UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
Form 10-K/A
Amendment No. 3

(Mark One)

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

For the fiscal year ended December 31, 1999

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES AND EXCHANGE COMMISSION

Commission File Number 0-23827

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

Delaware	02-0497006
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Rt. 101A, 730 Milford Road Merrimack, New Hampshire.	03054
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, $.01 par value

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

YES X NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the voting and non-voting stock held by non-affiliates of the Registrant, based upon the closing price of the Registrant's Common Stock as reported on the NASDAQ National Market on March 27, 2000, was $96,008,036. Although directors and executive officers of the registrant were assumed to be "affiliates" of the registrant for the purposes of this calculation, this classification is not to be interpreted as an admission of such status.

The number of outstanding shares of the Registrant's Common Stock on March 27, 2000 was 15,794,298.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the 2000 Annual Meeting of Shareholders for the fiscal year ended December 31, 1999, which is to be filed within 120 days of the end of the Company's fiscal year, are incorporated by reference into Part III of this Form 10-K. The incorporation by reference herein of portions of the Proxy Statement shall not be deemed to specifically incorporate by reference the information referred to in Item 402(a) (8) of Regulation S-K.

This amendment deletes Items 6, 7, 7A, and 8 of Part II and Item 14 of Part IV of the Annual Report on Form 10-K as previously filed and substitutes in lieu thereof the information set forth below.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities and Exchange Act of 1934, the registrant has duly caused this Amendment No. 3 on Form 10-K/A to be signed on its behalf by the undersigned, thereunto duly authorized.

PC Connection, Inc.

Date: August 1, 2000

By: /s/ Patricia Gallup

Patricia Gallup, Chairman and CEO

PART II

Item 6. Selected Financial and Operating Data

The following selected financial and operating data should be read in conjunction with the Company's Consolidated Financial Statements and the Notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere herein. The selected data presented below under the captions "Statement of Operations Data" and "Balance Sheet Data" for each of the years in the five-year period ended December 31, 1999 are derived from the audited financial statements of the Company. The Company's consolidated financial statements as of December 31, 1999 and 1998 and for each of the years in the three-year period ended December 31, 1999 and the independent auditors' report thereon, are included elsewhere herein.

	Year Ended December 31,				
	1999	1998	1997	1996	1995
	(dollars in thousands, except per share and selected operating data)				
Statement Of Operations Data:					
Net sales	$ 1,056,704	$ 732,370	$ 550,575	$ 333,322	$ 252,217
Cost of sales	927,358	639,096	474,609	282,117	211,299
Gross profit	129,346	93,274	75,966	51,205	40,918
Selling, general and administrative expenses	91,405	68,521	56,596	43,739	38,373
Additional stockholder/officer compensation/(1)/	-	2,354	12,130	1,259	-
Income from operations	37,941	22,399	7,240	6,207	2,545
Interest expense	(1,392)	(415)	(1,355)	(1,269)	(1,296)
Other, net	116	565	(42)	70	62
Income before income taxes	36,665	22,549	5,843	5,008	1,311
Income tax provision/(2)/	(13,935)	(3,905)	(639)	(252)	(38)
Net income	$ 22,730	$ 18,644	$ 5,204	$ 4,756	$ 1,273
	Pro Forma Data/(3)/				
Basic net income per share	$ 1.45	$ .91	$ .26		
Diluted net income per share	$ 1.41	$ .88	$ .25		
Selected Operating Data:					
Active customers/(4)/	732,000	684,000	510,000	424,000	353,000
Catalogs distributed	47,325,000	42,150,000	33,800,000	18,600,000	16,800,000
Orders entered/(5)/	1,622,000	1,510,000	1,252,000	910,000	854,000
Average order size/(5)/	$ 781	$ 580	$ 524	$ 453	$ 346

	December 31,				
	1999	1998	1997	1996	1995
	(dollars in thousands)				
Balance Sheet Data:					
Working capital	$ 72,250	$ 53,768	$ 18,907	$ 14,622	$ 10,994
Total assets	223,537	164,510	105,442	77,358	49,661
Short-term debt	1,137	123	29,568	13,057	4,933
Long-term debt (less current maturities):					
Capital lease obligations	6,945	7,081	-	-	-
Term loan	-	-	3,250	4,250	5,000
Note payable	2,000	-	-	-	-
Total stockholders' equity	94,223	69,676	24,120	18,043	13,057

/(1)/ Represents amounts accrued or distributed in excess of aggregate annual base salaries approved by the Board of Directors and generally represents Company-related federal income tax obligations payable by the stockholders.

/(2)/ For all periods prior to March 6, 1998, the Company had been an S Corporation and, accordingly, had not been subject to federal income taxes.

/(3)/ The following pro forma adjustments have been made to the historical results of operations to make the pro forma presentation comparable to what would have been reported had the Company operated as a C Corporation for 1998 and 1997:

(i) Computation of income tax expense assuming an effective tax rate of approximately 39%. (See Note 9 to the financial statements.)

/(4)/ Represents estimates of all customers included in the Company's mailing list who have made a purchase within the last twelve month period.

/(5)/ Does not reflect cancellations or returns.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the Company's consolidated financial statements.

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements based on management's current expectations, estimates and projections about the industry in which the Company operates, management's beliefs and certain assumptions made by management. All statements, trends, analyses and other information contained in this report relative to trends in net sales, gross margin and anticipated expense levels, as well as other statements, including words such as "anticipate", "believe", "plan", "estimate" and "intend" and other similar expressions, constitute forward-looking statements. These forward-looking statements involve risks and uncertainties, and actual results may differ materially from those anticipated or expressed in such statements. Potential risks and uncertainties include, among others, those set forth under the caption "Factors That May Affect Future Results and Financial Condition" included within this section. Particular attention should be paid to the cautionary statements involving 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 economic risks. Except as required by law, the Company undertakes no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise. Readers, however, should carefully review the factors set forth in other reports or documents that the Company files from time to time with the SEC.

General

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

The Company offers both PC compatible products and Mac compatible products. Reliance on Mac product sales has decreased over the last three years, from 23.0% of net sales in 1996 to 15.3% of net sales for the year ended December 31, 1999. The Company believes that sales attributable to Mac products will continue to decrease as a percentage of net sales and may decline in dollar volume in 2000 and future years.

All of the Company's product categories experienced strong growth in the year ended December 31, 1999 with sales of computer systems representing the fastest growing category. Sales of computer systems result in a relatively high dollar sales order, as reflected in the increase in the Company's average order size from $453 in the year ended December 31, 1996 to $781 in the year ended December 31, 1999. Computer system sales generally provide the largest gross profit dollar contribution per order of all of the Company's products, although they generally yield the lowest gross margin percentage. Partially as a result of higher system sales, the Company's gross margin percentage has declined over the last few years while the operating income margin has increased due to the leveraging of selling, general and administrative expenses over a larger sales base.

The Company's profit margins are also influenced by, among other things, industry pricing and the relative mix of inbound versus outbound sales. Generally, pricing in the computer and related products market is very aggressive, and the Company intends to maintain prices at competitive levels. Since outbound sales are typically to corporate accounts that purchase at volume discounts, the gross margin on such sales is generally lower than inbound sales. However, the gross profit dollar contribution per order is generally higher as average order sizes of orders to corporate accounts are usually larger. The Company believes that outbound sales will continue to represent a larger portion of its business mix in future periods.

The direct marketing of personal computers and related products is highly competitive. In addition to other direct marketers and manufacturers who sell direct, such as Dell Computer Corporation ("Dell") and Gateway, Inc. ("Gateway"), manufacturers of PCs sold by the Company, such as Apple, Compaq and IBM, have also announced varying plans to sell PCs directly to end users. The Company currently believes that direct sales by Compaq and IBM will not have a significant adverse effect upon the Company's net sales.

Most product manufacturers provide the Company with co-op advertising support in exchange for product coverage in the Company's catalogs. Although the level of co-op advertising support available to the Company from certain manufacturers has declined, and may decline further in the future, the overall level of co-op advertising revenues has continued to increase consistent with the Company's increased levels of spending for catalog and other advertising programs. The Company believes that the overall levels of co-op advertising revenues available over the next twelve months will be consistent with the Company's planned advertising programs.

Results of Operations

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

	Year Ended December 31,		
	1999	1998	1997
Net sales (in millions)	$1,056.7	$ 732.4	$ 550.6
Net sales	100.0%	100.0%	100.0%
Gross profit	12.2	12.7	13.8
Selling, general and administrative expenses	8.6	9.4	10.3
Additional stockholder/officer compensation	0.0	0.3	2.2
Income from operations	3.6	3.1	1.3
Interest expense	(0.1)	(0.0)	(0.2)
Income before income taxes	3.5	3.1	1.0
Income taxes	1.3	(0.5)	(0.1)
Net income	2.2	2.6	0.9
Pro forma net income		1.9	0.6

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

	Year Ended December 31,		
	1999	1998	1997
Platform			
PC and Multi Platform	85%	80%	80%
Mac	15	20	20
Total	100%	100%	100%
Sales Channel			
Corporate Outbound	66%	53%	47%
Inbound Telesales	29	43	52
On-Line Internet	5	4	1
Total	100%	100%	100%
Product Mix			
Computer Systems and Memory	48%	44%	42%
Peripherals	34	35	34
Software	12	14	16
Networking and Communications	6	7	8
Total	100%	100%	100%

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998

Net sales increased $324.3 million, or 44.3%, to $1,056.7 million in 1999 from $732.4 million in 1998. The growth in net sales, which included a 34.6% increase in average order size, was primarily attributable to (i) continued improvements in merchandising and product mix, including the stocking and sale of computer systems; (ii) continued expansion and increased productivity of the Company's outbound telemarketing group; (iii) an increase in the number of catalog mailings; and (iv) sales attributed to the acquisition of ComTeq in June 1999. System/memory sales increased to 47.6% of net sales in 1999 from 43.7% in 1998. Outbound sales increased $304 million, or 77.8%, to $694.9 million in 1999 from $390.9 million in 1998. The number of catalogs mailed increased by 12.1%, from 42.2 million catalogs in 1998 to 47.3 million catalogs in 1999.

