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

(Mark One)
☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2021

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ___________ to ___________.

Commission File Number 000-23827

PC CONNECTION, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**02-0513618** (I.R.S. Employer Identification No.)
730 Milford Road **Merrimack, New Hampshire** (Address of principal executive offices)	**03054** (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock	CNXN	Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes ☑ No ☐

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

Large Accelerated Filer ___ Accelerated Filer ✔ Non-accelerated Filer ___ Smaller Reporting Company ___ Emerging Growth Company ___

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☑

The aggregate market value of the registrant's voting shares of common stock held by non-affiliates of the registrant on June 30, 2021, based on $46.27 per share, the last reported sale price on the Nasdaq Global Select Market on that date, was $508 million.

The number of shares outstanding of each of the registrant's classes of common stock, as of March 11, 2022:

Class	**Number of Shares**
Common Stock, $.01 par value	26,260,139

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference into the Annual Report on Form 10-K: Portions of the registrant's definitive Proxy Statement for its 2022 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report.

TABLE OF CONTENTS

CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

Statements contained or incorporated by reference in this Annual Report on Form 10-K that are not based on historical fact are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements regarding future events and our future results are based on current expectations, estimates, forecasts, and projections and the beliefs and assumptions of management including, without limitation, our expectations with regard to the industry’s rapid technological change and exposure to inventory obsolescence, availability and allocations of goods, reliance on vendor support and relationships, competitive risks, pricing risks, and the overall level of economic activity and the level of business investment in information technology products. Forward-looking statements may be identified by the use of forward-looking terminology such as “may,” “could,” “expect,” “believe,” “estimate,” “anticipate,” “continue,” “seek,” “plan,” “intend,” or similar terms, variations of such terms, or the negative of those terms. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be accomplished. The following is a list of some, but not all, of the factors that could cause actual results or events to differ materially from those anticipated:

- we have experienced variability in sales and may not be able to maintain profitable operations;
- substantial competition could reduce our market share and may negatively affect our business;
- we face and will continue to face significant price competition, which could result in a reduction of our profit margins;
- the spread of COVID-19 and the imposition of related public health measures and restrictions have, and may in the future, further materially adversely impact our business, financial condition, results of operations and cash flows;
- instability in economic conditions and government spending may adversely affect our business and reduce our operating results;
- the loss of any of our major vendors could have a material adverse effect on our business;
- virtualization of IT resources and applications, including networks, servers, applications, and data storage may disrupt or alter our traditional distribution models;
- the methods of distributing IT products are changing, and such changes may negatively impact us and our business;
- we depend heavily on third-party shippers to deliver our products to customers and would be adversely affected by a service interruption by these shippers;
- we may experience increases in shipping and postage costs, which may adversely affect our business if we are not able to pass such increases on to our customers;
- we may experience a reduction in the incentive programs offered to us by our vendors;
- should our financial performance not meet expectations, we may be required to record a significant charge to earnings for impairment of goodwill and other intangibles;
- we are exposed to inventory obsolescence due to the rapid technological changes occurring in the IT industry;
- we are exposed to accounts receivable risk and if customers fail to timely pay amounts due to us our

business, results of operations and/or cash flows could be adversely affected;

- we are dependent on key personnel and, more generally, skilled personnel in all areas of our business and the loss of key persons or the inability to attract, train and retain qualified personnel could adversely impact our business;
- cyberattacks or the failure to safeguard personal information and our information technology systems could result in liability and harm our reputation, which could adversely affect our business.
- we are exposed to risks from legal proceedings and audits, which may result in substantial costs and expenses or interruption of our normal business operations.
- the failure to comply with our public sector contracts could result in, among other things, fines or liabilities; and
- we are controlled by one principal stockholder.

These risks have the potential to impact the recoverability of the assets recorded on our balance sheets, including goodwill or other intangibles. Additionally, many of these risks are currently amplified by and may, in the future, continue to be amplified by the prolonged impact of the COVID-19 pandemic. We cannot assure investors that our assumptions and expectations will prove to have been correct. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks, and changes in circumstances that are difficult to predict. These statements involve known and unknown risks, uncertainties and other factors, financial condition, and results of operations, that may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements. We therefore caution you against undue reliance on any of these forward-looking statements. Important factors that could cause our actual results to differ materially from those indicated or implied by forward-looking statements include those discussed in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in Item 1A. “Risk Factors” of this Annual Report on Form 10-K. Any forward-looking statement made by us in this Annual Report on Form 10-K speaks only as of the date on which this Annual Report on Form 10-K was first filed. We undertake no intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as may be required by law.

PART I

Item 1. Business

GENERAL

We are a Fortune 1000 Global Solutions Provider that simplifies the information technology, or IT, purchasing experience, guiding the connection between people and technology. Our dedicated Account Managers partner with customers to design, deploy, and support cutting-edge IT environments using the latest hardware, software, and services. We provide a wide range of IT solutions, from the desktop to the cloud—including computer systems, data center solutions, software and peripheral equipment, networking communications, and other products and accessories that we purchase from manufacturers, distributors, and other suppliers. Our Technology Solutions Group, or TSG, and state-of-the-art Technology Integration and Distribution Center, or TIDC, with ISO 9001:2015 certified technical configuration lab offer end-to-end services related to the design, configuration, and implementation of IT solutions. Our team also provides a comprehensive portfolio of managed services and professional services. These services are performed by our personnel and by third-party providers. Our GlobalServe offering ensures worldwide coverage for our multinational customers, delivering global procurement solutions through our network of incountry suppliers in over 150 countries.

The "Connection®" brand includes Connection Business Solutions, Connection Enterprise Solutions, and Connection Public Sector Solutions, which provide IT solutions and services to small- to medium-sized businesses, or SMBs, enterprise, and public sector markets. In September 2016, we united all of our subsidiaries into one cohesive brand, reflecting the promise of our trademark blue arc and our mission to connect people with technology that enhances growth, elevates productivity, and empowers innovation. MoreDirect, our enterprise team, became Connection Enterprise Solutions; PC Connection Sales Corp, our SMB-focused team, became Connection Business Solutions; and GovConnection, our public sector team, became Connection Public Sector Solutions. Today, these entities represent our three operating segments and their respective markets:

- Connection Enterprise Solutions (formerly MoreDirect)—serving large enterprise customers (Large Accounts)
- Connection Business Solutions (formerly PC Connection Sales Corp)—serving SMBs
- Connection Public Sector Solutions (formerly GovConnection)—serving federal, state, and local government and educational institutions.

Financial results for each of our segments are included in the financial statements attached hereto. We generate sales through (i) outbound telemarketing and field sales contacts by sales representatives focused on the business, educational, healthcare, and government markets, (ii) our websites, and (iii) direct responses from customers responding to our advertising media. We offer a broad selection of over 460,000 products at competitive prices, including products from vendors like Apple, Cisco Systems, Dell, Dell-EMC, Hewlett-Packard Inc., Hewlett-Packard Enterprise, Lenovo, Microsoft, and VMware, and we partner with more than 2,500 suppliers. We are able to leverage our state-of-the art logistic capabilities to rapidly ship product to customers, typically the same day the order is received.

