessee, as a material part of the consideration to Lessor, hereby assumes all risk of damage to property or injury to persons, in, upon, or about the Premises arising from any cause, except damage to property or injury to persons caused by the actions or inactions of Lessor or any other lessee of the property, and Lessee hereby waives all claims in respect thereof against Lessor.

15.2 Exemption of Lessor from Liability. Lessee hereby agrees that unless caused by Lessor’s gross negligence or willful misconduct, Lessor shall not be liable for injury to Lessee’s business or any loss of income therefrom or for damage to the goods, wares, merchandise or other property of Lessee, Lessee’s employees, invitees, customers, or any other person in or about the Premises, nor shall Lessor be liable for injury to the person of Lessee, Lessee’s employees, agents or contractors, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, whether said damage or injury results from conditions arising upon the Premises or upon other portions of the building of which the Premises are a part, or from other sources or places, and regardless of whether the cause of such damage or injury or the means of repairing the same is inaccessible to Lessee.

16. Miscellaneous.

16.1 Notices. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when sent by recognized overnight courier or mailed by registered or certified mail, postage prepaid, to the following addresses or to such other addresses as the parties shall, by like notice, notify one another:

If to Lessor: G&H Post, L.L.C.
P.O Box 281
Gilsum, New Hampshire 03448
Attn: David Hall

If to Lessee: Merrimack Services Corporation dba , PC Connection Services
730 Milford Road
Merrimack, New Hampshire 03054-4631
Attn: V.P. Facilities and Site Services

16.2 Binding Effect. This Lease shall inure to the benefit of and shall be binding upon Lessor, Lessee and their respective heirs, assigns, legal representatives and successors.

16.3 Severability. In the event any provision of this Lease shall be held invalid or unenforceable by any court of competent jurisdiction or by any future legislative action, such holding or such action shall not invalidate or render unenforceable any other provisions hereof.

16.4 Entire Agreement. This Lease embodies the entire agreement and understanding between the parties hereto with respect to the subject matter hereof.

16.5 Amendments, Changes and Modifications. This Lease may be amended, changed, modified, altered or terminated only with the written consent of the parties hereto.

16.6 Execution Counterparts. This Lease may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

16.7 Applicable Law. This Lease shall be governed exclusively by the applicable laws of the State of New Hampshire.

16.8 Surrender of the Premises. Except as otherwise provided in this Lease, Lessee shall, upon the expiration or termination of this Lease for any reason whatsoever, surrender the Premises to Lessor in good order, condition and repair, except for reasonable wear and tear, fire, taking or other casualty, including wear and tear resulting from the elements and free of all lessees and personal property of Lessee.

16.9 Exhibits. Each exhibit attached to this Lease shall be incorporated into and be a part of this Lease.

16.10 Subordination.

16.10.a This Lease shall be subordinate to any mortgage, deed of trust, or any other hypothecation for security now or hereafter placed upon the Premises and to any and all advances made on the security thereof and to all renewals, modifications, consolidations, replacements and extensions thereof. Lessor shall cause any mortgage holder to provide a non-disturbance agreement to Lessee containing commercially reasonable terms and conditions.

16.10.b Lessee agrees to execute any documents reasonably required to effectuate such subordination or to make this Lease prior to the lien of any mortgage or deed of trust, as the case may be.

17. Options to Renew.

Provided it be not at the time in default beyond applicable grace or cure periods in the payment of rent or in the performance of any of its other obligations hereunder, and provided no other event of default beyond applicable grace or cure periods shall have occurred and not have been cured, Lessee, upon not less than six (6) months' written notice to Lessor, may renew this Lease for two (2) additional term of two (2) years. Such renewal term shall be upon the same terms and conditions of this Lease. Rates shall be subject to the then comparable market rates. In the event that a mutually agreeable rate cannot be accomplished, either party may initiate binding arbitration to resolve. Costs of arbitration will be shared initially and equally by both parties. Final responsibility for arbitration costs shall also be determined by arbitration.

18. Estoppel Certificate.

Each party agrees, from time to time, within fifteen (15) days of receipt of written request by the other party to execute, acknowledge and deliver to the requesting party, a statement in writing certifying that:

18.1 this Lease is unmodified and in full force and effect; or, 18.2 if there have been modifications, that this Lease is in full force and effect as modified and stating the modifications; and,

18.3 whether or not Lessee has any defense, offsets or counterclaims against its obligations to pay the rent and other monies hereunder and to perform its other covenants under this Lease; and,

18.4 the dates to which the rent has been paid and the amount of any prepaid rent.

