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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 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 May 2, 2008 was 26,803,337.

PC CONNECTION, INC. AND SUBSIDIARIES
FORM 10-Q

TABLE OF CONTENTS

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 March 31, 2008, and the related condensed consolidated statements of income and cash flows for the three-month periods ended March 31, 2008 and 2007, and the condensed consolidated statement of changes in stockholders' equity for the three-month period ended March 31, 2008. 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
May 12, 2008

PC CONNECTION, INC. AND SUBSIDIARIES

PART I—FINANCIAL INFORMATION

Item 1—Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS

(amounts in thousands)

	March 31, 2008 *(unaudited)*	December 31, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 20,488**	$ 13,741
Accounts receivable, net	**178,473**	202,216
Inventories—merchandise	**65,670**	76,090
Deferred income taxes	**2,880**	2,858
Income taxes receivable	**2,010**	345
Prepaid expenses and other current assets	**3,735**	4,322
Total current assets	**273,256**	299,572
Property and equipment, net	**22,807**	20,831
Goodwill	**56,867**	56,867
Other intangibles, net	**3,024**	3,291
Other assets	**308**	318
Total Assets	**$356,262**	$ 380,879
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of capital lease obligation to affiliate	**$ 571**	$ 527
Accounts payable	**86,413**	111,140
Accrued expenses and other liabilities	**19,428**	20,557
Accrued payroll	**6,959**	10,816
Total current liabilities	**113,371**	143,040
Capital lease obligation to affiliate, less current maturities	**4,141**	4,309
Deferred income taxes	**6,883**	5,436
Other liabilities	**3,486**	3,784
Total Liabilities	**127,881**	156,569
Stockholders' Equity:		
Common stock	**273**	273
Additional paid-in capital	**94,368**	94,132
Retained earnings	**136,744**	131,970
Treasury stock at cost	**(3,004)**	(2,065)
Total Stockholders' Equity	**228,381**	224,310
Total Liabilities and Stockholders' Equity	**$356,262**	$ 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 March 31, 2008	2007
Net sales	**$423,724**	$398,180
Cost of sales	**370,980**	348,265
Gross profit	**52,744**	49,915
Selling, general and administrative expenses	**45,393**	44,193
Income from operations	**7,351**	5,722
Interest expense	**(162)**	(208)
Other, net	**159**	201
Income before taxes	**7,348**	5,715
Income tax provision	**(2,574)**	(2,330)
Net income	**$ 4,774**	$ 3,385
Weighted average common shares outstanding:		
Basic	**26,860**	26,680
Diluted	**26,974**	27,005
Earnings per common share:		
Basic	**$ .18**	$ .13
Diluted	**$ .18**	$ .13

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

Three Months Ended March 31, 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	—	—	207	—	—	—	207
Exercise of stock options, including income tax benefit	3	—	29	—	—	—	29
Repurchase of common stock for Treasury	—	—	—	—	(92)	(939)	(939)
Net income	—	—	—	4,774	—	—	4,774
Balance—March 31, 2008	27,255	$ 273	$ 94,368	$ 136,744	(419)	$ (3,004)	$ 228,381

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)

	Three Months Ended March 31,	
	2008	**2007**
Cash Flows from Operating Activities:		
Net income	**$ 4,774**	$ 3,385
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**1,670**	1,888
Provision for doubtful accounts	**399**	337
Deferred income taxes	**1,425**	(168)
Stock compensation expense	**207**	(68)
Income tax benefit from exercise of stock options	**4**	887
Excess tax benefit from exercise of stock options	**(1)**	(343)
Loss on disposal of fixed assets	**—**	6
Changes in assets and liabilities:		
Accounts receivable	**23,344**	23,551
Inventories	**10,420**	2,000
Prepaid expenses and other current assets	**(1,078)**	(1,454)
Other non-current assets	**10**	8
Accounts payable	**(25,180)**	(21,910)
Accrued expenses and other liabilities	**(5,284)**	(2,179)
Net cash provided by operating activities	**10,710**	5,940
Cash Flows from Investing Activities:		
Purchases of property and equipment	**(2,926)**	(1,474)
Net cash used for investing activities	**(2,926)**	(1,474)
Cash Flows from Financing Activities:		
Proceeds from short-term borrowings	**28,815**	—
Repayment of short-term borrowings	**(28,815)**	—
Repayment of capital lease obligation	**(124)**	(217)
Purchase of treasury shares	**(939)**	—
Exercise of stock options	**25**	2,494
Excess tax benefit from exercise of stock options	**1**	343
Net cash (used for) provided by financing activities	**(1,037)**	2,620
Increase in cash and cash equivalents	**6,747**	7,086
Cash and cash equivalents, beginning of period	**13,741**	17,582
Cash and cash equivalents, end of period	**$ 20,488**	$ 24,668

See notes to unaudited condensed consolidated financial statements.

PC CONNECTION, INC. AND SUBSIDIARIES

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

Note 1—Basis of Presentation

The accompanying condensed consolidated financial statements of PC Connection, Inc. and its subsidiaries (the “Company,” “we,” “us,” or “our”) have been prepared in accordance with accounting principles generally accepted in the United States of America. Such principles were applied on a basis consistent with 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 months ended March 31, 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.

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 recognize the revenue in such multiple deliverable arrangements, in accordance with EITF 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables."

In these arrangements, we recognize revenue for each element of the sale, if 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 March 31, 2008	2007
$3,067	$2,787

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)
(Unaudited)
(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.

	March 31, 2008
Goodwill	$ 56,867
Trademarks	1,190

Intangible assets subject to amortization at March 31, 2008 consisted of customer lists of $1,655 and a licensing agreement of $179 (net of accumulated amortization of $3,565 and $296, 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 each of the three-month periods ended March 31, 2008 and 2007, we recorded amortization expenses of $268.

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

For the Year Ended December 31,	
2008	$804(*)
2009	942
2010	88
2011 and thereafter	—

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

Stock-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 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. SFAS 123(R) requires that we estimate forfeitures at the time of grant and revise, if necessary, in subsequent periods if actual forfeitures experienced differ from these estimates.

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 three months ended March 31, 2008, there were no material changes in the liability for unrecognized tax benefits. 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.

In February 2008, we repurchased an aggregate of 91,779 shares for $939. As of March 31, 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 in prior periods and have reflected 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)
(Unaudited)
(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	
March 31,	2008	2007
Numerator:		
Net income	$ 4,774	$ 3,385
Denominator:		
Denominator for basic earnings per share	26,860	26,680
Dilutive effect of equity awards	114	325
Denominator for diluted earnings per share	26,974	27,005
Earnings per share:		
Basic	$ .18	$ .13
Diluted	$ .18	$ .13

The following weighted-average outstanding stock options during the three months ended March 31, 2008 and 2007 were excluded from the computation of diluted earnings per share because the exercise prices of these options were greater than the average market price of our common stock during the respective periods:

	Three Months Ended	
March 31,	2008	2007
Anti-dilutive stock options	577	205

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 No. 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 No. 157-2. FSP No. 157-2 delays the effective date of SFAS No. 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 No. 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)
(Unaudited)
(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.