Since our founding in 1982, we have consistently served our customers' needs by providing innovative, reliable, and timely service and technical support, and by offering an extensive assortment of industry-leading products through knowledgeable, well-trained sales and support teams. Our strategy's effectiveness is reflected in the recognition we have received, including being named to the Fortune 1000 and the CRN Solution Provider 500 for twenty-one straight years. In recent years, we have received numerous awards, including the Microsoft Excellence in Operations, Double Gold Level Award for delivering market-leading operational excellence, Aruba Federal Public Sector Partner of the Year, HPE Federal GreenLake Partner of the Year, and HP U.S. Personal Systems National Solution Provider of the Year Award, as well as being named to the CRN Tech Elite 250 for the sixth year. Connection has also been twice named "America's Best-in-State Employers" by Forbes. Connection's technical experts hold more than 2,500 professional certifications, and the company has been awarded industry-leading partner authorizations, including Microsoft Azure Expert Managed Service Provider status and Google Cloud premier partner status. We believe this pursuit of excellence and our ability to understand our customers' needs and provide comprehensive and effective IT solutions has resulted in strong brand name recognition and a broad and loyal customer base. We also believe that through our strong vendor relationships we can provide an efficient supply chain and be an effective IT solution provider for our diverse customer segments.

We strive to identify the unique needs of our corporate, government, healthcare, educational, and small business customers, and have designed our business processes to enable our customers to effectively manage their IT systems. We provide value by offering our customers efficient design, integration, deployment, and support of their IT environments. As of December 31, 2021, we employed 727 sales representatives, whose average tenure exceeded nine years. Sales representatives are responsible for managing enterprise, commercial, and public sector accounts, as specialization and a deep understanding of unique customer environments are more important than ever. These sales representatives focus on current and prospective customers and are supported by an increasing number of engineering, technical, and administrative staff through our Technology Solutions Group and Technical Sales Organization. Our Industry Solutions Group, or ISG, provides our sales team and customers with insights and guidance customized to the unique needs of our vertical markets, including healthcare, retail, finance, and manufacturing. We believe that increasing our salesforce productivity is important to our future success, and we have increased our headcount and investments in our sales and sales support teams accordingly.

We market our products and services through our websites: *www.connection.com*, *www.connection.com/enterprise*, *www.connection.com/publicsector,* and *www.macconnection.com*. Our websites provide extensive product information, customized pricing, rich content, and a digital platform for online orders. We are not including the information contained in our websites as part of, or incorporating by reference into, this Annual Report on Form 10-K.

MARKET AND COMPETITION

In the fiscal year ended December 31, 2021, we generated approximately 38.0% of our sales from small- to medium-sized customer accounts, 43.2% from medium-to-large corporate accounts (Fortune 1000), and 18.8% from government and educational institutions. The overall IT market that we serve is estimated to be approximately $200 billion.

The largest segment of this market is served by local and regional Value-Added Resellers", or VARs, many of whom we believe are transitioning from the hardware and software products business to higher-margin IT services. We have transitioned from an end-user or desktop-centric computing supplier to a network or enterprise-wide IT solutions supplier. We have also partnered with third-party technology and telecommunications service providers. We now offer our customers access to the same services and technical expertise as local and regional VARs, but with a more extensive product selection at generally lower prices.

Intense competition for customers has led manufacturers of our IT products to use all available channels, including solutions providers, to distribute their products. Certain of these manufacturers who have traditionally used resellers to distribute their products have, from time to time, established their own direct marketing operations, including sales through the Internet. Nonetheless, we believe that these manufacturers will continue to provide us and other third-party solutions providers favorable product allocations and marketing support.

We believe new entrants to the IT Solutions channel must overcome a number of obstacles, including:

- the substantial time and resources required to build a customer base of meaningful size and profitability for cost-effective operation;
- the high costs of developing the information systems and operating infrastructure required to successfully compete as a national solutions provider;
- the advantages enjoyed by larger and more established competitors in terms of purchasing and operating efficiencies;
- the difficulty of building relationships with vendors to achieve favorable product allocations and attractive pricing terms; and
- the difficulty of identifying and recruiting management personnel with significant direct marketing experience in the industry.

BUSINESS STRATEGIES

We believe we become our customers' IT provider of choice by calming the confusion of IT and solving complex business challenges with innovative IT solutions which meet their needs of increased productivity, mobility, virtualization, and security in a continually evolving IT environment. We provide enhanced value by assisting our customers in cost-effectively maximizing business opportunities provided by new technologies and advanced service solutions. The key elements of our business strategies include:

- ***Providing consistent customer service before, during, and after the sale***. We believe that we have earned a reputation for providing superior customer service by consistently focusing on our customers' needs. Empathy for the challenges technology presenting to people is at the heart of our culture and serves as a foundation for long-lasting and rewarding partnerships with organizations of every size and industry. We have dedicated our resources to developing strong, long-term relationships with our customers by accurately assessing their IT needs, and providing scalable, high-quality solutions and services through our knowledgeable, well-trained personnel. Through operational excellence, we have efficient delivery programs that provide a quality buying experience for our customers.

- ***Offering a broad product selection at competitive prices***. We offer a broad range of IT products and solutions, including personal computers and related peripheral products, servers, storage, managed services, cloud solutions, and networking infrastructure, at costs that allow our customers to be more productive while maximizing their IT budgets. Our advanced solution offerings include network, server, storage, and mission-critical onsite installation and support using proprietary cloud-based service management software. We offer products and enhanced service capabilities with aggressive price and performance standards, all with the convenience of one-stop shopping for technology solutions.

- ***Simplifying technology product procurement for corporate customers.*** We offer Internet-based procurement options to eliminate complexity and enhance customer value, as well as lower the cost of procurement for our customers. We specialize in Internet-based solutions and provide electronic integration between our customers and suppliers.

- ***Offering targeted IT solutions.*** Our customers seek solutions to increasingly complex IT infrastructure demands. To better address their business needs, we have focused our solution service capabilities on several key areas: Data and Automation, Workplace Transformation, Cloud, Cybersecurity, and Managed Services. Our Technology Solutions Group and Technical Sales Organization are responsible for understanding the infrastructure needs of our customers, and for designing cost-effective technology solutions to address them. We have also partnered with third-party providers to make available a range of IT support services, including asset assessment, implementation, maintenance, and disposal services. We believe we can leverage these focus areas to enable us to capture a greater share of the IT expenditures of our customers.

- ***Maintaining a strong brand name and customer awareness.*** Since our founding in 1982, we have built a strong brand name and customer awareness. We have been named to the Fortune 1000 and the CRN Solution Provider 500 for each of the last twenty-one years. We actively work with our existing customers to become their IT provider of choice for products and enhanced solution services, while seeking to ensure our reputation of high-quality customer service, tailored marketing programs, and competitive pricing lead the way to expanding our share of the overall IT market. Through the use of creative, consistent marketing activities, our goal is to strengthen the Connection brand and reinforce our reputation as a trusted IT advisor with a history of innovation and customer-centric service.

- ***Maintaining long-standing vendor relationships***. Our close partnerships with leading technology manufacturers and vendors provide our team with access to the latest product offerings, training assets, and support resources. We have a history of strong relationships with vendors, and were among the first national solutions providers qualified by manufacturers to market computer systems to end users. By working closely with our vendors to provide an efficient channel for the advertising and distribution of their products and solutions, we expect to expand market share and generate opportunities for optimizing partner incentive programs. We promote communication and collaboration with our partner community at every level of our organization, from Sales and Product Management to leadership. We host a Partner Advisory Council that meets annually to share feedback and explore strategies to promote greater engagement with partners and better serve our mutual customers.

GROWTH STRATEGIES

Our growth strategies are designed to increase revenues by maximizing operational efficiencies while offering innovative products and value added service offerings, increasing penetration of our existing customers, and expanding our customer base. Our six key elements of growth are:

- ***Expanding hardware and software offerings.*** We offer our customers an extensive range of IT hardware and software products, and in response to customer demand, we continually evaluate and add new products as they become available. We work closely with vendors to identify and source first-to-market product offerings at aggressive prices.