Gross profit increased $36.1 million, or 38.7%, to $129.3 million in 1999 from $93.3 million in 1998. The increase in gross profit dollars was primarily attributable to the increase in net sales described above. Gross profit margin decreased from 12.7% in 1998 to 12.2% in 1999 due primarily to a higher rate of growth in sales of lower margin computer systems, increased price competition, decreases in average unit selling prices and an increase in the rate of outbound sales which generally carry a lower gross margin percentage. However, the Company continued to generate higher gross profit dollars per order, enabling it to leverage its operating expenses, as described below. The Company's gross profit margin may vary based upon vendor support programs, product mix, pricing strategies, market conditions and other factors.

Selling, general and administrative expenses increased $22.9 million, or 33.4%, to $91.4 million in 1999 from $68.5 million in 1998, but decreased as a percentage of sales to 8.6% in 1999 from 9.4% in 1998. The increase in expense was attributable to increases in volume-sensitive costs such as sales personnel and credit card fees. The decrease as a percentage of net sales was primarily attributable to the continued leveraging of selling, general and administrative expenses over a larger sales base.

Income from operations increased by $15.5 million, or 69%, to $37.9 million for the year ended December 31, 1999 from $22.4 million for the comparable period in 1998. Income from operations as a percentage of net sales increased from 3.1% in 1998 to 3.6% in 1999 for the reasons discussed above.

Interest expense increased by $977,000, or 235.4%, to $1,392,000 in 1999 from $415,000 in 1998, primarily due to the capital lease obligation for the Merrimack facility which began in December 1998 and increased borrowings under the Company's line of credit.

The tax provision for 1999 reflects a full year of the Company being taxed as a C Corporation. In 1998, the Company's effective tax rate was 17.3% as a result of both its taxation as an S Corporation for a part of the year as well as the recognition of certain deferred tax assets upon conversion to a C Corporation.

Net income increased by $4.1 million, or 22%, to $22.7 million in 1999 from $18.6 million in 1998, principally as a result of the increase in income from operations. As described above, 1998 net income was also favorably impacted by the Company's previous S Corporation status and its conversion to a C Corporation.

Year Ended December 31, 1998 Compared to Year Ended December 31, 1997

Net sales increased $181.8 million, or 33.0%, to $732.4 million in 1998 from $550.6 million in 1997. The growth in net sales, which included a 10.7% increase in average order size, was primarily attributable to (i) continued improvements in merchandising and product mix, including the stocking and sale of computer systems; (ii) continued expansion and increased productivity of the Company's outbound telemarketing group; and (iii) an increase in the number of catalog mailings. System/memory sales increased to 43.7% of net sales in 1998 from 42.2% in 1997. Outbound sales increased $133.7 million, or 52.0%, to $390.9 million in 1998 from $257.2 million in 1997. The number of catalogs mailed increased by 24.9%, from 33.8 million catalogs in 1997 to 42.2 million catalogs in 1998.

Gross profit increased $17.3 million, or 22.8%, to $93.3 million in 1998 from $76.0 million in 1997. The increase in gross profit dollars was primarily attributable to the increase in net sales described above. Gross profit margin decreased from 13.8% in 1997 to 12.7% in 1998 due primarily to a higher rate of growth in sales of lower margin computer systems, increased price competition, decreases in average unit selling prices and an increase in the rate of charges to cost of sales for slow-moving and obsolete inventory. However, the Company continued to generate higher gross profit dollars per order, enabling it to leverage its operating expenses, as described below. The Company's gross profit margin may vary based upon vendor support programs, product mix, pricing strategies, market conditions and other factors.

Selling, general and administrative expenses increased $11.9 million, or 21.1%, to $68.5 million in 1998 from $56.6 million in 1997, but decreased as a percentage of sales to 9.4% in 1998 from 10.3% in 1997. The increase in expense was attributable to increases in volume-sensitive costs such as sales personnel and credit card fees. The decrease as a percentage of net sales was primarily attributable to the continued leveraging of selling, general and administrative expenses over a larger sales base.

Additional stockholder/officer compensation paid to the Company's two principal stockholders, who also serve as officers and directors, represents amounts accrued or distributed in excess of aggregate annual base salaries ($600,000 aggregate base salaries for 1998 and $480,000 for 1997) approved by the Board of Directors of the Company and generally represent Company-related federal income tax obligations payable by the stockholders. Effective upon the closing of the Offering, these stockholder/officers were paid annual base salaries aggregating $600,000. Additional stockholder/officer compensation decreased by $9.8 million, or 80.6%, to $2.4 million in 1998 from $12.1 million in 1997. This decrease is attributable to the Company's termination of its S Corporation status upon consummation of the Company's initial public offering (the "Offering"), which eliminated the need to make further distributions to the stockholder/officers for payment of Company-related federal income tax obligations.

Income from operations increased by $15.2 million, or 209.4%, to $22.4 million for the year ended December 31, 1998 from $7.2 million for the comparable period in 1997. Income from operations as a percentage of net sales increased from 1.3% in 1997 to 3.1% in 1998 for the reasons discussed above.

Interest expense decreased by $940,000, or 69.4%, to $400,000 in 1998 from $1.4 million in 1997, primarily due to the repayment of all outstanding borrowings under the Company's line of credit in March 1998 upon the closing of the Offering.

Net income increased by $13.4 million, or 258.3%, to $18.6 million in 1998 from $5.2 million in 1997, principally as a result of the increase in income from operations.

Liquidity and Capital Resources

The Company has historically financed its operations and capital expenditures through cash flow from operations and bank borrowings. The Company believes that funds generated from operations, together with the net proceeds from the Company's 1998 initial public offering and available credit under its bank line of credit, will be sufficient to finance its working capital and capital expenditure requirements at least through 2000. The Company's ability to continue funding its planned growth, both internally and externally, is dependent upon its ability to generate sufficient cash flow from operations or to obtain additional funds through equity or debt financing, or from other sources of financing, as may be required.

At December 31, 1999, the Company had cash and cash equivalents of $20.4 million and working capital of $72.3 million.

Net cash provided by operating activities was $16.0 million in the year ended December 1999, compared to $29.4 million provided and $10.4 million used in the years ended December 31, 1998, and 1997, respectively. The primary factors historically affecting cash flows from operations are the Company's net income and changes in the levels of accounts receivable, inventories and accounts payable. Historically, inventories and accounts payable have increased as a result of the sales growth of the Company. Accounts receivable have increased primarily due to an increase in open account sales to commercial customers resulting from the Company's continued efforts to increase its sales to such customers offset in part by a higher rate of increase in accounts receivable allowances for sales returns and doubtful accounts related to the growth in sales.

At December 31, 1999, the Company had $105.5 million in outstanding accounts payable. Such accounts are generally paid within 30 days of incurrence and will be financed by cash flows from operations or short-term borrowings under the line of credit. This amount includes $31.0 million payable to two financial institutions under security agreements to facilitate the purchase of inventory.

Capital expenditures were $7.7 million, $9.9 million and $4.5 million in the years ended December 31, 1999, 1998 and 1997, respectively. The Company expects capital expenditures, primarily for the purchase of computer hardware and software and other fixed assets, to be approximately $16.6 million for the year ending December 31, 2000.

The Company has an unsecured credit agreement with a bank providing for short-term borrowings up to $50 million, which bears interest at various rates ranging from the prime rate (8.50% at December 31, 1999) to prime less 1%, depending on the ratio of senior debt to EBITDA (earnings before interest, taxes, depreciation and amortization). The credit agreement includes various customary financial and operating covenants, including restrictions on the payment of dividends, none of which the Company believes significantly restricts its operations. No borrowings were outstanding at December 31, 1999.

The Company has primarily relied upon debt to finance not only ongoing operations, but acquisitions. In 1999, it used available cash and sellers notes to acquire ComTeq Federal, Inc., a Maryland company which provides specialty resale products to agencies of the federal government. Management could, in the future, use debt, cash, or stock to effect additional acquisitions.

Recently Issued Financial Accounting Standards

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", adjusted to be effective for fiscal years beginning after June 15, 2000. The new standard requires that all companies record derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. Management is currently assessing the impact of SFAS No. 133 on the financial statements of the Company. The Company will adopt this accounting standard on January 1, 2001, as required.

Inflation

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

Factors That May Affect Future Results and Financial Condition

The Company's future results and financial condition are dependent on its ability to continue to successfully market, sell and distribute computers, hardware and software. Inherent in this process are a number of factors that the Company must successfully manage in order to achieve favorable operating results and financial condition. Potential risks and uncertainties that could affect the Company's future operating results and financial condition include, without limitation, the factors discussed below:

The Company has experienced rapid growth in recent years and there is no assurance that it will be able to manage or sustain such growth.