(amounts in thousands, except per share data)

Table of Contents

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 months ended March 31, 2008 and 2007 is shown below:

	Three Months Ended March 31, 2008				
	SMB Segment	Large Account Segment	Public Sector Segment	Headquarters/ Other	Consolidated
Net sales	$240,149	$ 117,208	$ 66,367		$ 423,724
Operating income (loss) before allocations	$ 18,004	$ 6,131	$ 2,226	$ (19,010)	$ 7, 351
Allocations	(10,925)	(724)	(3,103)	14,752	—
Operating income (loss)	$ 7,079	$ 5,407	$ (877)	$ (4,258)	$ 7, 351
Selected Operating Expense:					
Depreciation and amortization	$ 68	$ 321	$ 28	$ 1,253	$ 1,670
Balance Sheet Data:					
Total assets	$143,577	$ 141,622	$ 48,903	$ 22,160	$ 356,262

	Three Months Ended March 31, 2007				
	SMB Segment	Large Account Segment	Public Sector Segment	Headquarters/ Other	Consolidated
Net sales	$233,933	$ 110,315	$ 53,932		$ 398,180
Operating income (loss) before allocations	$ 15,921	$ 5,539	$ 1,200	$ (16,938)	$ 5, 722
Allocations	(11,453)	(250)	(2,971)	14,674	—
Operating income (loss)	$ 4,468	$ 5,289	$ (1,771)	$ (2,264)	$ 5,722
Selected Operating Expense:					
Depreciation and amortization	$ 78	$ 389	$ 28	$ 1,393	$ 1,888
Balance Sheet Data:					
Total assets	$151,036	$ 138,248	$ 26,073	$ 13,721	$ 329,078

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 $86,796 and $104,974 for March 31, 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.

PC CONNECTION, INC. AND SUBSIDIARIES

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

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

March 31,	Three Months Ended 2008	2007
Segment (excludes transfers between segments)		
SMB	$ 240,149	$ 233,933
Large Account	117,208	110,315
Public Sector	66,367	53,932
Total	$ 423,724	$ 398,180
Product Mix		
Notebooks and PDAs	$ 64,101	$ 73,643
Video, Imaging and Sound	62,291	48,101
Desktops/Servers	58,409	57,528
Software	56,146	48,286
Storage Devices	42,562	34,808
Printers and Printer Supplies	40,839	41,653
Net/Com Products	35,794	29,819
Memory and System Enhancements	15,094	19,949
Accessories/Other	48,488	44,393
Total	$ 423,724	$ 398,180

Substantially all of our net sales for the three months ended March 31, 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 March 31, 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 months ended March 31, 2008 and 2007. Net sales to the federal government accounted for $23,085, or 5.4% of total net sales for the three months ended March 31, 2008, and $13,293, or 3.3% of total net sales for the three months ended March 31, 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 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 three months ended March 31, 2007, share-based compensation included a $150 benefit due to revisions in stock option forfeiture rates. Total share-based compensation for the periods reported is shown below:

PC CONNECTION, INC. AND SUBSIDIARIES

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

	Three Months Ended	
March 31,	2008	2007
Share-based compensation	$ 207	$ (68)

Effective in the first quarter of 2008, our Board of Directors approved a stock option grant under our 2007 Stock Incentive Plan. The stock option was granted with four-year graded vesting terms, a contractual life of ten years, and an exercise price equal to the end of day market price of our common stock on the grant date. We did not grant any equity awards in the three months ended March 31, 2007.

The following table summarizes the equity award made in the first quarter of 2008:

	2008 Grants	
	Shares	Fair Value
Stock options	100	$ 535

The application of the Black-Scholes option valuation 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 term of options is estimated using the historical option exercise behavior of employees and directors. The risk-free interest rate is based on the U.S. Treasury yield curve corresponding to the stock option's expected term. The key weighted-average assumptions we used to apply this pricing model were as follows:

	2008 Awards
Risk-free interest rates	2.81%
Volatility	57.9%
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:

Three Months Ended March 31,	2008	2007
Options exercised	3	292
Cash proceeds from exercised options	$25	$2,494
Intrinsic value of exercised options	$ 9	$2,336

PC CONNECTION, INC. AND SUBSIDIARIES

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

The following table sets forth our stock option activity for the three months ended March 31, 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	100	10.51	$ 5.35		
Exercised	(3)	7.83			
Expired	(10)	11.67			
Outstanding, March 31, 2008	963	$ 12.77		6.29	$ 545
Vested and expected to vest	862	$ 12.94		5.95	$ 512
Exercisable, March 31, 2008	538	$ 14.39		4.15	$ 325

Total compensation cost related to the nonvested stock options not yet recognized as of March 31, 2008 was $2,347 and is expected to be recognized over a weighted-average period of approximately 2.7 years.

We have awarded in prior periods shares of nonvested stock. Recipients of nonvested shares possess the rights of shareholders, including voting rights and the right to receive dividends. We did not grant any nonvested stock in the three months ended March 31, 2007 or 2008, and nonvested shares were not released or forfeited in these periods. Total compensation cost related to the nonvested stock awards not yet recognized as of March 31, 2008 was $235 and is expected to be recognized over a weighted-average period of approximately 1.2 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. 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 outcome of such audits. Such outcome could have a material impact on our results of operations and financial condition.

Note 7—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 (5.25% at March 31, 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 March 31, 2008 was less than 0.1 to 1.0. The entire $50,000 facility was available for borrowing at March 31, 2008.

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

At March 31, 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 March 31, 2008 and December 31, 2007, accounts payable included $10,249 and $12,197, respectively, owed to these financial institutions.

Note 8—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 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. To facilitate construction, we advanced temporary funds aggregating $577 through March 31, 2008, to cover certain preliminary design and construction costs of the project, pending the completion of arrangements for permanent funding by the affiliated company. In addition, we entered into a contractual arrangement with the affiliate to insure the repayment of the advance prior to project completion. On May 9, 2008, the affiliated company paid us the full aggregate balance of $577.

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 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 increasing competition 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 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. 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:

March 31,	Three Months Ended 2008	2007
Net sales *(in millions)*	$ 423.7	$ 398.2
Net sales	100.0%	100.0%
Gross margin	12.4	12.5
Selling, general and administrative expenses	10.7	11.1
Income from operations	1.7	1.4

Our year-over-year increase in sales in the first quarter of 2008 resulted from sales growth in all three segments, with approximately half of our growth realized by the Public Sector segment. Operating margins increased year over year in the first quarter of 2008 primarily due to improved leverage of our operating expenses.

Net Sales Distribution

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

March 31,	Three Months Ended 2008	2007
Business Segment		
SMB	57%	59%
Large Account	28	28
Public Sector	15	13
Total	100%	100%
Product Mix		
Notebooks and PDAs	15%	19%
Videos, Imaging and Sound	15	12
Desktops/Servers	14	14
Software	13	12
Storage Devices	10	9
Printers and Printer Supplies	10	11
Net/Com Products	8	7
Memory and System Enhancements	4	5
Accessories/Other	11	11
Total	100%	100%

Gross Profit Margins

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

March 31,	Three Months Ended 2008	2007
Business Segment		
SMB	13.9%	13.5%
Large Account	10.8	10.8
Public Sector	10.2	11.8
Total	12.4%	12.5%

Consolidated gross profit dollars increased for the first quarter of 2008 by $2.8 million compared to first quarter of 2007, due to higher net sales. Gross profit margin declined year over year by ten basis-points primarily due to decreased levels of agency fee revenues, which are reported on a net basis.