Any such statement, delivered pursuant to this paragraph, may be relied upon by any prospective purchaser or mortgagee of the Premises, any prospective assignee of any mortgage or encumbrance upon the Premises, or any prospective assignees or sub lessee of Lessee’s interests under this Lease.

19. Hazardous Materials

Lessee shall defend, indemnify and hold Lessor harmless from and against all loss, cost, expense or damages Lessor, its stockholders, officers, directors or employees (herein, “indemnified parties”) may suffer or incur as a result of the discharge, release, generation, storage or disposal of any Hazardous Substances on or about the Premises or on any property adjacent thereto during the Term of this Lease.

For purposes of this Lease Hazardous Materials shall mean oil and petroleum products and all hazardous or toxic substances, all substances which, because of their quantitative concentration, or their chemical, radioactive, flammable, explosive, infectious or other characteristics, constitute or may reasonably be expected to constitute or contribute to a danger or hazard to public health, safety or welfare or to the environment, including, without limitation, any asbestos (whether or not friable) any asbestos-containing materials, waste oils, solvents and chlorinated oils, polychlorinated biphenyl’s (PCBs) and chemical, biological and radioactive wastes, and any other substances or any hazardous or toxic wastes or substances which are included under or regulated by any Environmental Laws.

For purposes of this Lease Environmental Laws shall mean all federal, state or local laws, rules and regulations (whether now existing or hereafter enacted or promulgated, as they may be amended from time to time), and all judicial or decisional law, pertaining to Hazardous Materials, environmental regulations, contamination by Hazardous Materials, clean-up of Hazardous Materials or disclosures relating to Hazardous Materials, and any judicial or administrative interpretation thereof, including any judicial or administrative orders or judgments including, without limitation: the Comprehensive Environmental Response, Compensation and Liability Act of 1980,42 U.S.C. Section 9601 et seq. (“CERCLA”); the Federal Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 et seq. (“RCRA”); Superfund Amendments and Reauthorization Act of 1986, Public Law No. 99-499 (“SARA”): Toxic Substances Control Act, 15 U.S.C. Section 2601 et seq. (“TSCA”); and all state super lien or environmental clean-up or disclosure statutes in the state in which the Property is located.

IN WITNESS WHEREOF, the parties hereto have executed this Lease all as of the date first above-written.

LESSOR:

G&H POST, LLC

/S/ Lisa Henkil
Witness

By: /s/ David Hall
Name: David Hall
Title:

LESSEE:

MERRIMACK SERVICES CORPORATION

/s/ William Schulze
Witness

By: /s/ Robert A. Pratt
Name: Robert A. Pratt
Title: VP of Facilities and Site Services

STATE OF NEW HAMPSHIRE
COUNTY OF CHESHIRE

This instrument was acknowledged before me on this 8 day of August, 2008 by David Hall as member of G&H Post, LLC.

/s/ Joseph P. McGuinness
Notary Public/ Justice of the Peace

(Seal, if any)

My Commission Expires: August 23, 2011

STATE OF NEW HAMPSHIRE
COUNTY OF HILLSBOROUGH

This instrument was acknowledged before me on this 11 day of August, 2008 by Robert Pratt as V.P. Facilities & Site Services of Merrimack Services Corporation.

/s/ Dolores R. Collins
Notary Public

(Seal, if any)

My Commission Expires: 11/19/2008

Exhibits to this Lease Agreement
may be obtained from the Registrant upon written request.

Exhibit 15

August 11, 2008

PC Connection, Inc.
730 Milford Road
Merrimack, NH

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited interim financial information of PC Connection, Inc. and subsidiaries for the periods ended June 30, 2008 and 2007, as indicated in our report dated August 11, 2008; 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 June 30, 2008 is incorporated by reference in Registration Statement Nos. 333-40172, 333-50845, 333-50847, 333-66450, 333-69981, 333-83943, 333-91584, 333-106652, 333-130389, and 333-144065 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

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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

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

Date: August 11, 2008

/s/ Patricia Gallup

Patricia Gallup
Chairman and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Jack Ferguson, certify that:

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

Date: August 11, 2008

/s/ Jack Ferguson

Jack Ferguson
Executive Vice President, Treasurer, and Chief Financial Officer

Exhibit 32.1

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

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of PC Connection, Inc. (the “Company”) for the period ended June 30, 2008 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.

Date: August 11, 2008	/s/ Patricia Gallup
	Patricia Gallup Chairman and Chief Executive Officer

Exhibit 32.2

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

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of PC Connection, Inc. (the “Company”) for the period ended June 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Jack Ferguson, Executive Vice President, Treasurer, and Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 11, 2008

/s/ Jack Ferguson

Jack Ferguson
Executive Vice President, Treasurer, and Chief Financial Officer