- ***Expanding IT solution services offerings.*** We strive to accelerate solution and service growth by providing creative solutions to the increasingly complex hardware and software needs of our customers. Our Converged Data Center, Networking, Mobility, Security, Cloud Solutions, Lifecycle, and Software services practice groups consist of industry-certified and product-certified engineers, as well as highly specialized third-party providers. Our investment in these seven practice areas is anticipated to increase our share of our customers' annual IT expenditures by broadening the range of products and services they purchase from us.

- ***Targeting customer segments.*** Through increased targeted marketing, we seek to expand the number of our active customers and generate additional sales to existing customers by providing more value-added services and solutions. We have also developed a digital marketing capability, which includes but is not limited to digital remarketing, digital buying guides, Google shopping integration, along with social media advertising and search engine optimization. All of these aforementioned methods also help us fine tune and optimize our Internet marketing campaigns that focus on select markets, such as healthcare, retail, financial, and manufacturing.

- ***Increasing productivity of our sales representatives***. We believe that higher sales productivity is the key to leveraging our expense structure and driving future profitability improvements. We invest significant resources in training new sales representatives and providing ongoing training to experienced personnel. Our training and evaluation programs are focused towards assisting our sales personnel in understanding and anticipating clients' IT needs, with the goal of fostering loyal customer relationships. We also provide our sales representatives with technical support on more complex sales opportunities through our expanding group of technical solution specialists.

- ***Migrating to cloud-based solutions for our customers.*** Cloud computing is a key driver of new IT spending as our customers seek scalable, cost-effective solutions. We plan to expand our cloud-based solution sales and assist our customers in navigating the complex and growing field of cloud-solution offerings. This focus on cloud includes investing in the training and certification resources required to help our customers adopt and optimize cloud technologies. In 2021, we secured Microsoft Azure Expert Managed Service Provider status as well as Google Cloud premier partner status—two exclusive designations that require an intensive auditing process and a proven record of delivering exceptional customer service and in-depth technical expertise around core cloud competencies.

- ***Pursuing strategic acquisitions and alliances.*** We seek acquisitions and alliances that add new customers, strengthen our product and solution offerings, add management talent, and produce operating results which are accretive to our core business earnings.

SERVICE AND SUPPORT

Since our founding in 1982, our primary objective has been to provide products and services that meet the demands and needs of customers and to supplement those products with up-to-date product information and excellent customer service and support. We believe that offering our customers superior value, through a combination of product knowledge, consistent and reliable service and support, and leading products at competitive prices, differentiates us from other national solutions providers and provides the foundation for developing a broad and loyal customer base.

We invest in training programs for our service and support personnel, with an emphasis on putting customer needs and service first. Supplementing our salesforce, our Technology Solutions Group and Technical Sales Organization offer in-depth technical support across a wide range of advanced technology solutions. These teams of engineers and solution architects design end-to-end IT solutions tailored to our customers' unique environments and serve as technology consultants. Our TIDC ensures a superior customer experience, with seamless configuration, deployment, and support services. Product support technicians assist customers with questions concerning compatibility, installation, and more difficult questions relating to product use. The product support technicians authorize customers to return defective or incompatible products to either the manufacturer or to us for warranty service. In-house TIDC technicians perform both warranty and non-warranty repair on most major systems and hardware products.

Using our customized information system, we transmit our customer orders either to our TIDC or to our drop-ship suppliers, depending on product availability, for processing immediately after a customer receives credit approval. At our distribution center, we also perform custom configuration services, which typically includes custom imaging, the installation and integration of additional components, and other technology enhancements. Our customers may select the method of delivery that best meets their needs and is most cost effective, ranging from expedited overnight delivery for urgently needed items to ground freight.

Our inventory stocking strategy is based on economics and the general availability of the product. We will stock product where there is an economic advantage to do so, or the product is in constrained supply. We also will stock product to support customer rollouts, including product that is running through our configuration and integration services prior to shipment.

MARKETING AND SALES

We sell our products through our direct marketing channels to (i) SMBs including small office/home office customers, (ii) government and educational institutions, and (iii) medium-to-large corporate accounts. We strive to be the primary supplier of IT products and solutions to our existing and prospective customers by providing exemplary customer service. We use multiple marketing approaches to reach existing and prospective customers, including:

- outbound telemarketing and field sales;
- digital, web, and print media advertising; and
- targeted marketing programs to specific customer populations.

All of our marketing approaches emphasize our broad product and service offerings, fast delivery, customer support, competitive pricing, and our wide range of service solutions.

Sales Channels. We believe that our ability to establish and maintain long-term customer relationships and to encourage repeat purchases is largely dependent on the strength of our sales personnel and programs. Because our customers' primary contact with us is through our sales representatives, we are committed to maintaining a qualified, knowledgeable, and motivated sales staff with its principal focus on customer service.

Outbound Telemarketing and Field Sales. We seek to build loyal relationships with potential high-volume customers by assigning them to individual account managers. We believe that customers respond favorably to one-on-one relationships with personalized, well-trained account managers. Once established, these one-on-one relationships are maintained and enhanced through frequent telecommunications and targeted electronic communications, as well as other marketing materials designed to meet each customer's specific IT needs. We pay most of our account managers a base annual salary plus incentive compensation. Incentive compensation is tied generally to gross profit dollars produced by the individual account manager. Account managers historically have significantly increased productivity after approximately twelve months of training and experience.

E-commerce Sales. (*www.connection.com, www.connection.com/enterprise, www.connection.com/publicsector, and www.macconnection.com*) We provide product descriptions and prices for generally all products online. Our Connection website also provides updated information for more than 460,000 items. We offer, and continuously update, selected product offerings and other special buys. We believe our websites are important sales sources and communication tools for improving customer service.

Our Enterprise Solutions Segment's business process and operations are primarily Web-based. Most of its corporate customers utilize a customized Web page to quickly search, source, and track IT products. Our Enterprise Solution business website (*www.connection.com/enterprise)* aggregates the current available inventories of its largest IT suppliers into a single online source for its corporate customers. Its custom designed Internet-based system, MarkITplace®, provides corporate buyers with comparative pricing from several suppliers as well as special pricing arranged through the manufacturer.

The Internet supports three key business initiatives for us:

- *Customer choice* — We have built our business on the premise that our customers should be able to choose how they interact with us - be it by telephone, or by means of their desktop or mobile device via email or the Internet.

- *Lowering transactions costs* — Our website tools include robust product search features and Internet Business Accounts (customized Web pages), which allow customers to quickly and easily find information about products of interest to them. If customers still have questions, they may call our account managers. Such phone calls are typically shorter and have higher close rates than calls from customers who have not first visited our websites.

- *Leveraging the time of experienced sales representatives* — Our investments in technology-based sales and service programs allow our sales representatives more time to build and maintain relationships with our customers and help them to solve their business problems.

Business Segments. We conduct our business operations through three business segments: Business Solutions, Enterprise Solutions, and Public Sector Solutions.

Business Solutions Segment. Our principal target markets in this segment are small-to-medium-sized business customers. We use a combination of outbound telemarketing, including some on-site sales solicitation by business development managers, and Internet sales through customized Internet Business Accounts, to reach these customers.

Enterprise Solutions Segment. Through our custom designed Web-based system, we are able to offer our larger corporate customers an efficient and effective method of sourcing, evaluating, purchasing, and tracking a wide variety of IT products and services. Our strategy is to be the primary single source procurement portal for our large corporate customers.

Public Sector Solutions Segment. We use a combination of outbound telemarketing, including some on-site sales solicitation by business development managers, and Internet sales through customized Internet Business Accounts, to reach these customers. We target each of the four distinct market sectors within this segment—federal government, higher educational institutions, school grades K-12, and state and local governments.