Cost of Sales and Certain Other Costs

Cost of sales includes the invoice cost of the product, 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:

March 31,	Three Months Ended 2008	2007
Purchasing/Distribution Center	0.72%	0.70%

Operating Expenses

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

March 31,	Three Months Ended 2008	2007
Personnel costs	$ 31.1	$ 29.8
Advertising, net	4.1	4.6
Facilities operations	2.6	2.3
Credit card fees	1.9	2.0
Depreciation and amortization	1.7	1.9
Professional fees	1.9	1.0
Bad debts	0.3	0.3
Other, net	1.8	2.3
Total	$ 45.4	$ 44.2
Percentage of net sales	10.7%	11.1%

Personnel costs represent the majority of our operating expenses, with sales personnel representing the largest portion of these costs. Personnel costs increased year over year due to incremental variable compensation and additional support staff associated with higher revenues and gross profits.

Table of Contents

Year-Over-Year Comparisons

Three Months Ended March 31, 2008 Compared to Three Months Ended March 31, 2007

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

	Three Months Ended March 31,				
	2008		2007		
	Amount	% of Net Sales	Amount	% of Net Sales	% Change
Sales:					
SMB	$240.1	56.6%	$234.0	58.8%	2.6%
Large Account	117.2	27.7	110.3	27.7	6.3
Public Sector	66.4	15.7	53.9	13.5	23.2
Total	$423.7	100.0%	$398.2	100.0%	6.4%
Gross Profit:					
SMB	$ 33.3	13.9%	$ 31.6	13.5%	5.4%
Large Account	12.6	10.8	11.9	10.8	5.9
Public Sector	6.8	10.2	6.4	11.8	6.2
Total	$ 52.7	12.4%	$ 49.9	12.5%	5.6%

Net sales for the first quarter of 2008 increased compared to the first quarter of 2007 due to higher sales levels achieved by all three business segments, as explained below:

- Net sales for our SMB segment increased modestly in the first quarter of 2008 due to growth in corporate outbound sales. Our SMB outbound sales representatives increased corporate sales by 9% year over year in the first quarter of 2008, by adding new business customers and acquiring a greater share of existing customers' IT purchases. Decreased consumer sales, however, mitigated overall SMB growth, reflecting our increased focus on more diverse marketing programs designed to reach our business customers. Sales representatives for our SMB segment totaled 469 at March 31, 2008, an increase from 445 at March 31, 2007.
- Net sales for our Large Account segment increased 6% year over year, whereas average annualized sales productivity in the first quarter of 2008 increased by 16% year over year. We attribute this success to enhancements in sales support activities and growth in service revenues. Sales representatives for our Large Account segment totaled 109 at March 31, 2008, a decrease from 114 at March 31, 2007.
- Net sales for our Public Sector segment in the first quarter of 2008 increased 23% from the first quarter of 2007 due to additional sales made in 2008 under federal government contracts. Average annualized sales productivity in the first quarter of 2008 increased by 17% year over year due to the success of our federal sales representatives. Sales representatives for our Public Sector segment totaled 120 at March 31, 2008, an increase from 116 at March 31, 2007.

Gross profit for the first quarter of 2008 increased compared to the first quarter of 2007 in dollars in all three segments, as explained below:

- Gross profit for our SMB segment increased year over year due to increases in both sales and gross profit margins. We believe that gross profit margins benefited from improved execution by our sales force, increased levels of higher margin service revenues, and better inventory management.
- Gross profit for our Large Account segment in the first quarter of 2008 increased year over year due to increased sales. Gross profit margins were level year over year compared to the prior year period as increased vendor consideration was offset by slightly lower invoice product margins.

- Gross profit for our Public Sector segment in the first quarter of 2008 increased in dollars but decreased as a percentage of net sales compared to the first quarter of 2007. Lower net agency fee revenues in the first quarter of 2008 adversely impacted gross profit margins compared to the prior year.

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

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

	Three Months Ended March 31,				
	2008		2007		
	Amount	% of Net Sales	Amount	% of Net Sales	% Change
SMB	$ 26.2	10.9%	$ 27.1	11.6%	(3.3)%
Large Account	7.2	6.1	6.7	6.0	7.5
Public Sector	7.7	11.6	8.1	15.1	(4.9)
Headquarters/Other	4.3		2.3		
Total	$ 45.4	10.7%	$ 44.2	11.1%	2.7%

- SG&A expenses for our SMB segment decreased year over year in both dollars and as a percentage of net sales. We attribute the improvement to lower net advertising expense as well as a reduction in allocation expense of centralized headquarter services. 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 our 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 and facility expenses offset a slight decrease in personnel expense in the first quarter of 2008. Personnel expense declined year over year due to a transfer of certain service personnel from our Large Account segment to our Headquarters/Other group in the latter half of 2007.
- SG&A expenses for our Public Sector segment decreased in both dollars and as a percentage of net sales in the first quarter of 2008. The year-over-year dollar decrease was attributable to improved efficiencies and expense leverage. Decreased expense coupled with higher net sales resulted in the significant year-over-year decrease in SG&A expenses as a percentage of net sales.
- SG&A expenses for our Headquarters/Other group increased in dollars year over year due to increased personnel headcount and bonus expense. Personnel expense increased year over year due to the above noted 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 first quarter of 2008 increased by $1.7 million to $7.4 million, compared to $5.7 million, in the first quarter of 2007. Income from operations as a percentage of net sales increased to 1.7% for the first quarter of 2008 compared to 1.4% for the first quarter of 2007. Our operating income increased year over year in both dollars and as a percentage of sales in the first quarter of 2008 primarily due to improvement in our leverage of operating expenses.

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

Our effective tax rate was 35.0% for the first quarter of 2008 and 40.8% for the first quarter of 2007. Our tax rate for the first quarter of 2008 was favorably affected by the release under FIN 48 of uncertain state tax positions in accordance with state statute of limitations expirations.

Net income for the first quarter of 2008 increased by $1.4 million to $4.8 million, compared to $3.4 million, for the first quarter of 2008, primarily as a result of the increase in income from operations.

Liquidity and Capital Resources

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

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 March 31, 2008, we had approximately $20.5 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 March 31, 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):

	Three Months Ended	
March 31,	2008	2007
Net cash provided by operating activities	$ 10.7	$ 5.9
Net cash used for investing activities	(2.9)	(1.4)
Net cash (used for) provided by financing activities	(1.1)	2.6
Increase in cash and cash equivalents	$ 6.7	$ 7.1

Cash provided by operating activities increased by $4.8 million in the first quarter of 2008 compared to the first quarter of 2007. Cash flow provided by operations for the first quarter of 2008 resulted primarily from net income before depreciation and amortization, decreases in accounts receivable and inventory, offset partially by a decrease in accounts payable. Inventory decreased by $10.4 million from the prior year-end balance largely due to the shipment of staged customer roll-outs in the first quarter of 2008. Inventory turns was 21 turns for both the first quarter of 2008 and 2007. Accounts receivable decreased by $23.7 million from December 31, 2007 levels, despite an increase in days sales outstanding, or DSOs, primarily due to the seasonal decrease in first quarter revenues compared to the fourth quarter of 2007. DSOs were 44 days for the first quarter of 2008, compared to 42 days for the first 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 for the first quarter of 2007 resulted primarily from net income before depreciation and amortization and a decrease in accounts receivable, offset partly by a decrease in accounts payable.