The Company's net sales have grown from $252.2 million for the year ended December 31, 1995 to $1.1 billion for the year ended December 31, 1999. This growth has placed, and any future growth will place, increasing demands on the Company's administrative, operational, financial and other resources. The Company's staffing levels and operating expenses have increased and are expected to increase substantially in the future. The Company also expects that any future growth will continue to challenge its ability to hire, train, motivate and manage employees. If the Company's net sales do not increase in proportion to its operating expenses or if the Company experiences a decrease in net sales, its information systems do not expand to meet increasing demands, or the Company fails to attract, assimilate and retain qualified personnel or otherwise fail to manage its growth effectively, there would be a material adverse effect on the Company's results of operations.

The Company may not have sufficient distribution facilities to support future growth.

The Company's current distribution facilities may be inadequate to support any significant growth in the future. The Company currently occupies two buildings aggregating 205,000 square feet in Wilmington, Ohio under leases which expire in 2000 and 2003. There is no assurance that the Company can renew these leases on favorable terms or at all. The Company is continually assessing its needs for additional warehouse facilities. There can be no assurance that suitable commercial facilities will be available, or if available, that such facilities would be available at commercially reasonable rates.

The Company could experience system failures which would interfere with its ability to process orders.

The Company depends on the accuracy and proper use of its management information systems including its telephone system. Many of the Company's key functions depend on the quality and effective utilization of the information generated by its management information systems, including:

- the Company's ability to manage inventory and accounts receivable collections;

- the Company's ability to purchase, sell and ship products efficiently and on a timely basis; and

- the Company's ability to maintain operations.

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

The Company's management information systems require continual upgrades to most effectively manage its operations and customer database. Although the Company maintains some redundant systems, with full data backup, a substantial interruption in management information systems or in telephone communication systems would substantially hinder its ability to process customer orders and thus could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company is 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. The Company's success depends in large part on its 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, the Company has and may continue to carry increased inventory levels of certain products. By so doing, it is subject to the increased risk of inventory obsolescence. Also, in order to implement its business strategy, the Company intends, among other things, to place larger than typical inventory stocking orders, and increase participation in first-to-market purchase opportunities. In the future, the Company may also participate in end-of-life-cycle purchase opportunities and market products on a private-label basis, which would increase the risk of inventory obsolescence. In addition, the Company sometimes acquires special purchase products without return privileges. There can be no assurance that the Company will be able to avoid losses related to obsolete inventory. In addition, manufacturers are limiting return rights and are also taking steps to reduce their inventory exposure by supporting "build to order" programs authorizing distributors and resellers to assemble computer hardware under the manufacturers' brands. These trends reduce the costs to manufacturers and shift the burden of inventory risk to resellers like the Company which could negatively impact the Company's business, financial condition and results of operations.

The Company acquires products for resale from a limited number of vendors; the loss of any one of these vendors could have a material adverse effect on its business.

The Company acquires products for resale both directly from manufacturers and indirectly through distributors and other sources. The five vendors supplying the greatest amount of goods to the Company constituted 50.7% and 44.5% of the Company's total product purchases in the years ended December 31, 1999 and 1998, respectively. Among these five vendors, purchases from Ingram Micro, Inc. represented 21.7% and 20.3% of the Company's total product purchases in the years ended December 31, 1999 and 1998, respectively. No other vendor supplied more than 10% of the Company's total product purchases in the year ended December 31, 1999. If the Company were unable to acquire products from Ingram Micro, the Company could experience a short-term disruption in the availability of products and such disruption could have a material adverse effect on the Company's results of operations and cash flows.

Substantially all of the Company's contracts and arrangements with its vendors that supply significant quantities of products are terminable by such vendors or the Company without notice or upon short notice. Most of the Company's product vendors provide it with trade credit, of which the net amount outstanding at December 31, 1999 was $83.2 million. Termination, interruption or contraction of relationships with the Company's vendors, including a reduction in the level of trade credit provided to the Company, could have a material adverse effect on the Company's financial position.

Some product manufacturers either do not permit the Company to sell the full line of their products or limit the number of product units available to direct marketers such as the Company. An element of the Company's business strategy is to increase its 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. The Company could experience a material adverse effect to its business if the Company is unable to source first-to-market purchase or similar opportunities, or if the Company faces the reemergence of significant availability constraints.

The Company may experience a reduction in the incentive programs offered to it by vendors.

Some product manufacturers and distributors provide the Company 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
- in some cases, reduced advertising allowances and incentives.

Most product manufacturers provide the Company with co-op advertising support and in exchange the Company covers their products in the Company's catalogs. This support significantly defrays the Company's catalog production expense. In the past, the Company has experienced a decrease in the level of co-op advertising support available to it from certain manufacturers. The level of co-op advertising support the Company receives from some manufacturers may further decline in the future. Such a decline could increase the Company's selling, general and administrative expenses as a percentage of sales and have a material adverse effect on the Company's cash flows.

The Company faces many competitive risks.

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

The Company cannot assure that it can continue to compete effectively against its current or future competitors. In addition, price is an important competitive factor in the personal computer hardware and software market and the Company cannot assure that the Company will not face increased price competition. If the Company encounters new competition or fails to compete effectively against competitors, its business, financial condition and results of operations could be adversely affected.

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.

The Company faces and will continue to face significant and intense price competition.

Generally, pricing is very aggressive in the personal computer industry and the Company expects pricing pressures to continue. An increase in price competition could result in a reduction of the Company's profit margins. There can be no assurance that the Company 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, the Company's recent increase in 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 the Company's market share, reduced sales and reduced operating margins, any of which could have a material adverse effect on the Company's business.

Privacy concerns with respect to list development and maintenance may materially adversely affect the Company's business.

The Company mails catalogs and sends electronic messages to names in its proprietary customer database and to potential customers whose names the Company obtains from rented or exchanged mailing lists. Worldwide public concern regarding personal privacy has subjected the rental and use of customer mailing lists and other customer information to increased scrutiny. Any domestic or foreign legislation enacted limiting or prohibiting these practices could negatively affect the Company's business, financial condition and results of operations.

The Company relies on the continued development of electronic commerce and Internet infrastructure development.

The Company's level of sales made over the Internet has increased in part because of the growing use and acceptance of the Internet by end-users. This growth is a recent development. No one can be certain that acceptance and use of the Internet will continue to develop or that a sufficiently broad base of consumers will adopt and continue to use the Internet and other online services as a medium of commerce. Sales of computer products over the Internet do not currently represent a significant portion of overall computer product sales. Growth of the Company's Internet sales is dependent on potential customers using the Internet in addition to traditional means of commerce to purchase products. The Company cannot accurately predict the rate at which they will do so.

The Company's success in growing its Internet business will depend in large part upon the development of an infrastructure for providing Internet access and services. If the number of Internet users or their use of Internet resources continues to grow rapidly, such growth may overwhelm the existing Internet infrastructure. The Company's ability to increase the speed with which it provides services to customers and to increase the scope of such services ultimately is limited by and reliant upon the speed and reliability of the networks operated by third parties. The Company cannot assure that networks and infrastructure providing sufficient capacity and reliability will continue to be developed.

The Company depends heavily on third-party shippers to deliver its products to customers.

The Company ships approximately 65% of its products to customers by Airborne Freight Corporation D/B/A "Airborne Express", with the remainder being shipped by United Parcel Service of America, Inc. and other overnight delivery and surface services. A strike or other interruption in service by these shippers could adversely affect the Company's ability to market or deliver products to customers on a timely basis.

The Company may experience potential increases in shipping, paper and postage costs, which may adversely effect its business if the Company were not able to pass such increases on to its customers.

Shipping costs are a significant expense in the operation of the Company's business. Increases in postal or shipping rates and paper costs could significantly impact the cost of producing and mailing the Company's catalogs and shipping customer orders. Postage prices and shipping rates increase periodically and the Company has no control over future increases. The Company has a long-term contract with Airborne Express whereby it ships products to the Company's customers. The Company believes that it has negotiated favorable shipping rates with Airborne. The Company generally invoices customers for shipping and handling charges. There can be no assurance that the Company will be able to pass on to its customers the full cost, including any future increases in the cost, of commercial delivery services such as Airborne Express.

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

The Company may also experience quarterly fluctuations and seasonality which could impact its business.

Several factors have caused the Company's sales and results of operations to fluctuate, and the Company expects these fluctuations to continue on a quarterly basis. Causes of these fluctuations include:

- the condition of the personal computer industry in general;
- shifts in demand for hardware and software products;
- industry shipments of new products or upgrades;
- the timing of new merchandise and catalog offerings;
- fluctuations in response rates;
- fluctuations in postage, paper, shipping and printing costs and in merchandise returns;
- adverse weather conditions that affect response, distribution or shipping;
- shifts in the timing of holidays; and
- changes in the Company's product offerings.

The Company bases its operating expenditures on sales forecasts. If revenues do not meet expectations in any given quarter, the Company's operating results could suffer.

In addition, customer response rates to the Company's catalog mailings are subject to variations. The first and last quarters of the year generally have higher response rates while the two middle quarters typically have lower response rates.

The methods of distributing personal computers and related products are changing
and such changes may negatively impact the Company and its 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 on-line 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 the Company's vendors, including Apple, Compaq and IBM, currently sell some of their products directly to end users and have stated their intentions to increase the level of such direct sales. In addition, manufacturers may attempt to increase the volume of software products distributed electronically to end-users. An increase in the volume of products sold through or used by consumers of any of these competitive programs or distributed electronically to end-users could have a material adverse effect on the Company's results of operations.

The Company faces many uncertainties relating to the collection of state sales
or use tax.