The following table sets forth the relative distribution of net sales by business segment:

	Years Ended December 31,		
	2021	2020	2019
Sales Segment			
Enterprise Solutions	43 %	43 %	42 %
Business Solutions	38	37	38
Public Sector Solutions	19	20	20
Total	100 %	100 %	100 %

Our ISG works across all business segments to service the unique needs of healthcare, retail, finance, and manufacturing customers. Within each of these vertical markets, our ISG experts offer technology solutions and guidance backed by real-world experience. Our ISG combines extensive knowledge of the latest technologies, brands, and trends with industry experience that reassures our customers that we understand their businesses and their technology challenges. Our brand, and each of our business segments, is supported by targeted marketing campaigns across a variety of media:

Digital. We utilize a series of digital programs, in conjunction with advanced data analytics, to identify prospective customers and generate new leads within our existing customer base. These programs include website, email, blog, social media, electronic catalogs, webinars, and video/multimedia promotions.

Specialty Marketing. In addition to our digital marketing efforts, we maintain a strong presence at industry tradeshows and conventions across the country, including a number of healthcare and education IT conferences. We also host a series of Technology Summits each year, with a focus on building stronger relationships with our customers and reinforcing our reputation as a trusted source of expertise. Wherever possible we developed and hosted digital equivalents events throughout the year.

Customers. We maintain an extensive database of customers and prospects. However, no single customer accounted for more than 4% of our consolidated revenue in 2021. While no single agency of the federal government comprised more than 4% of consolidated revenue in 2021, aggregate revenue to the federal government was 3.9%, 4.6%, and 6.9% in 2021, 2020, and 2019, respectively. The loss of any single customer would not have a material adverse effect on any of our business segments. The majority of our backlog historically has been and continues to be open cancelable purchase orders. We do not have individual orders in our backlog that are material to our business, and as a result, we do not believe that backlog as of any particular dates is an indication of future results.

PRODUCTS AND MERCHANDISING

We continuously focus on expanding the breadth of our product and service offerings. We currently offer our customers over 460,000 information technology products designed for business applications from more than 2,500 vendors, including hardware and peripherals, accessories, networking products, and software. We select the products we sell based upon their technology and effectiveness, market demand, product features, quality, price, margins, and warranties. The following table sets forth our percentage of net sales for major product categories:

	PERCENTAGE OF NET SALES		
	Years Ended December 31,		
	2021	2020	2019
Notebooks/Mobility	38 %	32 %	29 %
Desktops	9	10	12
Software	10	11	12
Servers/Storage	7	8	8
Net/Com Product	7	8	8
Displays and sound	10	8	9
Accessories	12	14	13
Other Hardware/Services	7	9	9
Total	100 %	100 %	100 %

We offer a 30-day right of return generally limited to defective merchandise. Returns of non-defective products are subject to restocking fees. Substantially all of the products marketed by us are warranted by the manufacturer. We generally accept returns directly from the customer and then either credit the customer's account or ship the customer a replacement or similar product from our inventory.

PURCHASING AND VENDOR RELATIONS

Product purchases from Ingram Micro, Inc., TD Synnex Corporation and Dell Inc. accounted for approximately 23%, 23% and 12% respectively, of our total product purchases in 2021. Product purchases from Ingram Micro, Inc., TD Synnex Corporation and HP Inc. accounted for approximately 21%, 15% and 12% respectively, of our total product purchases in 2020. Product purchases from Ingram Micro, Inc., TD Synnex Corporation and HP Inc. accounted for approximately 21%, 14% and 8% respectively, of our total product purchases in 2019. No other singular vendor supplied more than 10% of our total product purchases in 2021, 2020 and 2019. We believe that, while we may experience some short-term disruption if products from Ingram Micro, Inc., TD Synnex Corporation, HP Inc., Dell Inc., or any of these vendors become unavailable to us, alternative sources for these products are available.

Products manufactured by HP Inc. collectively represented approximately 15% of our net sales in 2021, 18% in 2020, and 19% in 2019. We believe that in the event we experience either a short-term or permanent disruption of supply of HP products, such disruption would likely have a material adverse effect on our results of operations and cash flows.

Many product suppliers reimburse us for advertisements or other cooperative marketing programs through various marketing vehicles. Reimbursements may be in the form of discounts, advertising allowances, and/or rebates. We also receive allowances from certain vendors based upon the volume of our purchases or sales of the vendors' products by us. Some of our vendors offer limited price protection in the form of rebates or credits against future purchases. We may also participate in end-of-life product and other special purchases which may not be eligible for price protection.

We believe that we have excellent relationships with our vendors. We generally pay vendors within stated terms, or earlier when favorable cash discounts are offered. We believe our high volume of purchases enables us to obtain product pricing and terms that are competitive with those available to other national IT solutions providers. Although brand names and individual product offerings are important to our business, we believe that competitive products are available in substantially all of the merchandise categories offered by us.

DISTRIBUTION

We fulfill orders from customers both from products we hold in inventory and through drop shipping arrangements with manufacturers and distributors. At our 283,000 square foot technology TIDC in Wilmington, Ohio, we receive and ship inventory, configure and integrate technology solutions, provide depot maintenance and services, and process returned products. The TIDC features a state-of-the-art ISO 9001:2015-certified Configuration Lab that completed more than 500,000 custom configurations in 2021—including personal computing devices, servers, mobile devices, and networking hardware. Our technicians maintain extensive certifications and authorizations from all major manufacturers, with more than 90% of the team holding one or more CompTIA certifications. Through the TIDC, we are able to offer customers turnkey solutions for all of their IT needs, including hardware configuration, imaging and provisioning, asset management, remote management, white glove enrollment services, kitting, custom packaging, and depot repair services.

We also place product orders directly with manufacturers and/or distribution companies for drop shipment directly to our customers. Order status with distributors is tracked online, and in all circumstances, a confirmation of shipment from manufacturers and/or distribution companies is received prior to initial recording of the transaction. At the end of each financial reporting period, revenue is adjusted to reflect the anticipated receipt of products by the customers in the period. Products drop shipped by suppliers were 72%, 76%, and 80%, of net sales in 2021, 2020, and 2019, respectively. In future years, we expect that products drop shipped from suppliers may increase, both in dollars and as a percentage of net sales, as we seek to lower our overall inventory and distribution costs while maintaining excellent customer service.

MANAGEMENT INFORMATION SYSTEMS

Our subsidiaries utilize management information systems which have been significantly customized for our use. These systems permit centralized management of key functions, including order taking and processing, inventory and accounts receivable management, purchasing, sales, and distribution, and the preparation of daily operating control reports on key aspects of the business. We also operate advanced telecommunications equipment to support our sales and customer service operations. Key elements of the telecommunications systems are integrated with our computer systems to provide timely customer information to sales and service representatives, and to facilitate the preparation of operating and performance data.

Our success is dependent in large part on the accuracy and proper use of our information systems to manage our inventory and accounts receivable collections, to purchase, sell, and ship our products efficiently and on a timely basis, and to maintain cost-efficient operations. We expect to continue upgrading our information systems in the future to more effectively manage our operations and customer database.

Our investments in IT systems and infrastructure are designed to enable us to operate more efficiently and to provide our customers enhanced functionality. Our successfully implemented ERP system, which was the result of a multi-year planning and implementation process, enables us to operate more effectively and efficiently.