At March 31, 2008, we had $86.4 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 $10.2 million payable to two financial institutions under inventory trade credit agreements we use to finance our purchase of certain branded 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 $1.5 million in the three months ended March 31, 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 recently completed an extensive desktop upgrade in 2008 that accounted for much of the above increase. We expect total capital expenditures in 2008 to be between $10.0 million and $12.0 million.

Cash used for financing activities in the three months ended March 31, 2008 was attributable largely to our purchase of treasury shares which totaled $0.9 million in the first quarter of 2008. Cash provided by financing activities in the three months ended March 31, 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 (5.25% at March 31, 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 March 31, 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 $10.2 million as of March 31, 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 $1.5 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 March 31, 2008 was 0.01 to 1.0, as average borrowings were minimal against our credit facility during the first 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 March 31, 2006 (loss quarters not counted). Such amount was calculated at March 31, 2008 as $170.8 million. Our actual consolidated stockholders' equity at March 31, 2008 was $228.4 million.

The borrowing base under this facility is set at 80% of qualified commercial receivables, plus 50% of qualified government receivables. As of March 31, 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 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 No. 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 No. 157-2. FSP No. 157-2 delays the effective date of SFAS No. 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 No. 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

We invest cash balances in excess of operating requirements in short-term securities, generally with maturities of 90 days or less. In addition, our unsecured credit agreement provides for borrowings, which bear interest at variable rates based on the prime rate and Euro dollar rates. We had no borrowings outstanding pursuant to our credit agreement as of March 31, 2008. We believe the effect, if any, of reasonably possible near-term changes in interest rates on our financial position, results of operations, and cash flows should not be material. Our credit agreement exposes earnings to changes in short-term interest rates since interest rates on the underlying obligations are variable. However, as noted above, no borrowings were outstanding pursuant to the credit agreement at March 31, 2008, and average borrowings in the first quarter of 2008 were minimal. Accordingly, the change in earnings resulting from a hypothetical 10% increase or decrease in interest rates would not be material.

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 March 31, 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 March 31, 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 March 31, 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 72% and 71% of our total product purchases in the three months ended March 31, 2008 and 2007, respectively. Among these five vendors, purchases from Ingram Micro Inc. represented 25% of our total product purchases in each of the three months ended March 31, 2008 and 2007. Purchases from Tech Data Corporation comprised 18% and 17% of our total product purchases in the three months ended March 31, 2008 and 2007, respectively. Purchases from Hewlett-Packard Company represented 13% and 15% of our total product purchases in the three months ended March 31, 2008 and 2007, respectively. No other vendor supplied more than 10% of our total product purchases in the three months ended March 31, 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 March 31, 2008 was $86.4 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.

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

The following table provides information about our purchases during the quarter ended March 31, 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 (1)	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plan or Programs
01/01/08 – 01/31/08	—	—	—	$ 12,714,000
02/01/08 – 02/29/08	91,779	$ 10.23	91,779	$ 11,775,098
03/01/08 – 03/31/08	—	—	—	$ 11,775,098
Total	91,779	$ 10.23	91,779	$ 11,775,098

(1) We repurchased an aggregate of 91,779 shares of our common stock pursuant to the repurchase program that we publicly announced on March 28, 2001 (the “Program”).

(2) 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 5—Other Information

On May 9, 2008, the Board of Directors approved increases to the following executive base salaries to be effective May 3, 2008, as set forth below:

Officer	Annual Base Salary
Patricia Gallup	$ 750,000
Timothy McGrath	500,000
Jack Ferguson	340,000
Bradley Mousseau	260,000

On May 9, 2008, the Board of Directors approved an increase to its director compensation for its non-officer directors. Effective June 1, 2008, each non-officer director shall receive a standard quarterly retainer fee of $10,000 for service on the Board as well as $2,500 for each individual Board meeting attended. Our non-officer directors also receive $1,500 for each Board Committee meeting attended. Our directors who are also officers do not receive any additional compensation for their role as directors. Board members also receive reimbursement for all reasonable expenses incurred in attending Board and committee meetings.

Effective May 12, 2008, we entered into an employment agreement with Timothy McGrath, who we have agreed to employ as Executive Vice President, PC Connection Enterprises. The agreement provides for an annual base salary of $500,000 and he will be eligible to participate in the Executive Bonus Plan and other employee benefit plans in effect for employees of the Company generally. The agreement provides for severance payments equal to his base salary following the day of termination for a period of twelve months or until such time as he finds other employment, whichever is earlier. In addition, while Mr. McGrath is employed by us and for twenty-four months thereafter, he has agreed to certain non-competition and non-solicitation provisions. This agreement is attached Exhibit 10.2 to this Form 10-Q.

Table of Contents

**Item 6—
Exhibits**

Exhibit Number		Description
10.1	*	Severance agreement, dated as of October 9, 2001, between the Registrant and Bradley Mousseau.
10.2	*	Employment agreement, dated May 12, 2008, between the Registrant and Timothy McGrath.
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.

[Table of Contents](#)

SIGNATURES

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

PC CONNECTION, INC. AND SUBSIDIARIES

Date: May 12, 2008	By:	/S/ PATRICIA GALLUP **Patricia Gallup** **Chairman and Chief Executive Officer**
Date: May 12, 2008	By:	/S/ JACK FERGUSON **Jack Ferguson** **Executive Vice President, Treasurer, and Chief Financial Officer**

PC Connection, Inc.

Exhibit 10.1

730 Milford Road
Merrimack, NH 03054-4631
Main: 603/423-2000
www.pcconnection.com

October 9, 2001

Mr. Brad Mousseau
Vice President of Human Resources
PC Connection, Inc.
730 Milford Road
Merrimack, New Hampshire 03054

Dear Brad:

First of all, I would like to thank you for your continuing efforts in leading our Human Resources function in this time of challenge and change. Your experience, wisdom and leadership are most appreciated. At this time, I would also like to summarize our severance package for so you that this question need not further linger in your mind.

In the event the company terminates your employment for any reason other than cause or change in control, your will receive six (6) months of severance pay at the base salary level then applicable to you. In the event there is a change in control of the corporation (being defined as a change in ownership of more than 50 percent of the shares then outstanding), and your position is either eliminated or you are not offered a comparable position with comparable responsibilities, compensation, and benefits, you shall receive twelve (12) months of severance pay at the base salary then applicable to you. Cause shall include, without limitation, failure to comply with rules, standards, or procedures promulgated by the company; neglect of or substandard performance of your assigned responsibilities; breach of your terms of your *Covenant Not to Compete and Disclose Confidential Information and Assignment of Rights* document; falsification of company records or documents; or any act of dishonestly or moral turpitude. A reorganization or modification of your duties would not constitute termination. Finally, this letter and severance package does not alter your status as an at-will employee under New Hampshire law.

Brad, thanks again for your tremendous continuing contributions to the company’s future success.