The Company presently collects sales tax only on sales of products to residents of Ohio, Tennessee, Maryland and the District of Columbia. The Company began collecting sales tax in Massachusetts in January 2000. Sales to customers located within Ohio, Tennessee, Maryland and the District of Columbia were less than 2% of the Company's net sales during the year ended December 31, 1999. Various states have sought to impose on direct marketers the burden of collecting state sales taxes on the sales of products shipped to their residents. In 1992, the United States Supreme Court affirmed its position that it is unconstitutional for a state to impose sales or use tax collection obligations on an out-of-state mail order company whose only contacts with the state are limited to the distribution of catalogs and other advertising materials through the mail and the subsequent delivery of purchased goods by United States mail or by interstate common carrier. However, legislation that would expand the ability of states to impose sales tax collection obligations on direct marketers has been introduced in Congress on many occasions. Due to its presence on various forms of electronic media and other factors, the Company's contact with many states may exceed the contact involved in the Supreme Court case. The Company cannot predict the level of contact that is sufficient to permit a state to impose on us a sales tax collection obligation. If the Supreme Court changes its position or if legislation is passed to overturn the Supreme Court's decision, the imposition of a sales or use tax collection obligation on the Company in states to which the Company ships products would result in additional administrative expenses to the Company, could result in price increases to its customers, and could reduce demand for its product.

The Company is dependent on key personnel.

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

The Company is controlled by two principal stockholders.

Patricia Gallup and David Hall, the Company's two principal stockholders, beneficially own or control, in the aggregate, approximately 75% of the outstanding shares of the Company's 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 the Company's charter and bylaws, or take other actions requiring the vote or consent of the Company's stockholders and prevent a takeover of the Company by one or more third parties, or sell or otherwise transfer their stock to a third party, which could deprive the Company's stockholders of a control premium that might otherwise be realized by them in connection with an acquisition of the Company. Such control may result in decisions that are not in the best interest of the Company's public stockholders. In connection with the Company's initial public offering, the principal stockholders placed all except 30,000 of the 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 the Company's common stock at a premium as well as have a negative impact on the market price of the Company's common stock.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

The Company invests cash balances in excess of operating requirements in short-term securities, generally with maturities of 90 days or less. In addition, the Company's Credit Agreement provides for borrowings which bear interest at variable rates based on the prime rate. The Company had no borrowings outstanding pursuant to the Credit Agreement as of December 31, 1999. The Company believes that the effect, if any, of reasonably possible near-term changes in interest rates on the Company's financial position, results of operations and cash flows should not be material.

Item 8. Consolidated Financial Statements and Supplementary Data

The information required by this Item is included in this Report beginning at page F-1.

PC CONNECTION, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF MANAGEMENT

Responsibility for the integrity and objectivity of the financial information presented in this Annual Report on Form 10-K rests with PC Connection, Inc. and subsidiary ("the Company") management. The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, applying certain estimates and judgments as required.

The Company maintains an effective internal control structure. It consists, in part, of an organization with clearly defined lines of responsibility and delegation of authority, comprehensive systems and control procedures. We believe this structure provides reasonable assurance that transactions are executed in accordance with management authorization and generally accepted accounting principles.

To assure the effective administration of internal control, we carefully select and train our employees, develop and disseminate written policies and procedures, provide appropriate communication channels and foster an environment conducive to the effective functioning of controls. We believe that it is essential for the Company to conduct its business affairs in accordance with the highest ethical standards.

Deloitte & Touche LLP, independent auditors, is retained to audit the Company's consolidated financial statements. Its accompanying report is based on an audit conducted in accordance with auditing standards generally accepted in the United States of America.

The Audit Committee of the Board of Directors is composed solely of outside directors and is responsible for recommending to the Board of Directors the independent accounting firm to be retained for the coming year. The Audit Committee meets periodically and privately with the independent auditors, as well as with Company management, to review accounting, auditing, internal control structure and financial reporting matters.

Patricia Gallup	Wayne L. Wilson	Mark A. Gavin
Chairman and	President and Chief	Chief Financial Officer
Chief Executive Officer	Operating Officer	

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of PC Connection, Inc. and subsidiary as of December 31, 1999 and 1998, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. Our audits also included the financial statement schedule listed in Item 14(a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of PC Connection, Inc. and subsidiary as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Deloitte & Touche LLP

Boston, Massachusetts
January 26, 2000

PC CONNECTION, INC.

CONSOLIDATED BALANCE SHEETS
(amounts in thousands, except per share data)

	December 31, 1999	December 31, 1998
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 20,416	$ 11,910
Accounts receivable, net	99,405	58,890
Inventories - merchandise	64,348	63,425
Deferred income taxes	1,991	3,181
Prepaid expenses and other current assets	4,651	4,115
Total current assets	190,811	141,521
Property and equipment, net	23,126	22,675
Deferred income taxes	-	314
Other assets	169	-
Goodwill	9,431	-
Total Assets	$223,537	$164,510
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of capital lease obligation to affiliate	$ 137	$ 123
Current maturities of long-term debt	1,000	-
Accounts payable	105,547	77,561
Accrued expenses and other liabilities	11,877	10,069
Total current liabilities	118,561	87,753
Notes payable, less current maturities	2,000	-
Capital lease obligation to affiliate, less current maturities	6,945	7,081
Deferred taxes	1,579	-
Other liabilities	229	-
Total Liabilities	129,314	94,834
Commitments and Contingencies (Note 11)		
Stockholders' Equity:		
Preferred Stock, $.01 par value, 7,500 shares authorized, 0 outstanding at December 31, 1999 and December 31, 1998	-	-
Common Stock, $.01 par value, 30,000 shares authorized, 15,767 and 15,605 issued and outstanding at December 31, 1999 and December 31, 1998, respectively	158	156
Additional paid-in capital	58,627	56,812
Retained earnings	35,438	12,708
Total Stockholders' Equity	94,223	69,676
Total Liabilities and Stockholders' Equity	$223,537	$164,510

See notes to consolidated financial statements.

PC CONNECTION, INC.

CONSOLIDATED STATEMENTS OF INCOME

(amounts in thousands, except per share data)

	Years Ended December 31,		
	1999	1998	1997
Net sales	$ 1,056,704	$ 732,370	$ 550,575
Cost of sales	927,358	639,096	474,609
Gross Profit	129,346	93,274	75,966
Selling, general and administrative expenses	91,405	68,521	56,596
Additional stockholder/officer compensation	-	2,354	12,130
Income from operations	37,941	22,399	7,240
Interest expense	(1,392)	(415)	(1,355)
Other, net	116	565	(42)
Income before taxes	36,665	22,549	5,843
Income taxes	(13,935)	(3,905)	(639)
Net income	$ 22,730	$ 18,644	$ 5,204
Earnings per common share:			
Basic	$ 1.45		
Diluted	$ 1.41		
Pro forma data:			
Historical income before income taxes		$ 22,549	$ 5,843
Pro forma income taxes		(8,721)	(2,279)
Pro forma net income		$ 13,828	$ 3,564
Pro forma basic net income per share		$ .91	$ .26
Pro forma diluted net income per share		$ .88	$ .25

See notes to consolidated financial statements.

PC CONNECTION, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(amounts in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Total
Balance, January 1, 1997	11,799	$ 118	$ 3,224	$ 14,701	$ 18,043
Compensation under nonstatutory stock option agreements	-	-	873	-	873
Net Income	-	-	-	5,204	5,204
Balance, December 31, 1997	11,799	118	4,097	19,905	24,120
Net proceeds from initial public offering	3,594	36	57,217	-	57,253
Dividend	-	-	(7,196)	(25,841)	(33,037)
Exercise of stock options, including income tax benefits	212	2	1,397	-	1,399
Compensation under nonstatutory stock option agreements	-	-	1,297	-	1,297
Net income	-	-	-	18,644	18,644
Balance, December 31, 1998	15,605	156	56,812	12,708	69,676
Exercise of stock options, including income tax benefits	117	1	1,183	-	1,184
Issuance of stock under employee stock purchase plan	45	1	470	-	471
Compensation under nonstatutory stock option agreements	-	-	162	-	162
Net income	-	-	-	22,730	22,730
Balance, December 31, 1999	15,767	$ 158	$ 58,627	$ 35,438	$ 94,223

See notes to consolidated financial statements.

PC CONNECTION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)

	Years Ended December 31, 1999	1998	1997
Cash Flows from Operating Activities:			
Net income	$ 22,730	$ 18,644	$ 5,204
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Depreciation and amortization	5,334	2,866	3,660
Deferred income taxes	2,523	(1,945)	(154)
Compensation under nonstatutory stock option agreements	162	1,297	873
Provision for doubtful accounts	6,821	6,296	3,339
Loss on disposal of fixed assets	159	-	54
Changes in assets and liabilities:			
Accounts receivable	(42,795)	(35,265)	(10,097)
Inventories	(305)	295	(19,301)
Prepaid expenses and other current assets	(504)	(1,910)	(483)
Accounts payable	19,945	39,387	1,269
Amounts payable to stockholders	-	(1,185)	1,185
Accrued expenses and other liabilities	1,969	926	4,042
Net cash provided by (used for) operating activities	16,039	29,406	(10,409)
Cash Flows from Investing Activities:			
Purchases of property and equipment	(7,653)	(9,922)	(4,528)
Proceeds from sale of property and equipment	2,155	58	22
Payment for purchase of ComTeq, net of cash acquired	(3,198)	-	-
Net cash used for investing activities	(8,696)	(9,864)	(4,506)
Cash Flows from Financing Activities:			
Proceeds from short-term borrowings	442,731	160,098	178,362
Repayment of short-term borrowings	(442,731)	(188,416)	(162,351)
Repayment of term loan	-	(4,500)	(500)
Repayment of capital lease obligation to affiliate	(122)	(11)	-
Issuance of stock upon exercise of stock options	814	223	-
Issuance of stock under Employee Stock Purchase Plan	471	-	-
Net proceeds from initial public offering	-	57,253	-
Payment of dividend	-	(33,037)	-
Net cash provided by (used for) financing activities	1,163	(8,390)	15,511
Increase in cash and cash equivalents	8,506	11,152	596
Cash and cash equivalents, beginning of period	11,910	758	162
Cash and cash equivalents, end of period	$ 20,416	$ 11,910	$ 758
Supplemental Cash Flow Information:			
Interest paid	$ 1,398	$ 497	$ 1,334
Income taxes paid	9,374	7,275	550
Non-cash Activities:			
Issuance of notes payable in connection with acquisition of subsidiary	$ 3,000	$ -	$ -
Assets acquired under capital lease	-	7,215	-

See notes to consolidated financial statements.