COMPETITION

The direct marketing and sale of IT-related products is highly competitive. We compete with other national solutions providers of IT products, including CDW Corporation and Insight Enterprises, Inc., who are the current leaders in the space. We also compete with:

- certain product manufacturers that sell directly to customers as well as some of our own suppliers, such as Apple, Dell, HP, and Lenovo;
- software publishers, such as Microsoft, VMware, Adobe, and Symantec;
- distributors that sell directly to certain customers;
- local and regional VARs;
- various franchisers, office supply superstores, and national computer retailers; and
- e-tailers, such as Amazon Web Services, with more extensive commercial online networks.

Additional competition may arise if other new methods of distribution emerge in the future. We compete not only for customers, but also for favorable product allocations and cooperative advertising support from product manufacturers. Several of our competitors are larger than we are and have substantially greater financial resources. These and other factors related to our competitive position are discussed more fully in the “Overview” of Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in Item 1A, “Risk Factors—Substantial competition could reduce our market share and may negatively affect our business” of this Annual Report on Form 10-K.

We believe that price, product selection and availability, solutions capabilities, and service and support are the most important competitive factors in our industry.

INTELLECTUAL PROPERTY RIGHTS

Our trademarks include, among others, Connection®, PC Connection®, GovConnection®, MacConnection®, we solve IT®, Everything Overnight®, Mobile Connection®, Cloud Connection®, Education Connection®, MoreDirect A PC Connection Company®, WebSPOC®, Softmart®, GlobalServe ®, Raccoon Character ®, and their related logos and all iterations thereof. We intend to use and protect these and our other marks, as we deem necessary. We believe our trademarks have significant value and are an important factor in the marketing of our products. We do not maintain a traditional research and development group, but we work closely with computer product manufacturers and other technology developers to stay abreast of the latest developments in computer technology, with respect to the products we both sell and use.

REGULATORY MATTERS

Our Public Sector Solutions segment is heavily regulated and, as a result, our need for compliance awareness and business and employee support is significant. Specifically, our Public Sector Solutions segment is governed by various laws and regulations, including but not limited to laws and regulations relating to: the formation, administration, and performance of contracts; the security and control of information and information systems; international trade compliance; human trafficking; and the mandatory disclosure of “credible evidence” of a violation of certain criminal laws receipt of significant overpayments, or violations of the civil False Claims Act. In addition, U.S. government contractors are generally subject to other federal and state laws and regulations, including:

We focus on the following key areas in hiring and developing our employees:

- The Federal Acquisition Regulation, or FAR, agency supplements to the FAR, and related regulations, which regulate the formation, administration, and performance of U.S. federal government contracts;

- The False Claims Act, which allows the government and whistleblowers filing on behalf of the government to pursue treble damages, civil penalties and sanctions for the provision of false or fraudulent claims to the U.S. federal government;

- The Truth in Negotiations Act, which requires certification and disclosure of cost and pricing data in connection with the negotiation of certain contracts, modifications, or task orders;

- The Procurement Integrity Act, which regulates access to competitor bid and proposal information, as well as certain internal government procurement sensitive information, and regulates our ability to provide compensation to certain former government procurement officials;

- Laws and regulations restricting the ability of employees of the U.S. government to accept gifts or gratuities from a contractor;

- Post-government employment laws and regulations, which restrict the ability of a contractor to recruit and hire current employees of the U.S. government and deploy former employees of the U.S. government;

- Laws, regulations, and executive orders requiring the safeguarding of and restricting the use and dissemination of information classified for national security purposes or determined to be “controlled unclassified information,” “covered defense information,” or “for official use only”;

- Laws and regulations relating to the export of certain products, services, and technical data, including requirements regarding any applicable licensing of our employees involved in such work;

- Laws, regulations, and executive orders regulating the handling, use, and dissemination of personally identifiable information in the course of performing a U.S. government contract;

- Laws, regulations, and executive orders governing organizational conflicts of interest that may prevent us from bidding for or restrict our ability to compete for certain U.S. government contracts because of the work that we currently perform for the U.S. government;

- Laws, regulations, and executive orders that mandate compliance with requirements to protect the government from risks related to our supply chain;

- Laws, regulations, and mandatory contract provisions providing protections to employees or subcontractors seeking to report alleged fraud, waste, and abuse related to a government contract; and

- The Cost Accounting Standards and the Cost Principles, which impose accounting requirements that govern our right to reimbursement under certain cost-based U.S. government contracts and require consistency of accounting practices over time.

Our Public Sector Solutions is also subject to oversight by the U.S. Office of Federal Contract Compliance Programs, or the OFCCP, for federal contract and affirmative action compliance, including the following areas:

- affirmative action plans;
- applicant tracking;
- compliance training;
- customized affirmative action databases and forms;
- glass ceiling and compensation audits;
- desk and on-site audits;
- conciliation agreements;
- disability accessibility for applicants and employees;
- diversity initiatives;
- equal employment opportunity compliance;
- employment eligibility verification (known as “E-Verify”);
- internal affirmative action audits;
- internet recruiting and hiring processes;
- OFCCP administrative enforcement actions;
- record-keeping requirements; and
- Sarbanes-Oxley Act of 2002 compliance.

The U.S. federal government routinely revises its procurement practices and adopts new contract statutes, rules and regulations. The U.S. federal government has a broad range of tools available to enforce its procurement law and policies. These include debarring or suspending a particular contractor, certain of its operations and/ or individual employees from future government business. Individuals, on behalf of the federal government, may also bring qui tam suits against us for any alleged fraud related to payments under a U.S. federal government contract or program.

Moreover, The U.S. federal government generally has the ability to terminate contracts, in whole or in part, with little or no prior notice, for convenience or for default based upon performance. In the event of termination of a contract for convenience, a contractor is normally able to recover costs already incurred on the contract and profit on those costs up to the amount authorized under the contract, but not the remaining profit that would have been earned had the contract been completed. Such a termination could also result in the cancellation of future work on a related contract. A termination resulting from our default could expose us to various liabilities, including excess re-procurement costs, and could have a material effect on our ability to compete for future contracts.

HUMAN CAPITAL

Our culture is reflected through our employees, who are driven to serve our customers, our partners, our communities and all of our stakeholders. We provide our employees with diverse experiences, training, and engagement opportunities to build a stronger team. Our culture—and the employees who share that culture with our customers and communities—are essential to our success and our ability to attract and retain top talent. Our Connection Cares initiative, launched in 2021, builds on the company's long history of inclusivity and social responsibility with working groups focused on key areas: Employee Recognition, Charitable Giving, Sustainability, and Diversity and Inclusion. Employees volunteer within these groups to share their ideas, conduct company-wide campaigns, and make a positive impact within our team and our wider community. These activities, and the formal structure to support them, help ensure we are able to offer the work environment and corporate culture that today's workforce demands.

We focus on the following key areas in hiring and developing our employees:

- *Training and Development*. We focus on skills enhancement, leadership development, innovation excellence and professional growth throughout our employees' careers. Our leadership program provides leadership trainings to our high-potential emerging leaders.

- *Total Rewards*. We provide market competitive compensation aligned with company performance. We further align our sales representatives' compensation to their individual performance by providing excellent commission opportunities. We provide a comprehensive benefits package to our employees, including healthcare, retirement plans with Company's match, tuition assistance, inclusive parental leave policies, adoption assistance, paid time off, paid volunteer hours and philanthropic match programs based upon eligibility and location.

- *Oversight and Management.* Our Board of Directors understands the importance of our inclusive, performance-driven culture to our ongoing success and is actively engaged with our President and Chief Executive Officer and our Vice President of Human Resources across a broad range of human capital management topics.