Yours truly,

/S/ KENNETH KOPPEL
Kenneth Koppel
Chief Executive Officer

Acknowledged and agreed:

/S/ BRAD MOUSSEAU	10/16/01
Brad Mousseau	Date

Exhibit 10.2

EMPLOYMENT AGREEMENT

AGREEMENT made and entered into in Merrimack, New Hampshire, by and between PC Connection, Inc. (the “Company”), a New Hampshire corporation with its principal place of business at Merrimack, New Hampshire, and Timothy McGrath, of 10 Settlers Ridge Road, Windham, New Hampshire 03087 (the “Executive”), effective as of the 12 day of May, 2008 (the “Effective Date”).

WHEREAS, the operations of the Company and its Affiliates are a complex matter requiring direction and leadership in a variety of areas, including financial, strategic planning, project management and others;

WHEREAS, the Executive is possessed of certain experience and expertise that qualify him to provide the direction and leadership required by the Company and its Affiliates;

WHEREAS, the Executive has been employed by the Company as its Executive Vice President since May 2007; and

WHEREAS, subject to the terms and conditions hereinafter set forth, the Company wishes to continue to employ the Executive as its Executive Vice President, PC Connection Enterprises, and the Executive wishes to accept such continued employment;

NOW, THEREFORE, in consideration of the foregoing premises and the mutual promises, terms, provisions and conditions set forth in this Agreement, the parties hereby agree:

1. Employment. Subject to the terms and conditions set forth in this Agreement, the Company hereby offers, and the Executive hereby accepts, continued employment.

2. Term. This agreement shall be for at-will employment, and is thus terminable by either party at any time, with or without cause, subject to the provisions of Section 5 hereof.

3. Capacity and Performance.

(a) During the term hereof, the Executive shall serve the Company as its Executive Vice President, reporting to the Chief Executive Officer, or his/her successor.

(b) During the term hereof, the Executive shall be employed by the Company on a full-time basis, and shall perform the duties and responsibilities of his position and such other duties and responsibilities on behalf of the Company and its Affiliates as may reasonably be designated from time to time by the CEO or by his/her designee.

(c) During the term hereof, the Executive shall devote his full business time and his best efforts, business judgment, skill and knowledge exclusively to the advancement of the business and interests of the Company and its Affiliates and to the discharge of his duties and responsibilities hereunder. The Executive shall not engage in any other business activity or serve in any industry, trade, professional, governmental or academic position during the term of this Agreement, except as may be expressly approved in advance by the Company in writing.

4. Compensation and Benefits. As compensation for all services performed by the Executive under and during the term hereof, and subject to performance of the Executive's duties and of the obligations of the Executive to the Company and its Affiliates, pursuant to this Agreement or otherwise:

(a) Base Salary. During the term hereof, the Company shall pay the Executive a base salary at the rate of Five Hundred Thousand Dollars ($500,000) per annum, payable in accordance with the regular payroll practices of the Company for its executives and subject to adjustment from time to time by the Company, in its sole discretion. Such base salary, as from time to time adjusted, is hereinafter referred to as the "Base Salary".

(b) Incentive and Bonus Compensation. The Executive will be eligible to participate in the Executive Bonus Plan. Any bonus or incentive compensation paid to the Executive shall be in addition to the Base Salary, and will be payable not later than two and one-half months following the close of the fiscal year for which the bonus was earned.

(c) Vacations. During the term hereof, the Executive shall earn vacation at the rate of three (3) weeks per year, to be taken at such times and intervals as shall be determined by the Executive, subject to the reasonable business needs of the Company. Vacation shall otherwise be governed by applicable policies of the Company, as in effect from time to time.

(d) Other Benefits. During the term hereof, the Executive shall be entitled to participate in any and all Employee Benefit Plans from time to time in effect for employees of the Company generally, except to the extent any such Employee Benefit Plan is in a category of benefit already otherwise provided to the Executive (*e.g.*, a severance pay plan). Such participation shall be subject to the terms of the governing plan documents and generally applicable Company policies. The Company may alter, modify, add to or terminate its Employee Benefit Plans at any time that it, in its sole judgment, determines to be appropriate, without recourse by the Executive. For purposes of this Agreement, "Employee Benefit Plan" shall have the meaning ascribed to such term in Section 3(3) of ERISA, as amended from time to time.

(e) Business Expenses. The Company shall pay or reimburse the Executive for all reasonable and customary business expenses incurred or paid by the Executive in the performance of his duties and responsibilities hereunder, subject to any maximum annual limit and other restrictions on such expenses set by the Company and to such reasonable substantiation and documentation as may be specified by the Company from time to time.

5. Termination of Employment and Severance Benefits. The Executive's employment hereunder may terminate under the following circumstances:

(a) Death. In the event of the Executive's death during the term hereof, the Executive's employment under this Agreement shall immediately and automatically terminate. In such event, the Company shall pay to the Executive's designated beneficiary or, if no beneficiary has been designated by the Executive in writing, to his estate, (i) any Base Salary earned but not paid during the final payroll period of the Executive's employment through the date of termination, (ii) pay for any vacation time earned but not used through the date of termination, (iii) any bonus compensation awarded for the fiscal year preceding that in which termination occurs, but unpaid as of the date of termination, and (iv) any business expenses incurred by the Executive but un-reimbursed as of the date of termination, provided that such expenses and required substantiation and documentation are submitted within sixty (60) days of termination and that such expenses are reimbursable under Company policy (all of the foregoing, "Final Compensation"). The Company shall have no further obligations to the Executive hereunder.

(b) Disability.

(i) The Company may terminate the Executive's employment hereunder, upon notice to the Executive, in the event that the Executive becomes disabled during his employment hereunder through any illness, injury, accident or condition of either a physical or psychological nature and, as a result, is unable to perform substantially all of his essential duties and responsibilities hereunder, notwithstanding the provision of any reasonable accommodation that may be due, for one hundred and eighty (180) days during any period of three hundred and sixty-five (365) consecutive calendar days. In the event of such termination, the Company shall have no further obligations to the Executive, other than for payment of Final Compensation.

(ii) The Company may designate another employee to act in the Executive's place during any period of the Executive's disability. Notwithstanding any such designation, the Executive shall continue to receive the Base Salary in accordance with Section 4(a) and benefits in accordance with Section 4(d), to the extent permitted by the then-current terms of the applicable Employee Benefit Plans, until the Executive becomes eligible for disability income benefits under the Company's disability income plan or until the termination of his employment, whichever shall first occur.

(iii) While receiving disability income payments under the Company's disability income plan, the Executive shall not be entitled to receive any Base Salary under Section 4(a) hereof, but shall continue to participate in Employee Benefit Plans of the Company in accordance with Section 4(d) and the terms of such plans, until the termination of his employment.

(iv) If any question shall arise as to whether during any period the Executive is disabled through any illness, injury, accident or condition of either a physical or psychological nature so as to be unable to perform substantially all of his essential duties and responsibilities hereunder, the Executive may, and at the request of the Company shall, submit to a medical examination by a physician selected by the Company to whom the Executive or his duly appointed guardian, if any, has no reasonable objection to determine whether the Executive is so disabled, and such determination shall for purposes of this Agreement be conclusive of the issue. If any such question shall arise and the Executive shall fail to submit to such medical examination, the Company's determination of the issue shall be final and binding on the Executive.