(amounts in thousands, except per share data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PC Connection, Inc. and its subsidiary (the "Company") is a direct marketer of brand-name personal computers and related peripherals, software, and networking products to business, education, government, and consumer end users located primarily in the United States. The following is a summary of significant accounting policies.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of PC Connection, Inc. and its wholly-owned subsidiary. Intercompany transactions and balances are eliminated in consolidation.

Use of Estimates in the Preparation of Financial Statements

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

Revenue Recognition

Revenue on product sales is recognized at the point of shipment. A reserve for sales returns is recorded at the time of sale and has been established based upon historical trends.

Cash and Cash Equivalents

The Company considers all highly liquid short-term investments with original maturities of 90 days or less to be cash equivalents. The carrying value of the Company's cash equivalents approximates fair value.

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.

Advertising Costs and Revenues

Costs of producing and distributing catalogs are deferred and charged to expense over the period that each catalog remains the most current selling vehicle (generally one to two months). Other advertising costs are expensed as incurred. Vendors have the ability to place advertisements in the catalogs for which the Company receives advertising allowances and incentives. These revenues are recognized on the same basis as the catalog costs.

Advertising costs charged to expense were $31,487, $32,498 and $27,859 for the years ended December 31, 1999, 1998 and 1997, respectively. Deferred advertising revenues at December 31, 1999 and 1998 exceeded deferred advertising costs of $423 and $325 at those respective dates, and, accordingly, such net deferred amounts are included in accrued expenses and other liabilities.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization is provided for both financial and income tax reporting purposes over the estimated useful lives of the assets ranging from three to seven years, computer software, including licenses and internally developed software is capitalized and amortized over lives ranging from three to five years. Depreciation is and has been provided using accelerated methods for property acquired prior to 1996 and on the straight-line method for property acquired thereafter. Leasehold improvements and facilities under capital leases are amortized over the terms of the related leases or their useful lives, whichever is shorter, whereas for income tax reporting purposes, they are amortized over the applicable tax lives. The Company periodically evaluates the carrying value of property and equipment based upon current and anticipated undiscounted cash flows, and recognizes an impairment when it is probable that such estimated future cash flows will be less than the asset carrying value.

Goodwill

Goodwill arises from certain purchase transactions and is amortized using the straight-line method over appropriate periods not exceeding 15 years. The amount charged to expense during 1999 was $324.

Tax Status and Income Taxes

For periods prior to March 6, 1998, the Company elected to be treated as an S Corporation under Subchapter S of the Internal Revenue Code (the "Code"), and applicable state laws. Effective with the consummation of the Company's initial public offering of its common stock on March 6, 1998 (the "Offering"), the Company's S Corporation election was automatically terminated and the Company became subject to federal and state income taxes as a C Corporation from that date forward.

Deferred income tax assets and liabilities are computed for 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 applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount that is more likely than not to be realized. "Income taxes" as presented on the Consolidated Statements of Income comprise the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Additional Stockholder/Officer Compensation

Additional stockholder/officer compensation represents amounts accrued or distributed in excess of aggregate annual base salaries approved by the Board of Directors (the "Board") and generally represents Company-related federal income tax obligations payable by the stockholders for periods during which the Company was an S Corporation.

Concentration of Credit Risk

Concentrations of credit risk with respect to trade account receivables are limited due to the large number of customers comprising the Company's customer base. Ongoing credit evaluations of customers' financial condition are performed.

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, when dilutive, for the incremental shares attributed to outstanding options to purchase common stock. The denominator pro forma basic earnings per share for all periods prior to March 6, 1998 includes the weighted average shares required to pay the S Corporation dividend (assuming a price per share of $17.50 for the year ended December 31, 1998 and $16.00 for the year ended December 31, 1997).

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

		Pro Forma	
(amounts in thousands, except per share data)	1999	1998	1997
Numerator:			
Net income	$ 22,730	$13,828	$ 3,564
Denominator:			
Denominator for basic earnings per share:			
Weighted average shares	15,650	14,849	11,799
Weighted average shares required to pay stockholder dividend	-	316	2,062
Denominator for basic earnings per share	15,650	15,165	13,861
Effect of dilutive securities:			
Employee stock options	461	504	383
Denominator for diluted earnings per share	16,111	15,669	14,244
Earnings per share:			
Basic	$ 1.45	$ .91	$ .26
Diluted	$ 1.41	$ .88	$ .25

The above pro forma adjustments have been made to the historical results of operations for the period from January 1 through March 5, 1998 and the year ended December 31, 1997 to make the pro forma presentation comparable to what would have been reported had the Company operated as a C Corporation.

(i) Computation of income tax expense assuming an effective tax rate of approximately 39%. (See Note 9)

The following stock options to purchase Common Stock were excluded from the computation of diluted earnings per share for years ended December 31, 1999, 1998, and 1997 because the effect of the options on the calculation would have been anti-dilutive:

	1999	1998	1997
Anti-dilutive stock options	-	78	-

Stock-Based Compensation

Compensation expense associated with awards of stock or options to employees is measured using the intrinsic value method in accordance with APB Opinion No. 25. The Board estimated the fair value of the Company's stock for awards made prior to the Offering using market valuations of comparable publicly traded companies, among other factors.

Comprehensive Income

Effective January 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income", which requires businesses to disclose comprehensive income and its components in their general-purpose financial statements. The Company has no other comprehensive income in any of the periods presented. Accordingly, a separate statement of comprehensive income is not presented.

Recently Issued Financial Accounting Standards

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", effective for fiscal years beginning after June 15, 2000. The new standard requires that all companies record derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. Management is currently assessing the impact of SFAS No. 133 on the financial statements of the Company. The Company will adopt this accounting standard on January 1, 2001, as required.

Reclassifications

Certain amounts in the 1998 and 1997 financial statements have been reclassified to conform to the 1999 presentation.

2. ACQUISITION OF SUBSIDIARY

On June 29, 1999, the Company acquired all of the outstanding stock of ComTeq Federal, Inc., a supplier of computer equipment and services to federal government agencies. The purchase price was $8.3 million, including acquisition costs and consisted of cash of $5.3 million and promissory notes aggregating $3 million. Total cash paid for ComTeq Federal Inc., net of cash acquired, was $3.2 million. The transaction has been accounted for by the purchase method, and accordingly, the results of operations for the period from June 29, 1999 to December 31, 1999 are included in the accompanying financial statements. The assets purchased and liabilities assumed have been recorded at their fair value at the date of acquisition. The excess of the purchase price, including acquisition costs, over the fair value of the liabilities assumed has been recorded as goodwill (approximately $9.7 million). Such amount recorded at December 31, 1999 is subject to change pending final valuation of the net assets acquired. Goodwill will be amortized over a period of 15 years. The promissory notes are unsecured, bear interest at the prime rate less 0.5% and are scheduled to be repaid over a three year period. As of December 31, 1999, the short-term portion of the promissory notes was $1 million and the long-term portion was $2 million.

Pro Forma Information

The following unaudited pro forma information presents the consolidated results of operations of the Company as if the acquisition of ComTeq Federal, Inc. had taken place as of the beginning of each of the periods presented.

	Year Ended December 31, (in thousands except per share data)	
	1999	1998
Revenues	$1,081,533	$769,567
Net income	23,350	14,647
Diluted earnings per share	1.45	.93

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

	December 31,	
	1999	1998
Trade	$ 96,981	$ 47,667
Co-op advertising	2,965	6,131
Vendor returns, rebates and other	7,109	14,243
Total	107,055	68,041
Less allowances for:		
Sales returns	(3,717)	(4,030)
Doubtful accounts	(3,933)	(5,121)
Accounts receivable, net	$ 99,405	$ 58,890

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	December 31,	
	1999	1998
Facilities under capital lease	$ 7,215	$ 7,215
Leasehold improvements	5,337	5,225
Furniture and equipment	22,923	22,484
Computer software, including licenses and internally-developed software	10,749	7,873
Automobiles	224	192
Total	46,448	42,989
Less accumulated depreciation and amortization	(23,322)	(20,314)
Property and equipment, net	$ 23,126	$ 22,675

5. BANK BORROWINGS

At December 31, 1999, the Company has an unsecured credit agreement with a bank providing for short-term borrowing up to $50 million which bears interest at various rates ranging from the prime rate (8.50% at December 31, 1999) to prime rate less 1% depending on the ratio of senior debt to EBITDA. The credit agreement includes various customary financial and operating covenants, including minimum net worth requirements, minimum net income requirements and restrictions on the payment of dividends, none of which, in the opinion of management, significantly restricts the Company's operations. No amounts were outstanding under this facility at December 31, 1999. The credit agreement matures on May 31, 2002.