As of December 31, 2021, we employed 2,542 persons (full-time equivalent), of whom 1,045 (including 318 management and support personnel) were engaged in sales-related activities, 497 were engaged in providing IT services and customer service and support, 674 were engaged in purchasing, marketing, and distribution-related activities, 103 were engaged in the operation and development of management information systems, and 223 were engaged in administrative and finance functions. We have good relations with our employees. Our employees are not represented by a labor union, and we have never experienced a labor related work stoppage.

AVAILABLE INFORMATION

We are subject to the informational requirements of the Exchange Act, and accordingly, we file reports, proxy and information statements, and other information with the Securities and Exchange Commission, or the SEC. The SEC maintains a website (http://www.sec.gov) that contains such reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Our website address is www.connection.com and our investor relations website is located at https://ir.connection.com/. We are not including the information contained in our website as part of, or incorporating by reference into, this Annual Report on Form 10-K. We make available free of charge through our website our Annual Reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practical after we electronically file these materials with, or otherwise furnish them to, the SEC.

In addition, we routinely post on the “Investor Relations” section of our website news releases, announcements, and other statements about our business, some of which may contain information that may be deemed material to investors. Therefore, we encourage investors, the media, and others interested in our company to review the information we post on the “Investor Relations” section of our corporate website. The contents of our corporate website are not, however, a part of this Annual Report on Form 10-K.

Item 1A. Risk Factors

You should carefully consider the risks and uncertainties described below, together with all of the other information contained in this Annual Report on Form 10-K and our other public filings with the SEC. The risks described below are not the only risks facing our Company. The occurrence of any of the following risks, or of additional risks and uncertainties not presently known to us or that we currently believe to be immaterial, could cause our business, prospects, operating results, and financial condition to suffer materially. The risks below also include forward-looking statements, and important factors could cause our actual results to differ materially from those indicated or implied by these forward-looking statements. See “Cautionary Note Concerning Forward-Looking Statements.”

Risks Related to our Business, Operations and Industry

We have experienced variability in sales and may not be able to maintain profitable operations.

Several factors have caused our results of operations to fluctuate and we expect some of these fluctuations to continue. Causes of these fluctuations include:

- shifts in customer demand that affect our distribution models, including demand for total solutions;
- loss of customers to competitors;
- industry shipments of new products or upgrades;
- changes in overall demand and timing of product shipments related to economic markets and to government spending;
- supply constraints;
- changes in vendor distribution of products;
- changes in our product offerings and in merchandise returns;
- changes in distribution models as a result of cloud and software-as-a-service, or SaaS; and
- adverse weather conditions that affect response, distribution, or shipping.

Our results also may vary based on our ability to manage personnel levels in response to fluctuations in revenue. We base personnel levels and other operating expenditures on sales forecasts. If our revenues do not meet anticipated levels in the future, we may not be able to reduce our staffing levels and operating expenses in a timely manner to avoid significant losses from operations.

Substantial competition could reduce our market share and may negatively affect our business.

The direct marketing industry and the computer products retail business, in particular, are highly competitive. We compete with other national solutions providers of hardware and software and computer related products, including CDW Corporation and Insight Enterprises, Inc., who are the current leaders in the space. Certain hardware and software vendors, such as Apple, Dell, Lenovo, and HP, who provide products to us, also sell their products directly to end users through their own direct salesforce, catalogs, stores, and via the Internet. We also compete with computer retail stores and websites, who are increasingly selling to business customers and may become a significant competitor, including e-tailers, such as Amazon Web Services, with more extensive commercial online networks. We compete not only for customers, but also for advertising support from IT product manufacturers. Some of our competitors have larger customer bases and greater financial, marketing, and other resources than we do. In addition, some of our competitors offer a wider range of products and services than we do and may be able to respond more quickly to new or changing opportunities, technologies, and customer requirements. Many current and potential competitors also have greater name recognition, engage in more extensive promotional activities, and adopt pricing policies that are more aggressive than ours. We expect competition to increase as retailers and solution providers who have not traditionally sold computers and related products enter the industry.

In addition, product resellers and national solutions providers are combining operations or acquiring or merging with other resellers and national solutions providers to increase efficiency. Moreover, current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to enhance their products and services. Accordingly, it is possible that new competitors or alliances among competitors may emerge and acquire significant market share. We may not be able to continue to compete effectively against our current or future competitors. If we encounter new competition or fail to compete effectively against our competitors, our business market share, results of operations or cash flows may be adversely impacted.

We face and will continue to face significant price competition, which could result in a reduction of our profit margins.

Generally, pricing is very aggressive in our industry, and we expect pricing pressures to escalate should economic conditions deteriorate or inflationary pressures increase in excess of the amounts our customers are willing to pay. An increase in price competition could result in a reduction of our profit margins. We may not be able to offset the effects of price reductions with an increase in the number of customers, higher sales, cost reductions, or otherwise. Such pricing pressures could result in an erosion of our market share, reduced sales, and reduced operating margins, any of which could have a material adverse effect on our business.

The spread of COVID-19 and the imposition of related public health measures and restrictions have, and may in the future, further materially adversely impact our business, financial condition, results of operations and cash flows.

The COVID-19 pandemic has caused material disruptions to our business and operations and could cause material disruptions to our business and operations in the future as a result of, among other things, quarantines, worker illness, worker absenteeism as a result of illness or other factors, social distancing measures and other travel, health-related, business or other restrictions.

We rely on third-party suppliers and manufacturers. This outbreak has resulted in the extended shutdown of certain businesses, which may in turn result in disruptions or delays to our supply chain. These may include disruptions from the temporary closure of third-party supplier and manufacturer facilities, interruptions in product supply or restrictions on the export or shipment of our products. Any disruption of our suppliers and their contract manufacturers will likely impact our sales and operating results. In addition, the COVID-19 pandemic has caused, and may continue to cause, disruptions to the business and operations of our customers. Certain of our customers have been, and may in the future be, required to close down or operate at a lower capacity. We have experienced, and may continue to experience, a decrease in orders as a result of the COVID-19 pandemic. We have also experienced, and may continue to experience, delays in collecting amounts owed to us.

This widespread health crisis has adversely affected the global economy, and may result in a sustained economic downturn that could impact demand for our products going forward.

The future impact of the outbreak is highly uncertain and cannot be predicted, and there is no assurance that the outbreak will not have a material adverse impact on the future results of the Company. The extent of the impact will depend on future developments, including actions taken to contain COVID-19.

The interruption of the flow of products from suppliers could disrupt our supply chain.

Our business depends on the timely supply of products in order to meet the demands of our customers. Manufacturing interruptions or delays, including as a result of the financial instability or bankruptcy of manufacturers, significant labor disputes such as strikes, natural disasters, political or social unrest, pandemics (such as the COVID-19 pandemic) or other public health crises, or other adverse occurrences affecting any of our suppliers' facilities, could disrupt our supply chain. We could experience product constraints due to the failure of suppliers to accurately forecast customer demand, or to manufacture sufficient quantities of product to meet customer demand (including as a result of shortages of product components), among other reasons. Additionally, the relocation of key distributors utilized in our purchasing model could increase our need for, and the cost of, working capital and have an adverse effect on our business, results of operations or cash flows

Our supply chain is also exposed to risks related to international operations. While we purchase our products primarily in the markets we serve (for example, products for US customers are sourced in the US), our vendor partners manufacture or purchase a significant portion of the products we sell outside of the US, primarily in Asia. Political, social or economic instability in Asia, or in other regions in which our vendor partners purchase or manufacture the products we sell, could cause disruptions in trade, including exports to the US. Other events related to international activities that could cause disruptions to our supply chain include:

- the imposition of additional trade law provisions or regulations, the adoption or expansion of trade restrictions, including new or expanded economic sanctions in response to the ongoing conflict between Russia and Ukraine;
- the imposition of additional duties, tariffs and other charges on imports and exports, including any resulting retaliatory tariffs or charges and any reductions in the production of products subject to such tariffs and charges;
- foreign currency fluctuations; and
- restrictions on the transfer of funds.