(c) By the Company for Cause. The Company may terminate the Executive's employment hereunder for Cause at any time upon written notice to the Executive setting forth in reasonable detail the nature of such Cause. The following, as determined by the Board in its reasonable judgment, shall constitute Cause for termination:

(i) The Executive's failure to perform (other than by reason of disability), neglect of, or negligence in the performance of, his duties and responsibilities to the Company or any of its Affiliates;

(ii) Material breach by the Executive of any provision of this Agreement or any other agreement with the Company or any of its Affiliates, or breach of any of the terms of Sections 7, 8 or 9 of this Agreement;

(iii) The Executive's failure to comply with any of the rules, standards, or procedures promulgated by the Company;

(iv) Falsification by the Executive of Company records or documents or any other act of dishonesty or moral turpitude committed by the Executive; or

(vi) Other conduct by the Executive that could be harmful to the business, interests or reputation of the Company or any of its Affiliates.

Upon the giving of notice of termination of the Executive's employment hereunder for Cause, the Company shall have no further obligations to the Executive, other than for Final Compensation.

(d) By the Company Other than for Cause. The Company may terminate the Executive's employment hereunder other than for Cause at any time upon written notice to the Executive. In the event of such termination during the term hereof, in addition to Final Compensation and provided that no benefits are payable to the Executive under a separate severance agreement as a result of such termination, for a period of twelve (12) months following the date of termination, or until such time as the Executive secures other employment, whichever is earlier, the Company shall continue to pay the Executive his Base Salary at the rate in effect on the date of termination. Any obligation of the Company to the Executive hereunder, other than for Final Compensation, shall be expressly conditioned on the Executive's execution of a general release of claims in the form attached to this Agreement as Exhibit A (the "Release of Claims") within twenty-one days following the date the Executive's employment is terminated (or such longer period as the Company shall determine it is required by law to permit the Executive to consider the Release of Claims) and upon the Executive not revoking such Release of Claims thereafter. Severance Pay to which the Executive is entitled hereunder shall be payable in accordance with the normal payroll practices of the Company, with the first payment, which shall be retroactive to the day immediately following the date the Executive's employment terminated, being due and payable on the Company's next regular payday for executives that follows the date the Executive returns a timely and effective Release of Claims. The Release of Claims required for separation benefits in accordance with Section 5(d) hereof will create legally binding obligations on the part of the Executive, and the Company and its Affiliates therefore advise the Executive to seek the advice of an attorney before signing it.

(e) Timing of Payments. If at the time of the Executive's separation from service, the Executive is a "specified employee," as hereinafter defined, any and all amounts payable under this Section 5 in connection with such separation from service that constitute deferred compensation subject to Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A"), as determined by the Company in its sole discretion, and that would (but for this sentence) be payable within six months following such separation from service, shall instead be paid on the date that follows the date of such separation from service by six (6) months. For purposes of the preceding sentence, "separation from service" shall be determined in a manner consistent with subsection (a)(2)(A)(i) of Section 409A and the term "specified employee" shall mean an individual determined by the Company to be a specified employee as defined in subsection (a)(2)(B)(i) of Section 409A.

6. Effect of Termination. The provisions of this Section 6 shall apply to any termination of employment, whether pursuant to Section 5 or otherwise.

(a) Payment by the Company of Final Compensation and of any Base Salary that may be due the Executive under Section 5(d) shall constitute the entire obligation of the Company to the Executive hereunder. The Executive shall promptly give the Company notice of all facts necessary for the Company to determine the amount and duration of its obligations in connection with any termination pursuant to Section 5(d) hereof, including without limitation immediate notice of any successor employment he might accept.

(b) Except for any right of the Executive to continue medical and dental plan participation in accordance with applicable law, benefits shall terminate pursuant to the terms of the applicable benefit plans based on the date of termination of the Executive's employment, without regard to any continuation of Base Salary or other payment to the Executive following such date of termination.

(c) Provisions of this Agreement shall survive any termination of employment if so provided herein or if necessary or desirable to accomplish the purposes of other surviving provisions, including without limitation the obligations of the Executive under Sections 7, 8 and 9 hereof. The obligation of the Company to make payments to or on behalf of the Executive under Section 5(d) hereof, and the Executive's right to retain such payments, shall be expressly conditioned upon the Executive's continued full performance of his obligations under Sections 7, 8 and 9 hereof. The Executive recognizes that, except as expressly provided in Section 5(d), no compensation is earned or will be paid after termination of employment.

7. Confidential Information.

(a) The Executive acknowledge that some elements of the Company and its Affiliates' business constitute trade secrets, are and must remain confidential, and are of great value to the Company, and that unauthorized disclosure of such elements would cause the Company irreparable harm. The Executive further acknowledges that the Company and its Affiliates continually develop Confidential Information, that the Executive may develop Confidential Information for the Company or its Affiliates, and that the Executive may learn of Confidential Information during the course of his employment. The Executive will comply with the policies and procedures of the Company and its Affiliates for protecting Confidential Information and trade secrets, and shall not disclose to any Person or use, other than as required by applicable law or for the proper performance of his duties and responsibilities to the Company and its Affiliates, any Confidential Information or trade secrets obtained by the Executive incident to his employment or other association with the Company or any of its Affiliates. The Executive understands that this restriction shall continue to apply after his employment terminates, regardless of the reason for such termination. The confidentiality obligation under this Section 7 shall not apply to information which is generally known or readily available to the public at the time of disclosure or becomes generally known through no wrongful act on the part of the Executive or any other Person having an obligation of confidentiality to the Company or any of its Affiliates.

(b) All documents, memoranda, notes, notebooks, reports, studies, programs, data, drawings, schematics, ideas, discoveries, records, tapes and other media of every kind and description relating to the business, present or otherwise, of the Company or its Affiliates and any copies, in whole or in part, thereof (the "Documents"), whether or not prepared by the Executive, shall be the sole and exclusive property of the Company and its Affiliates. The Executive shall safeguard all Documents and shall surrender to the Company at the time his employment terminates, or at such earlier time or times as the Company may specify, all Documents then in the Executive's possession or control.

8. Assignment of Rights to Intellectual Property. The Executive understands that all original work created by him in the context of his employment is "work for hire" and is created for the exclusive benefit of the Company. The Executive shall promptly and fully disclose all Intellectual Property to the Company. The Executive hereby assigns and agrees to assign to the Company (or as otherwise directed by the Company) the Executive's full right, title and interest in and to all Intellectual Property. The Executive agrees to execute any and all applications for domestic and foreign patents, copyrights or other proprietary rights and to do such other acts (including without limitation the execution and delivery of instruments of further assurance or confirmation) requested by the Company to assign the Intellectual Property to the Company and to permit the Company to enforce any patents, copyrights or other proprietary rights to the

Intellectual Property. The Executive will not charge the Company for time spent in complying with these obligations. All copyrightable works that the Executive creates shall be considered “work made for hire” and shall, upon creation, be owned exclusively by the Company.