Certain information with respect to short-term borrowings were as follows:

	Weighted Average Interest Rate	Maximum Amount Outstanding	Average Amount Outstanding
Year ended December 31,			
1999	7.4%	$29,543	$4,497
1998	8.2	28,307	4,145
1997	8.6	31,890	9,458

6. TRADE CREDIT ARRANGEMENTS

At December 31, 1999 and 1998, the Company had security agreements with two financial institutions to facilitate the purchase of inventory from various suppliers under certain terms and conditions. The agreements allow a collateralized position in inventory financed by the financial institutions up to an aggregated amount of $54.5 million. The cost of such financing under these agreements is borne by the suppliers. At December 31, 1999 and 1998, accounts payable included $31,064 and $21,820, respectively owed to these financial institutions.

7. CAPITAL LEASE

In November 1997, the Company entered into a fifteen-year lease for a new corporate headquarters with an affiliated company related to the Company through common ownership. The Company occupied the facility upon completion of construction in late November 1998, and the lease payments commenced in December 1998. Annual lease payments under the terms of the lease, as amended, will be approximately $911 for the first five years of the lease, increasing to $1,025 for years six through ten and $1,139 for years eleven through fifteen. The lease requires the Company to pay its proportionate share of real estate taxes and common area maintenance charges as additional rent and also to pay insurance premiums for the leased property. The Company has the option to renew the lease for two additional terms of five years each.

In December 1998, the Company recorded the lease as a capital lease. The recorded value of the asset (facilities under capital lease) and the related liability (capital lease obligation to affiliate) was $7.2 million, and during 1999 and 1998, the Company made principal and interest payments under this lease aggregating $911 thousand and $76 thousand, respectively.

Future aggregate minimum annual lease payments under this lease at December 31, 1999 are as follows:

Year Ending December 31	Payments
2000	$ 911
2001	911
2002	911
2003	921
2004	1,025
2005 and thereafter	9,714
Total minimum payments (excluding taxes, maintenance and insurance)	14,393
Less amount representing interest	(7,311)
Present value of minimum lease payments	7,082
Less current maturities	(137)
Long-term portion	$ 6,945

8. STOCKHOLDERS' EQUITY

Recapitalization and Reincorporation

On February 4, 1998, the Company amended its Articles of Incorporation to increase the authorized shares of the Company's Series A Non-Voting Common Stock, $.01 par value per share, and Series B Voting Common Stock, $.01 par value per share to 22,500,000 and 7,500,000 shares, respectively. The Company also, through a 1.310977-for-one stock split, increased the total number of Series A Non-Voting and Series B Voting shares issued and outstanding to 8,849,095 shares and 2,949,698 shares, respectively.

Reincorporation of the Company

Contemporaneous with the consummation of the Company's initial public offering, the Company was reincorporated in Delaware. All of the issued and outstanding shares of Series A Non-Voting Common Stock, $0.1 par value per share, and Series B Voting Common Stock, $.01 par value per share, of the New Hampshire corporation were converted into 11,798,793 shares of Common Stock, $.01 par value, of the Delaware corporation on a one-for-one basis, and the Series A and Series B shares were canceled. The effect of the conversion has been reflected in the Consolidated Statement of Changes in Stockholders' Equity for all periods presented.

Preferred Stock

The Amended and Restated Certificate of Incorporation of the Delaware Corporation (the "Restated Certificate") authorized the issuance of up to 7,500,000 shares of preferred stock, $.01 par value per share (the "Preferred Stock"). Under the terms of the Restated Certificate, the Board is authorized, subject to any limitations prescribed by law, without stockholder approval, to issue by a unanimous vote such shares of Preferred Stock in one or more series. Each such series of Preferred Stock shall have such rights, preferences, privileges and restrictions, including voting rights, dividend rights, redemption privileges and liquidation preferences, as shall be determined by the Board. There were no preferred shares outstanding at 1999 and 1998.

Incentive and Non-statutory Stock Option Plans

In December 1993, the Board adopted and the stockholders approved the 1993 Incentive and Non-Statutory Stock Option Plan (the "1993 Plan"). Under the terms of the 1993 Plan, the Company is authorized to make awards of restricted stock and to grant incentive and non-statutory options to employees of, and consultants and advisors to, the Company to purchase shares of the Company's stock. A total of 1,124,163 shares of the Company's Common Stock was authorized for issuance upon exercise of options granted or awards made under the 1993 Plan. Options vest over varying periods up to four years and have contractual lives up to ten years.

In November 1997, the Board adopted and the stockholders approved the 1997 Stock Incentive Plan (the "1997 Plan"), which became effective on the closing of the Offering, and 800,000 shares were reserved for issuance under the Plan. The 1997 Plan provides for the grant of incentive stock options, non-statutory stock options, stock appreciation rights, performance shares and awards of restricted stock and unrestricted stock. In April 1999, the Board adopted, and in May 1999 the stockholders approved, an additional 800,000 shares of Common Stock for issuance under the 1997 Plan.

Information regarding the 1993 and 1997 Plans is as follows:

	Option Shares	Weighted Average Exercise Price	Weighted Average Fair Value
Outstanding, January 1, 1997..........	589,940	1.89	
Granted.........................	504,070	4.97	4.22
Outstanding, December 31, 1997........	1,094,010	3.31	
Granted.........................	780,363	17.77	8.11
Exercised.......................	(212,648)	1.05	
Forfeited.......................	(56,155)	7.66	
Outstanding, December 31, 1998........	1,605,570	10.53	
Granted.........................	476,555	15.54	6.44
Exercised.......................	(117,269)	6.93	
Forfeited.......................	(83,116)	13.53	
Outstanding, December 31, 1999........	1,881,740	11.89	

The weighted average exercise price and weighted average fair value of options granted in 1999 whose exercise price is equal to the market price on the date of grant is $14.61 and $6.68, respectively.

The weighted average exercise price and weighted average fair value of options granted in 1999 whose exercise price is greater than the market price on the date of grant is $17.50 and $5.92, respectively.

The following table summarizes the status of outstanding stock options as of December 31, 1999:

	Options Outstanding			Options Exercisable	
Exercise Price Range	No. of Shares	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	No. of Shares	Weighted Average Exercise Price
$.76	278,798	4.64	$ .76	272,244	$ .76
$ .76 - $ 3.81	177,485	6.61	3.12	170,931	3.10
$ 5.72	222,994	6.53	5.72	167,930	5.72
$13.38	275,525	9.73	13.38	0	0
$17.50	804,188	7.34	17.50	240,042	17.50
$17.75 - $19.38	65,250	8.47	18.68	11,375	18.47
$19.75	5,000	8.61	19.75	1,250	19.75
$22.00	27,500	9.03	22.00	0	0
$24.75	20,000	8.63	24.75	5,000	24.75
$30.50	5,000	9.98	30.50	0	0
$ .76 - $30.50	1,881,740	7.21	$ 11.89	868,772	$ 7.20

The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation". Accordingly, compensation expense for options awarded under the Plans in 1999, 1998 and 1997, has been recognized using the intrinsic value method.

The fair value of options granted prior to the consummation of the Offering was estimated using the minimum value method and risk-free interest rates and expected option lives of 6% and seven years, respectively. The minimum value pricing method was designed to value stock options of non-public companies; accordingly, the minimum value method assumed zero volatility.

The Black-Scholes model was used to value options granted subsequent to the Offering using a volatility factor of 50%, estimated option lives of four years, and a risk-free interest rate of 6% for 1999 and 1998. Management believes that the assumptions used and the models applied to value the awards yield a reasonable estimate of the fair value of the grants made under the circumstances, given the alternatives under SFAS No. 123.

Effective upon the consummation of the Offering, certain restrictions as to the exercise of options granted under the Company's 1993 Plan expired. Prior to the consummation of the Offering, the Company recorded compensation expense for certain options granted at prices less than their fair market value ratably over seven years from the dates granted, because such options were not exercisable except upon the occurrence of certain events, including a public offering of the Company's Common Stock. Effective upon the consummation of the Offering, the Company recorded a one-time charge for stock-option compensation expense of approximately $870, relating to the acceleration of the vesting period of certain of the Company's stock options from seven to four years.

Compensation expense charged to operations using the intrinsic value method totaled $162, $1,297 (including the one-time charge of $870 referred to above), and $873 for the years ended December 31, 1999, 1998, and 1997, respectively. Had the Company recorded compensation expense using the fair value method under SFAS No. 123, pro forma net income and diluted net income per share for the years ended December 31 would have been as follows:

	PRO FORMA		
	1999	1998	1997
Net income, as reported	$22,730	$13,828	$3,564
Net income, under SFAS No. 123	21,511	12,979	3,498
Diluted net income per share, as reported	1.41	.88	.25
Diluted net income per share, under SFAS No. 123	1.33	.83	.25

1997 Employee Stock Purchase Plan

In November 1997, the Board adopted and the stockholders approved the 1997 Employee Stock Purchase Plan (the "Purchase Plan"), which became effective on February 1, 1999. The Purchase Plan authorizes the issuance of Common Stock to participating employees. Under the terms of the Purchase Plan, the purchase price is an amount equal to 85% of the fair market value per share of the Common Stock on either the first day or the last day of the offering period, whichever is lower. An aggregate of 225,000 shares of Common Stock has been reserved for issuance under the Purchase Plan.