We cannot predict whether the countries in which the products we sell, or any components of those products, are purchased or manufactured will be subject to new or additional trade restrictions or sanctions imposed by the United States or foreign governments, including the likelihood, type or effect of any such restrictions. Trade restrictions, including new or increased tariffs or quotas, embargoes, sanctions, safeguards and customs restrictions against the products we sell, could increase the cost or reduce the supply of product available to us and adversely affect our business, results of operations or cash flows. In addition, our supply chain and our cost of goods also may be negatively impacted by unanticipated price increases due to factors such as inflation, including wage inflation, or to supply restrictions beyond our control or the control of our suppliers.

Instability in economic conditions and government spending may adversely affect our business and reduce our operating results.

Our business has been affected by changes in economic conditions that are outside of our control, including reductions in business investment, loss of consumer confidence, and fiscal uncertainty at both federal and state government levels. An adverse change in government spending policies (such as budget cuts or limitations or temporary shutdowns of government operations), shifts in budget priorities or reductions in revenue levels, could cause our Public Sector Solutions customers to reduce or delay their purchases or to terminate or not renew their contracts with us, which could adversely affect our business, results of operations or cash flows. Uncertainty also exists regarding expected economic conditions both globally and in the United States, and future delays or reductions in IT spending could have a material adverse effect on demand for our products and consequently on our financial results.

Economic instability may arise, and it is difficult to predict to what extent our business may be adversely affected. However, if IT spending should again decline, we are likely to experience an adverse impact, which may be material on our business and our results of operations.

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

We acquire a majority of our products for resale from a limited number of vendors. The loss of any one of these vendors could have a material adverse effect on our business. We acquire products for resale both directly from manufacturers and increasingly indirectly through distributors and other sources. Although we purchase from a diverse vendor base, product purchases from Ingram Micro, Inc., TD Synnex Corporation and Dell Inc. accounted for approximately 23%, 23% and 12% respectively, of our total product purchases in 2021. No other singular vendor supplied more than 10% of our total product purchases in the year 2021. If we are unable to acquire products, or if we experienced a change in business relationship with any of these vendors, we could experience a short-term disruption in the availability of products, and such disruption could have a material adverse effect on our results of operations and cash flows.

Products manufactured by HP Inc. collectively represented approximately 15% of our net sales in 2021. We believe that in the event we experience either a short-term or permanent disruption of supply of HP products, such disruption would likely have a material adverse effect on our results of operations and cash flows.

Substantially all of our contracts and arrangements with our vendors that supply significant quantities of products are terminable by such vendors or us without notice or upon short notice. Most of our product vendors provide us with trade credit, of which the net amount outstanding at December 31, 2021 was $281.8 million. Termination, interruption, or contraction of relationships with our vendors, including a reduction in the level of trade credit provided to us, could have a material adverse effect on our financial position.

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

Virtualization of IT resources and applications, including networks, servers, applications, and data storage may disrupt or alter our traditional distribution models.

Our customers can access, through a cloud-based platform, business-critical solutions without the significant initial capital investment required for dedicated infrastructure. Growing demand for the development of cloud-based solutions may reduce demand for some of our existing hardware products. If the transition to an environment characterized by cloud-based computing and software being delivered as a service progress, we will likely increase investments in this area before knowing whether our sales forecasts will accurately reflect customer demand for these products, services, and solutions. We may not be able to effectively compete using these virtual distribution models. Our inability to compete effectively with current or future virtual distribution model competitors, or adapt to a cloud-based environment, could have a material adverse effect on our business.

The methods of distributing IT products are changing, and such changes may negatively impact us and our business.

The manner in which IT hardware and software is distributed and sold is changing, and new methods of distribution and sale have emerged, including distribution through cloud-based and SaaS solutions. In addition, hardware and software manufacturers have sold, and may intensify their efforts to sell, their products directly to end users. From time to time, certain manufacturers have instituted programs for the direct sales of large order quantities of hardware and software to certain major corporate accounts. These types of programs may continue to be developed and used by various manufacturers. Some of our vendors, including Apple, Dell, HP, and Lenovo, currently sell some of their products directly to end users and have stated their intentions to increase the level of such direct sales. In addition, manufacturers may attempt to increase the volume of software products distributed electronically to end users. An increase in the volume of products sold through or used by consumers of any of these competitive programs, or our inability to effectively adapt our business to increased electronic distribution of products and services to end users could have a material adverse effect on our results of operations.

We depend heavily on third-party shippers to deliver our products to customers and would be adversely affected by a service interruption by these shippers.

Many of our customers elect to have their purchases shipped by an interstate common carrier, such as United Parcel Service, Inc., or UPS, or FedEx Corporation. A strike or other interruption in service, including, among other things, widespread illness due to the COVID-19 pandemic and inclement weather experienced could adversely affect our ability to market or deliver products to customers on a timely basis.

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

Shipping costs are a significant expense in the operation of our business. Increases in postal or shipping rates could significantly impact the cost of shipping customer orders and mailing our catalogs. Postage prices and shipping rates increase periodically, and we have no control over future increases. We have a long-term contract with UPS, and believe that we have negotiated favorable shipping rates with our carriers. While we generally invoice customers for shipping and handling charges, we may not be able to pass on to our customers the full cost, including any future increases in the cost, of commercial delivery services, which would adversely affect our business.

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

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

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

Many product suppliers provide us with advertising allowances, and in exchange, we feature their products on our website and in other marketing vehicles. These vendor allowances, to the extent that they represent specific reimbursements of incremental and identifiable costs, are offset against SG&A expenses. Advertising allowances that cannot be associated with a specific program funded by an individual vendor or that exceed the fair value of advertising expense associated with that program are classified as offsets to cost of sales or inventory. In the past, we have experienced a decrease in the level of vendor consideration available to us from certain manufacturers. The level of such consideration we receive from some manufacturers may decline in the future. Such a decline could decrease our gross profit and have a material adverse effect on our earnings and cash flows.

Should our financial performance not meet expectations, we may be required to record a significant charge to earnings for impairment of goodwill and other intangibles.

We test goodwill for impairment each year and more frequently if potential impairment indicators arise. Although the fair value of our Business Solutions and Enterprise Solutions reporting units substantially exceeded their carrying value at our annual impairment test, should the financial performance of a reporting unit not meet expectations due to the economy or otherwise, we would likely adjust downward expected future operating results and cash flows. Such adjustment may result in a determination that the carrying value of goodwill and other intangibles for a reporting unit exceeds its fair value. This determination may in turn require that we record a significant non-cash charge to earnings to reduce the $73.6 million aggregate carrying amount of goodwill held by our Business Solutions and Enterprise Solutions reporting units, resulting in a negative effect on our results of operations.

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

The market for IT products is characterized by rapid technological change and the frequent introduction of new products and product enhancements. Our success depends in large part on our ability to identify and market products that meet the needs of customers in that marketplace. In order to satisfy customer demand and to obtain favorable purchasing discounts, we have and may continue to carry increased inventory levels of certain products. By doing so, we are subject to the increased risk of inventory obsolescence. Also, in order to implement our business strategy, we intend to continue, among other things, placing larger than typical inventory stocking orders of selected products and increasing our participation in first-to-market purchase opportunities. We may also, from time to time, make large inventory purchases of certain end-of-life products, which would increase the risk of inventory obsolescence. In addition, we sometimes acquire special purchase products without return privileges. For these and other reasons, we may not be able to avoid losses related to obsolete inventory. Manufacturers have limited return rights and have taken steps to reduce their inventory exposure by supporting “configure-to-order” programs authorizing distributors and resellers to assemble computer hardware under the manufacturers’ brands. These actions reduce the costs to manufacturers and shift the burden of inventory risk to resellers like us, which could negatively impact our business.