9. Restricted Activities. The Executive agrees that some restrictions on his activities during and after the termination of his employment are necessary to protect the good will, Confidential Information and other legitimate interests of the Company and its Affiliates:

(a) While the Executive is employed by the Company or any of its Affiliates, and for 24 months after his employment terminates for whatever reason, the Executive shall not, directly or indirectly, whether as owner, partner, investor, consultant, agent, employee, co-venturer or otherwise, compete with the Company or any of its Affiliates or undertake any planning for any business competitive with the Company or any of its Affiliates within any geographic area in which Executive has client contact during his employment. Specifically, but without limiting the foregoing, the Executive agrees not to engage in any manner in any activity that is directly or indirectly competitive or potentially competitive with the business of the Company or any of its Affiliates as conducted or under consideration at any time during the Executive’s employment, and further agrees not to work for or provide services to, in any capacity, whether as an employee, independent contractor or otherwise, whether with or without compensation, any Person who is engaged in any business that is competitive with the business of the Company or any of its Affiliates for which the Executive has provided services, as conducted or in planning during his employment. Restricted activity includes, without limitation, engaging in the design, development, production, marketing or sale of goods or services directly in competition with the Company or engaging in projects substantially similar to those the Executive worked on or was involved with on behalf of the Company. For purposes of this Section 9, the business of the Company and its Affiliates shall include all Products and the Executive’s undertaking shall encompass all items, products and services that may be used in substitution for Products. The foregoing, however, shall not prevent the Executive’s passive ownership of two percent (2%) or less of the equity securities of any publicly traded company.

(b) The Executive agrees that, during his employment with the Company, he will not undertake any outside activity, whether or not competitive with the business of the Company or its Affiliates, that could reasonably give rise to a conflict of interest or otherwise interfere with his duties and obligations to the Company or any of its Affiliates. Restricted activity includes, without limitation, owning, managing, operating, controlling, consulting for, aiding or being employed by any entity that is substantially similar to or directly competitive with any business conducted by the Company or any of its Affiliates, including, but not limited to, any entity that engages in the design, development or production of those particular projects the Executive works on or is involved with during his employment with the Company.

(c) The Executive agrees that, during his employment and during the 24-month period immediately following termination of his employment, regardless of the reason therefor, the Executive will not directly or indirectly (a) solicit or encourage any customer of the Company or any of its Affiliates to terminate or diminish its relationship with them; or (b) seek to persuade any such customer of the Company or any of its Affiliates to conduct with anyone else any business or activity which such customer conducts or could conduct with the Company or any of its Affiliates; provided that these restrictions shall apply (y) only if the Executive has performed work for such Person during his employment with the Company or one of its Affiliates, or been introduced to, or otherwise had contact with, such Person as a result of his employment or other associations with the Company or one of its Affiliates or has had access to Confidential Information which would assist in the Executive's solicitation of such Person.

(d) The Executive agrees that, during his employment and for the 24-month period immediately following termination of his employment, regardless of the reason therefor, the Executive will not, and will not assist any other Person to, (a) hire or solicit for hiring any employee of the Company or any of its Affiliates or seek to persuade any employee of the Company or any of its Affiliates to discontinue employment or (b) solicit or encourage any independent contractor providing services to the Company or any of its Affiliates to terminate or diminish its relationship with them. For purposes of this Agreement, an "employee" of the Company or any of its Affiliates is any person who was such at any time within the preceding two years.

10. Notification Requirement. During the 24-month period following termination of his employment, the Executive shall give notice to the Company of each new business activity he plans to undertake, at least thirty (30) days prior to beginning any such activity. Such notice shall state the name and address of the Person for whom such activity is undertaken and the nature of the Executive's business relationship(s) and position(s) with such Person. The Executive shall provide the Company with such other pertinent information concerning such business activity as the Company may reasonably request in order to determine the Executive's continued compliance with his obligations under Sections 7, 8 and 9 hereof.

11. Enforcement of Covenants. The Executive acknowledges that he has carefully read and considered all the terms and conditions of this Agreement, including the restraints imposed upon him pursuant to Sections 7, 8 and 9 hereof. The Executive agrees without reservation that each of the restraints contained herein is necessary for the reasonable and proper protection of the good will, Confidential Information and other legitimate business interests of the Company and its Affiliates; that each and every one of those restraints is reasonable in respect to subject matter, length of time and geographic area; and that these restraints, individually or in the aggregate, will not prevent him from obtaining other suitable employment during the period in which the Executive is bound by these restraints. The Executive further agrees that he will never assert, or permit to be asserted on his behalf, in any forum, any position contrary to the foregoing. The Executive further acknowledges that, were he to breach any of the covenants contained in Sections 7, 8 or 9 hereof, the damage to the Company would be irreparable. The Executive therefore agrees that the Company, in addition to any other remedies available to it, shall be entitled to preliminary and permanent injunctive relief against any breach or threatened breach by the Executive of any of said covenants, without having to post bond, and will additionally be entitled to an award of attorneys' fees incurred in connection with securing any of its rights under this Section 11. The Executive also agrees that the period of restriction in

Sections 9(a), (c) and (d) hereof shall be tolled and shall not run during any period when the Executive is in violation thereof. The parties further agree that, in the event that any provision of Section 7, 8 or 9 hereof shall be determined by any court of competent jurisdiction to be unenforceable by reason of its being extended over too great a time, too large a geographic area or too great a range of activities, such provision shall be deemed to be modified to permit its enforcement to the maximum extent permitted by law. It is also agreed that each of the Company's Affiliates shall have the right to enforce all of the Executive's obligations to that Affiliate under the Agreement, including without limitation pursuant to Sections 7, 8 and 9 hereof.

12. Conflicting Agreements. The Executive hereby represents and warrants that the execution of this Agreement and the performance of his obligations hereunder will not breach or be in conflict with any other agreement to which the Executive is a party or is bound, and that the Executive is not now subject to any covenants against competition or similar covenants or any court orders or other legal obligations that would affect the performance of his obligations hereunder. The Executive will not disclose to or use on behalf of the Company any proprietary information of a third party without such party's consent.

13. Definitions. Words or phrases which are initially capitalized or are within quotation marks shall have the meanings provided in this Section or as provided elsewhere herein. For purposes of this Agreement, the following definitions apply:

(a) "Affiliates" means all persons and entities directly or indirectly controlling, controlled by or under common control with the Company, where control may be by management authority, contract or equity interest.

(b) "Confidential Information" means any and all information of the Company and its Affiliates that is not generally known by those with whom the Company or any of its Affiliates competes or does business, or with whom the Company or any of its Affiliates plans to compete or do business, and any and all information, publicly known in whole or in part or not, which, if disclosed by the Company or any of its Affiliates, would assist in competition against them. Confidential Information includes without limitation such information relating to (i) the development, research, testing, expansion, diversification, financing, sales, manufacturing, marketing and financial activities of the Company and its Affiliates, (ii) the Products, (iii) the costs, sources of supply, financial performance and strategic plans of the Company and its Affiliates, (iv) the identity and special needs of the customers of the Company and its Affiliates, and (v) the people and organizations with whom the Company and its Affiliates have business relationships and the nature and substance of those relationships. Confidential Information also includes any information that the Company or any of its Affiliates has received, or may receive hereafter, belonging to customers or others with any understanding, express or implied, that the information would not be disclosed.

(c) "Intellectual Property" means inventions, discoveries, developments, methods, processes, compositions, works, concepts and ideas (whether or not patentable or copyrightable or constituting trade secrets) conceived, made, created, developed or reduced to practice by the Executive (whether alone or with others, whether or not during normal business hours or on or off Company premises) during the Executive's employment and during the period of six (6) months immediately following termination of his employment that relate to either the Products or any prospective activity of the Company or any of its Affiliates or that makes use of Confidential Information or any of the equipment or facilities of the Company or any of its Affiliates.