9. INCOME TAXES

The provision for income taxes prior to March 6, 1998 was based on the state income tax obligations of the Company as an S Corporation and was $639 for the year ended December 31, 1997. Effective with the consummation of the Offering, the Company's S Corporation election was terminated and the Company began to account for income taxes as a C Corporation.

The 1999 and 1998 provision for income taxes and unaudited 1998 and 1997 pro forma provision for income taxes consisted of the following:

	Years Ended December 31, 1999	1998	(Pro Forma) 1998	(pro Forma) 1997
Paid or currently payable:				
Federal	$ 10,373	$ 6,390	$ 7,706	$ 9,214
State	1,409	842	766	793
Total current	11,782	7,232	8,472	10,007
Deferred:				
Recognition of deferred tax asset upon termination of S Corporation election	-	(4,200)	-	-
Federal	1,983	795	1,054	(2,890)
State	170	78	105	(154)
Net deferred	2,153	(3,327)	1,159	(3,044)
Net provision	$ 13,935	$ 3,905	$ 9,631	$ 6,963

The components of the deferred taxes at December 31, 1999 and 1998 are as follows:

	1999	1998
Current:		
Provisions for doubtful accounts	$ 1,456	$ 2,197
Inventory costs capitalized for tax purposes	519	517
Inventory and sales returns reserves	1,221	1,365
Deductible expenses, primarily employee-benefit related	114	421
Other liabilities	(1,319)	(1,319)
Net deferred tax assets	1,991	3,181
Non-Current:		
Compensation under non-statutory stock option agreements	670	709
Accumulated depreciation	(2,249)	(395)
Net deferred tax asset (liability)	(1,579)	314
Net deferred tax asset	$ 412	$ 3,495

The reconciliation of the Company's 1999 and 1998 income tax provision and its 1998 and 1997 unaudited pro forma income tax provision to the statutory federal tax rate is as follows:

	1999	1998	(Pro Forma) 1998	(pro Forma) 1997
Statutory tax rate	35.0%	35.0%	35.0%	35.0%
Recognition of deferred tax asset upon termination of S Corporation election	-	(18.6)	-	-
1998 S Corporation income not subject to federal income taxes	-	(2.8)	-	-
State income taxes, net of federal benefit	2.6	2.6	2.6	2.6
Nondeductible expenses	0.2	0.2	0.2	0.2
Other - net	0.2	0.9	0.9	1.2
Effective income tax rate	38.0%	17.3%	38.7%	39.0%

10. EMPLOYEE BENEFIT PLAN

The Company has a contributory profit-sharing and employee savings plan covering all qualified employees. No contributions to the profit-sharing element of the plan were made by the Company in 1999, 1998 or 1997. The Company made matching contributions to the employee savings element of the plan of approximately $317 thousand, $361 thousand, and $171 thousand in 1999, 1998 and 1997,respectively.

11. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases certain office facilities from its principal stockholders under 20-year noncancelable operating leases. The lease agreement for one facility requires the Company to pay all real estate taxes and insurance premiums related thereto. The Company also leases several other buildings from its principal stockholders on a month-to-month basis.

In addition, the Company leases office, warehouse facilities and equipment from unrelated parties with remaining terms of one to four years.

Future aggregate minimum annual lease payments under these leases at December 31, 1999 are as follows:

Year Ending December 31	Related Parties	Others	Total
2000	$ 151	$2,490	$2,641
2001	151	1,700	1,851
2002	121	1,471	1,592
2003	106	155	261
2004	106	-	106
2004 and thereafter	371	-	371

Total rent expense aggregated $1,470, $1,521 and $1,398 for the years ended December 31, 1999, 1998 and 1997, respectively, under the terms of the leases described above. Such amounts included $189, $327 and $311 in 1999, 1998 and 1997, respectively, paid to related parties.

Contingencies

The Company is 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 the Company's financial position, results of operations and cash flows.

12. OTHER RELATED PARTY TRANSACTIONS

Other related-party transactions include the transactions summarized below. Related parties consist primarily of affiliated companies related to the Company through common ownership.

	Year Ended December 31		
	1999	1998	1997
Revenue:			
Sales of various products	$ 1	$ 13	$ 38
Sales of services to affiliated companies	332	-	-
Sales of property and equipment:			
Net book value	-	-	(14)
Proceeds	-	-	16
Costs:			
Purchase of services from affiliated companies	6	2	1,280

13. SEGMENT AND RELATED DISCLOSURES

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

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

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

	Year Ended December 31,		
	1999	1998	1997
Platform			
PC and Multi Platform	$ 895,412	$587,100	$ 439,286
Mac	161,292	145,270	111,289
Total	$1,056,704	$732,370	$ 550,575
Sales Channel			
Corporate Outbound	$ 694,924	$390,922	$ 257,215
Inbound Telesales	303,707	312,356	288,113
On-Line Internet	58,073	29,092	5,247
Total	$1,056,704	$732,370	$ 550,575
Product Mix			
Computer Systems and Memory	$ 502,530	$319,759	$ 232,343
Peripherals	356,216	252,966	188,847
Software	129,944	102,451	86,991
Networking and Communications	68,014	57,194	42,394
Total	$1,056,704	$732,370	$550,575

Substantially, all of the Company's net sales in 1999, 1998 and 1997 were made to customers located in the United States. Shipments to customers located in foreign countries aggregated less than 2% in 1999, 1998 and 1997. All of the Company's assets at December 31, 1999 and 1998 were located in the United States. The Company's primary target customers are small- to medium-size businesses ("SMBs") comprised of 20 to 1,000 employees, although its customers also include individual consumers, larger companies, federal, state and local governmental agencies and educational institutions. No single customer other than federal government accounted for more than 1% of total net sales in 1999. Net sales to the federal government in 1999 were $81.4 million or 7.7% of total net sales. No single customer (including the federal government) accounted for more than 1% of total net sales in 1998 and 1997.

14. SELECTED UNAUDITED QUARTERLY FINANCIAL RESULTS

The following table sets forth certain unaudited quarterly data of the Company for each of the quarters since January 1998. This information has been prepared on the same basis as the annual financial statements and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the selected quarterly information when read in conjunction with the annual financial statements and the notes thereto included elsewhere in this document. The quarterly operating results are not necessarily indicative of future results of operations. See "Factors That May Affect Future Results and Financial Condition - Historical Net Losses; Variability of Quarterly Results.''

	Quarters Ended			
	March 31, 1999	June 30, 1999	Sept. 30, 1999	Dec. 31, 1999
	(in thousands, except per share data)			
Net sales	$ 224,979	$ 231,833	$ 282,103	$ 317,789
Cost of sales	197,913	204,034	247,651	277,760
Gross profit	27,066	27,799	34,452	40,029
Selling, general and administrative expenses	19,763	20,040	24,333	27,269
Income from operations	7,303	7,759	10,119	12,760
Interest expense	(266)	(276)	(449)	(401)
Other, net	94	47	32	(57)
Income before income taxes	7,131	7,530	9,702	12,302
Income tax provision /(1)/	(2,710)	(2,862)	(3,687)	(4,676)
Net Income	$ 4,421	$ 4,668	$ 6,015	$ 7,626
Weighted average common shares outstanding:				
Basic	$ 15,622	$ 15,627	$ 15,651	$ 15,697
Diluted	$ 16,068	$ 16,061	$ 16,078	$ 16,455
Earnings per common share:				
Basic	$ .28	$ .30	$ .39	$ .48
Diluted	$ .28	$ .29	$ .37	$ .47

	Quarters Ended			
	March 31, 1998	June 30, 1998	Sept. 30, 1998	Dec. 31 1998
	(in thousands, except per share data)			
Net sales	$ 168,643	$ 174,349	$ 169,089	$ 220,289
Cost of sales	146,694	151,768	147,837	192,797
Gross profit	21,949	22,581	21,252	27,492
Selling, general and administrative expenses	16,858	16,042	16,317	19,304
Additional stockholder/officer compensation	2,354	-	-	-
Income from operations	2,737	6,539	4,935	8,188
Interest expense	(206)	(51)	(10)	(148)
Other, net	86	213	233	33
Income before income taxes	2,617	6,701	5,158	8,073
Income tax benefit (provision) /(1)/	3,788	(2,613)	(2,012)	(3,068)
Net Income	$ 6,405	$ 4,088	$ 3,146	$ 5,005
Weighted average common shares outstanding:				
Basic		15,414	15,443	15,548
Diluted		15,938	16,000	15,963
Earnings per common share:				
Basic		$ .27	$ .20	$ .33
Diluted		$ .26	$ .20	$ .32

Pro forma data:

Historical income before income taxes	$ 2,617
Pro forma income taxes	(1,020)
Pro forma net income /(2)/	$ 1,597
Pro forma weighted average shares outstanding:	
Basic	14,236
Diluted	14,835
Pro forma earnings per share:	
Basic	$ .11
Diluted	$ .11

(1) For all periods prior to March 6, 1998 described herein, the Company elected to be treated as an S Corporation under Subchapter S of the Code, and applicable state laws. Effective March 6, 1998, the closing of the Company's initial public offering, the Company's S Corporation election was automatically terminated, and the Company became subject to federal and state income taxes as a C Corporation from that date forward. For the quarter ended March 31, 1998, the income tax provision includes a $4.2 million tax benefit related to the establishment of additional deferred tax assets for future tax deductions resulting from the termination of the Company's Subchapter S Corporation status.

