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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
Form 10-K

(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.

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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 other adjustments		2,354	12,010
Pro forma income before income taxes		24,903	17,853
Pro forma income taxes		9,631	6,963
Pro forma net income		$ 15,272	$ 10,890
Pro forma basic net income per share		$ 1.01	$ .79
Pro forma diluted net income per share		$ .98	$ .76

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	$15,272	$10,890
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	$ 1.01	$ .79
Diluted	$ 1.41	$ .98	$ .76

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) Elimination of stockholder/officer compensation in excess of aggregate annual base salaries of $600 that were in effect during 1998 in accordance with employment agreements; and

(ii) Computation of income tax expense assuming an effective tax rate of approximately 39% (see Note9) and after adjusting stockholder/officer compensation expense described in (i) above.

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, 1999. 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 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 net 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	December 31, 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	December 31, 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"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	4.22
Granted	504,070	4.97	
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	$ 15,272	$ 10,890
Net income, under SFAS No. 123	21,511	14,423	10,824
Diluted net income per share, as reported	1.41	.98	.76
Diluted net income, under SFAS No. 123	1.33	.93	.76

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 adjustment--stockholder/officer compensation in excess of the aggregate base salaries	2,354			
Pro forma income before taxes	4,971			
Pro forma income taxes	1,938			
Pro forma net income (2)	$ 3,033			
Pro forma weighted average shares outstanding:				
Basic	14,236			
Diluted	14,835			
Pro forma earnings per share:				
Basic	$ .21			
Diluted	$ .20			

(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) eliminating stockholder/officer compensation in excess of the aggregate base salaries ($600,000) per year and (ii) 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.

PC CONNECTION, INC.

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS

(amounts in thousands)

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions-Write-Offs	Balance at End of Period
Allowance for Sales Returns				
Year Ended December 31, 1997	$ 867	$ 1,834	$ --	$ 2,701
Year Ended December 31, 1998	2,701	1,329	--	4,030
Year Ended December 31, 1999	4,030	(313)	--	3,717
Allowance for Doubtful Accounts				
Year Ended December 31, 1997	1,284	3,339	(1,964)	2,659
Year Ended December 31, 1998	2,659	6,296	(3,834)	5,121
Year Ended December 31, 1999	5,121	6,821	(8,009)	3,933
Inventory Valuation Reserve				
Year Ended December 31, 1997	1,705	3,315	(3,124)	1,896
Year Ended December 31, 1998	1,896	6,017	(5,323)	2,590
Year Ended December 31, 1999	2,590	5,350	(6,099)	1,841

Exhibit 23.1

INDEPENDENT AUDITOR'S CONSENT

We consent to the incorporation by reference in the Registration Statements Nos. 333-69981, 333-50847, 333-50847, 333-50845, and 333-83943 of PC Connection, Inc. on Form S-8 of our report dated January 26, 2000, appearing in the Annual Report on Form 10-K of PC Connection, Inc. for the year ended December 31, 1999.

DELOITTE & TOUCHE LLP

Boston, Massachusetts
March 27, 2000

This schedule contains summary information extracted from the Company's annual financial statements on Form 10-K and is qualified in its entirety by reference to such financial statements.

YEAR
DEC-31-1999
JAN-01-1999
DEC-31-1999
20,416
0
107,055
7,650
64,348
190,811
46,448
23,322
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118,561
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0
0
158
94,065
223,537
1,056,704
1,056,704
927,358
927,358
(116)
6,821
1,392
36,665
13,935
22,730
0
0
0
22,730
1.45
1.41