(d) "Person" means an individual, a corporation, a limited liability company, an association, a partnership, an estate, a trust and any other entity or organization, other than the Company or any of its Affiliates.

(e) "Products" mean all products planned, researched, developed, tested, manufactured, sold, licensed, leased or otherwise distributed or put into use by the Company or any of its Affiliates, together with all services provided or planned by the Company or any of its Affiliates, during the Executive's employment.

15. Withholding. All payments made by the Company under this Agreement shall be reduced by any tax or other amounts required to be withheld by the Company under applicable law.

16. Assignment. Neither the Company nor the Executive may make any assignment of this Agreement or any interest herein, by operation of law or otherwise, without the prior written consent of the other; provided, however, that the Company may assign its rights and obligations under this Agreement without the consent of the Executive in the event that the Executive is transferred to a position with any of the Affiliates or in the event that the Company shall hereafter effect a reorganization, consolidate with, or merge into, any Person or transfer all or substantially all of its properties or assets to any Person. This Agreement shall inure to the benefit of and be binding upon the Company and the Executive, their respective successors, executors, administrators, heirs and permitted assigns.

17. Severability. If any portion or provision of this Agreement shall to any extent be declared illegal or unenforceable by a court of competent jurisdiction, then the remainder of this Agreement, or the application of such portion or provision in circumstances other than those as to which it is so declared illegal or unenforceable, shall not be affected thereby, and each portion and provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law. It is agreed and understood that no claimed breach of this Agreement by the Company, and no claimed violation of law, shall excuse the Executive from his performance obligations under Sections 7, 8 and 9 hereof.

24. Waiver. No waiver of any provision hereof shall be effective unless made in writing and signed by the waiving party. The failure of either party to require the performance of any term or obligation of this Agreement, or the waiver by either party of any breach of this Agreement, shall not prevent any subsequent enforcement of such term or obligation or be deemed a waiver of any subsequent breach.

19. Notices. Any and all notices, requests, demands and other communications provided for by this Agreement shall be in writing and shall be effective when delivered in person, consigned to a reputable national courier service or deposited in the United States mail, postage prepaid, registered or certified, and addressed to the Executive at his last known address on the books of the Company or, in the case of the Company, at its principal place of business, attention of the Chief Executive Officer, or to such other address as either party may specify by notice to the other actually received.

20. Entire Agreement. This Agreement constitutes the entire agreement between the parties and supersedes all prior communications, agreements and understandings, written or oral, with respect to the terms and conditions of the Executive's employment.

21. Amendment. This Agreement may be amended or modified only by a written instrument signed by the Executive and by an expressly authorized representative of the Company.

22. Headings. The headings and captions in this Agreement are for convenience only, and in no way define or describe the scope or content of any provision of this Agreement.

23. Counterparts. This Agreement may be executed in counterparts, each of which shall be an original and both of which together shall constitute one and the same instrument.

24. Governing Law/Forum Selection. This is a New Hampshire contract and shall be construed, enforced under and be governed in all respects by the laws of the State of New Hampshire, without regard to the conflict of laws principles thereof. All disputes in any way related to the Executive's employment hereunder shall be resolved exclusively in the state or federal courts of the State of New Hampshire, to whose jurisdiction each party irrevocably consents.

IN WITNESS WHEREOF, this Agreement has been executed as a sealed instrument by the Company, by its duly authorized representative, and by the Executive, as of the date first above written.

THE EXECUTIVE:	THE COMPANY
/s/ Timothy McGrath	By: /s/ Patricia Gallup
	Title: Chief Executive Officer

EXHIBIT A

RELEASE OF CLAIMS

FOR AND IN CONSIDERATION OF the benefits to be provided me in connection with the termination of my employment, as set forth in the agreement between me and PC Connection, Inc. (the "Company") dated as of **[INSERT DATE OF AGREEMENT]** (the "Agreement"), which are conditioned on my signing this Release of Claims and to which I am not otherwise entitled, I, on my own behalf and on behalf of my heirs, executors, administrators, beneficiaries, representatives and assigns, and all others connected with or claiming through me, hereby release and forever discharge the Company, its subsidiaries and other affiliates and all of their respective past, present and future officers, directors, trustees, shareholders, employees, employee benefit plans, agents, general and limited partners, members, managers, joint venturers, representatives, successors and assigns, and all others connected with any of them, both individually and in their official capacities, from any and all causes of action, rights or claims of any type or description, known or unknown, which I have had in the past, now have, or might now have, through the date of my signing of this Release of Claims, in any way resulting from, arising out of or connected with my employment by the Company or any of its subsidiaries or other affiliates or the termination of that employment, or pursuant to any federal, state or local law, regulation or other requirement (including without limitation Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act, and the fair employment practices laws of the state or states in which I have been employed by the Company or any of its subsidiaries or other affiliates, each as amended from time to time).

Excluded from the scope of this Release of Claims is (i) any claim arising under the terms of the Agreement after the effective date of this Release of Claims and (ii) any right of indemnification or contribution that I have pursuant to the Articles of Incorporation or By-Laws of the Company or any of its subsidiaries or other affiliates.

In signing this Release of Claims, I acknowledge my understanding that I may not sign it prior to the termination of my employment, but that I may consider the terms of this Release of Claims for up to twenty-one (21) days (or such longer period as the Company may specify) from the later of the date my employment with the Company terminates or the date I receive this Release of Claims. I also acknowledge that I am advised by the Company and its subsidiaries and other affiliates to seek the advice of an attorney prior to signing this Release of Claims; that I have had sufficient time to consider this Release of Claims and to consult with an attorney, if I wished to do so, or to consult with any other person of my choosing before signing; and that I am signing this Release of Claims voluntarily and with a full understanding of its terms.

I further acknowledge that, in signing this Release of Claims, I have not relied on any promises or representations, express or implied, that are not set forth expressly in the Agreement. I understand that I may revoke this Release of Claims at any time within seven (7) days of the date of my signing by written notice to the Chief Executive Officer of the Company, and that this Release of Claims will take effect only upon the expiration of such seven-day revocation period and only if I have not timely revoked it.

Intending to be legally bound, I have signed this Release of Claims under seal as of the date written below.

Signature: ______________________________

Name (please print): ______________________________

Date Signed: ______________________________

May 12, 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 March 31, 2008 and 2007, as indicated in our report dated May 12, 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 March 31, 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 & Touché LLP

Boston, Massachusetts

Exhibit 31.1

CERTIFICATIONS

I, Patricia Gallup, certify that:

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

Date: May 12, 2008

/s/ Patricia Gallup

Patricia Gallup
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Jack Ferguson, certify that:

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

Date: May 12, 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 March 31, 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: May 12, 2008

/s/ Patricia Gallup

Patricia Gallup
President and Chief Executive Officer

Exhibit 32.2

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

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of PC Connection, Inc. (the “Company”) for the period ended March 31, 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: May 12, 2008	/s/ Jack Ferguson
	Jack Ferguson
	Executive Vice President, Treasurer, and Chief Financial Officer