(2) Pro forma net income is determined by (i) by eliminating the actual income tax provision and adding a provision for Federal and state income taxes that would have been payable by the Company if taxed under Subchapter C of the Code for all periods prior to March 6, 1998.

15.SUBSEQUENT EVENTS

On January 1, 2000, the Company announced a new holding company structure to support PC Connection's future growth and plans to expand its current business lines through internal growth and potential acquisitions.

Outstanding shares of common stock representing interests in PC Connection prior to the holding company formation were converted into shares of the new holding company on a one-for-one basis through a non-taxable transaction. Common stock shares of the new holding company were listed on the Nasdaq National Market under the symbol, "PCCC", the same exchange and symbol used by the predecessor company. The new shares hold the same voting power that shares of the predecessor company held. No additional capital stock was issued as part of the transaction. The directors and officers of the predecessor company serve as the directors and officers of the new holding company.

On January 4, 2000, the Company acquired Merisel Americas, Inc. call center operation in Marlborough, Massachusetts for approximately $2.2 million. PC Connection offered employment opportunities to more than 100 of Merisel's highly-trained telesales account managers and support staff to join PC Connection's corporate outbound sales organization. Substantially, all such employees accepted employment with PC Connection.

PART IV

Item 14. Exhibits, Consolidated Financial Statements, Schedule, and Reports on Form 8-K

(a) List of Documents Filed as Part of This Report:

(1) Consolidated Financial Statements

The consolidated financial statements listed below are included in this document.

(2) Consolidated Financial Statement Schedule:

The following Consolidated Financial Statement Schedule of the Company as set forth below is filed with this report:

(3) Supplementary Data
Not applicable.

(b) Reports on Form 8-K

The Company filed a current report on Form 8-K on January 3, 2000, due to the reorganization of the Company.

(c) Exhibits

The exhibits listed below are filed herewith or are incorporated herein by reference to other filings.

EXHIBIT INDEX

Exhibit		Page Reference
*3.2	Amended and Restated Certificate of Incorporation of Registrant.	
*3.4	Bylaws of Registrant.	
*4.1	Form of specimen certificate for shares of Common Stock, $0.01 par value per share, of the Registrant.	
*9.1	Form of 1998 PC Connection Voting Trust Agreement among the Registrant, Patricia Gallup individually and as a trustee, and David Hall individually and as trustee.	
*10.1	1993 Incentive and Non-Statutory Stock Option Plan, as amended.	
*10.2	1997 Stock Incentive Plan.	
*10.3	Lease between the Registrant and Miller-Valentine Partners, dated September 24, 1990, as amended, for property located at 2870 Old State Route 73, Wilmington, Ohio.	
*10.4	Lease between the Registrant and Lower Bellbrook Company, dated September 26, 1997, for property located at 643-651 Lower Bellbrook Avenue, Xenia, Ohio.	
*10.5	Lease between the Registrant and Gallup & Hall partnership, dated May 1, 1997, for property located at 442 Marlboro Street, Keene, New Hampshire.	

*10.6	Lease between the Registrant and Gallup & Hall partnership, dated June 1, 1987, as amended, for property located in Marlow, New Hampshire.
*10.7	Lease between the Registrant and Gallup & Hall partnership, dated July 22, 1998, for property located at 450 Marlboro Street, Keene, New Hampshire.
*10.9	Lease between the Registrant and Century Park, LLC, dated October 1, 1997 for property located at Route 111, Hudson, New Hampshire.
*10.10	Amended and Restated Lease between the Registrant and G&H Post, LLC, dated December 29, 1997 for property located at Route 101A, Merrimack, New Hampshire.
*10.11	Sublease between the Registrant and ABX Air Inc., dated June 7, 1995, for property located at 2870 Old State Route 73, Wilmington, Ohio.
*10.12	Employment Agreement between the Registrant and Wayne L. Wilson, dated August 16, 1995.
*10.13	Employment Agreement between the Registrant and Robert F. Wilkins, dated December 23, 1995.
*10.15	Letter Agreement between the Registrant and Airborne Freight Corporation D/B/A "Airborne Express," dated April 30, 1990, as amended.
*10.16	Agreement between the Registrant and Ingram Micro, Inc., dated October 30, 1997, as amended.
*10.18	Employment Agreement, dated as of January 1, 1998, between the Registrant and Patricia Gallup.
*10.19	Employment Agreement, dated as of January 1, 1998, between the Registrant and David Hall.
*10.20	Form of Registration Rights Agreement among the Registrant, Patricia Gallup, David Hall and the 1998 PC Connection Voting Trust.
**10.21	Amendment No. 1 to Amended and Restated Lease between the Registrant and G&H Post, LLC, dated December 29, 1998 for property located at Route 101A,Merrimack, New Hampshire.
**10.22	Lease between Registrant and Dover Mills, LLC, dated August 1, 1998 for property located at Cocheco Falls Millworks, Dover, New Hampshire.
**10.23	Amended Lease Agreement between the Registrant and Dover Mills, LLC, dated August 1, 1998.
**10.24	Employment Agreement between the Registrant and John L. Bomba, dated March 28,1997.
**10.25	Employment Agreement between the Registrant and Mark A. Gavin, dated February 5, 1998.
(1)10.26	Agreement for Wholesale Financing, dated as of March 25, 1998, between the Registrant and Deutsche Financial Services Corporation.
(1)10.27	Amendment to Agreement for Wholesale Financing, dated as of March 25, 1998, between the Registrant and Deutsche Financial Services Corporation.
(1)10.28	Amendment to Agreement for Wholesale Financing, dated as of November 5, 1999, between the Registrant and Deutsche Financial Services Corporation.
(1)10.29	Amendment to Agreement for Wholesale Financing, dated as of February 25, 2000 between the Registrant and Deutsche Financial Services Corporation.
(1)10.30	Guaranty, dated as of February 25, 2000, entered into by PC Connection, Inc. in connection with the Amendment to Agreement for Wholesale Financing, dated as of February 25, 2000, between the Registrant and Deutsche Financial Services Corporation.
(1)10.31	Agreement for Inventory Financing, dated as of August 17, 1999, between the Registrant and IBM Credit Corporation.
(1)10.32	Amendment to Agreement for Inventory Financing, dated as of February 25, 2000, between the Registrant and IBM Credit Corporation.
(1)10.33	Guaranty, dated as of February 25, 2000, entered into by PC Connection, Inc., PC Connection Sales of Massachusetts, Inc. Merrimack Services Corp. and ComTeq Federal, Inc., in connection with the Amendment to Agreement for Inventory Financing, dated as of February 25, 2000, between the Registrant and IBM Credit Corporation.
(1)10.34	Agreement for Wholesale Financing, dated as of October 12, 1993, between ComTeq Federal, Inc. and IBM Credit Corporation.

(1)10.35	Amendment to Agreement for Wholesale Financing, dated as of December 23, 1999, between ComTeq Federal, Inc. and IBM Credit Corporation.
(1)10.36	Amendment to Addendum to Agreement for Wholesale Financing, dated as of December 23, 1999, between ComTeq Federal, Inc. and IBM Credit Corporation.
(1)10.37	Amendment to Agreement for Wholesale Financing, dated as of February 25, 2000, between ComTeq Federal, Inc. and IBM Credit Corporation.
(1)10.38	Guaranty, dated as of February 25, 2000, entered into by the Registrant, PC Connection, Inc., PC Connection Sales of Massachusetts, Inc. and Merrimack Services Corp., in connection with the Amendment to Agreement for Wholesale Financing, dated as of February 25, 2000, between ComTeq Federal, Inc. and IBM Credit Corporation.
(1)10.39	Agreement for Wholesale Financing, dated as of February 25, 2000, between ComTeq Federal, Inc. and Deutsche Financial Services Corporation.
(1)10.40	Guaranty, dated as of February 25, 2000, entered into by PC Connection, Inc. in connection with the Agreement for Wholesale Financing, dated as of February 25, 2000, between ComTeq Federal, Inc. and Deutsche Financial Services Corporation.
(1)10.41	Assignment of Lease Agreements, dated as of December 13, 1999, between Micro Warehouse, Inc. (assignor) and the Registrant (assignee).
(1)10.42	Amended and Restated Credit Agreement, dated February 25, 2000, between PC Connection, Inc., the Lenders Party hereto and Citizens Bank of Massachusetts.
***23.1	Consent of Deloitte & Touche LLP
****23.2	Consent of Deloitte & Touche LLP
23.3	Consent of Deloitte & Touche LLP
(1)27.1	Financial Data Schedule.

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* Incorporated by reference from the exhibits filed with the Company's registration statement (333-41171) on Form S-1 filed under the Securities Act of 1933.

** Incorporated by reference from exhibits filed with the Company's annual report on Form 10-K, File Number 0-23827, filed on March 31, 1999.

*** Incorporated by reference from exhibits filed with the Company's annual report on Form 10-K, File Number 0-23827, filed on March 30, 2000.

**** Incorporated by reference from exhibits filed with the Company's annual report on Form 10-K Amendment No. 2, File Number 0-23827, filed on April 5, 2000.

(1) Previously filed.

Exhibit 23.3

INDEPENDENT AUDITOR'S CONSENT

We consent to the incorporation by reference in the Registration Statements of PC Connection, Inc. on Form S-8 (Nos. 333-69981, 333-50847, 333-50845, 333-83943 and 333-40172) of our report dated January 26, 2000, appearing in the Annual Report on Form 10-K/A Amendment No. 3 of PC Connection, Inc. for the year ended December 31, 1999.

Boston, Massachusetts
July 28, 2000