We are exposed to accounts receivable risk and if customers fail to timely pay amounts due to us our business, results of operations and/or cash flows could be adversely affected.

We extend credit to our customers for a significant portion of our net sales, typically on 30-day payment terms. We are subject to the risk that our customers may not pay for the products they have purchased, or may pay at a slower rate than we have historically experienced. This risk is heightened during periods of global or industry-specific economic downturn or uncertainty, during periods of rising interest rates or, in the case of public sector customers, during periods of budget constraints. Significant failures of customers to timely pay all amounts due to us could adversely affect our business, results of operations or cash flows.

We are dependent on key personnel and, more generally, skilled personnel in all areas of our business and the loss of key persons or the inability to attract, train and retain qualified personnel could adversely impact our business.

Our future performance will depend to a significant extent upon the efforts and abilities of our senior executives and other key management personnel. The current environment for qualified management personnel in the computer products industry is very competitive, and the loss of service of one or more of these persons could have an adverse effect on our business. Our success and plans for future growth will also depend on our ability to hire, train, and retain skilled personnel in all areas of our business, especially sales representatives and technical support personnel. We may not be able to attract, train, and retain sufficient qualified personnel to achieve our business objectives.

Natural disasters, terrorism, and other circumstances could materially adversely affect our business.

Natural disasters, terrorism, and other business interruptions have caused and could cause damage or disruption to international commerce and the global economy, and thus could have a negative effect on the Company, its suppliers, logistics providers, manufacturing vendors, and customers. Our business operations are subject to interruption by natural disasters, fire, power shortages, nuclear power plant accidents, terrorist attacks, or political instability in particular economies and markets, such as may result in Europe or other geographies as a result of the ongoing conflict between Russia and Ukraine, and other hostile acts, and other events beyond our control. Such events could decrease demand for our products, make it difficult or impossible for us to deliver services or products to our customers, or to receive products from our suppliers, and create delays and inefficiencies in our supply chain. In the event of a natural disaster or other business interruption, significant recovery time and substantial expenditures could be required to resume operations and our financial condition, results of operations, and cash flows could be materially adversely affected.

Risks Related to Our Technology, Data and Intellectual Property

Cyberattacks or the failure to safeguard personal information and our information technology systems could result in liability and harm our reputation, which could adversely affect our business.

Our business is heavily dependent upon information technology networks and systems. We have experienced attacks and attempted attacks that have generally been in the form of active intrusion attempts from the internet, passive vulnerability mapping from the internet, and internal malware and or phishing attempts delivered through user actions. Future internal or external attacks on our networks and systems could disrupt our normal operations centers and impede our ability to provide critical products and services to our customers and clients, subjecting us to liability under our contracts and damaging our reputation

Our business also involves the use, storage and transmission of proprietary information and sensitive or confidential data, including personal information about our employees, our clients and customers of our clients. While we take measures to protect the security of, and prevent unauthorized access to, our systems and personal and proprietary information, the security controls for our systems, as well as other security practices we follow, may not prevent improper access to, or disclosure of, personally identifiable or proprietary information. Furthermore, the evolving nature of threats to data security, in light of new and sophisticated methods used by criminals and cyberterrorists, including computer viruses, malware, phishing, misrepresentation, social engineering, and forgery make it increasingly challenging to anticipate and adequately mitigate these risks. The risk of cyber incidents could also be increased by cyberwarfare in connection with the ongoing conflict between Russia and Ukraine, including potential proliferation of malware from the conflict into systems unrelated to the conflict.

Breaches in security could expose us, our supply chain, our customers or other individuals to significant disruptions, a risk of public disclosure, loss or misuse of this information. Security breaches could result in legal claims or proceedings, liability or regulatory penalties under laws protecting the privacy of personal information, as well as the loss of existing or potential customers and damage to our brand and reputation. Moreover, media or other reports of perceived vulnerabilities in our network security or perceived lack of security within our environment, even if inaccurate, could adversely impact our reputation and materially impact our business. The cost and operational consequences of implementing further data protection measures could be significant. Such breaches, costs and consequences could adversely affect our business, results of operations, or cash flows.

Our business could be materially adversely affected by system failures, interruption, integration issues, or security lapses of our information technology systems or those of our third-party providers.

Our ability to effectively manage our business depends significantly on our information systems and infrastructure as well as, in certain instances those of our business partners and third-party providers. The failure of our current systems to operate effectively or to integrate with other systems, including integration of upgrades to better meet the changing needs of our customers, could result in transaction errors, processing inefficiencies, and the loss of sales and customers. In addition, cybersecurity threats are evolving and include, but are not limited to, malicious software, attempts to gain unauthorized access to company or customer data, denial of service attacks, the processing of fraudulent transactions, and other electronic security breaches that could lead to disruptions in critical systems, unauthorized release of confidential or otherwise protected information, and corruption of data. In our case, these attacks and attempted attacks have generally been in the form of active intrusion attempts from the internet, passive vulnerability mapping from the internet, and internal malware and or phishing attempts delivered through user actions. Although we have in place various processes, procedures, and controls to monitor and mitigate these threats, these measures may not be sufficient to prevent a material security threat or mitigate these risks for our customers. If any of these events were to materialize, they could lead to disruption of our operations or loss of sensitive information as well as subject us to regulatory actions, litigation, or damage to our reputation, and could have a material adverse effect on our financial position, results of operations, and cash flows. Similar risks exist with respect to our business partners and third-party providers. As a result, we are subject to the risk that the activities of our business partners and third-party providers may adversely affect our business even if an attack or breach does not directly impact our systems.

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

We continue to have increasing levels of sales made through our e-commerce sites. The on-line experience for our clients continues to improve, but the competitive nature of the e-commerce channel also continues to increase. Growth of our overall sales is dependent on customers continuing to expand their on-line purchases in addition to traditional channels to purchase products and services. We cannot accurately predict the rate at which on-line purchases will expand.

Our success in growing our Internet business will depend in large part upon our development of an increasingly sophisticated e-commerce experience and infrastructure. Increasing customer sophistication requires that we provide additional website features and functionality in order to be competitive in the marketplace and maintain market share. We will continue to iterate our website features, but we cannot predict future trends and required functionality or our adoption rate for customer preferences. As the number of on-line users continues to grow, such growth may impact the performance of our existing Internet infrastructure, which would adversely impact our business.

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

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

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

Our management information systems require continual upgrades to most effectively manage our operations and customer database. Although we maintain some redundant systems, with full data backup, a significant component of our computer and telecommunications hardware is located in a single facility in New Hampshire, and a substantial interruption in our management information systems or in our telephone communication systems, including those resulting from extreme weather and natural disasters, as well as power loss, telecommunications failure, or similar events, would substantially hinder our ability to process customer orders and thus could have a material adverse effect on our business.

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

We mail catalogs and other promotional materials to names in our customer database and to potential customers whose names we obtain from rented or exchanged mailing lists. Public concern regarding the protection of personal information has subjected the rental and use of customer mailing lists and other customer information to increased scrutiny. Legislation enacted limiting or prohibiting the use of rented or exchanged mailing lists could negatively affect our business.

Risks Related to Regulatory and Legal Matters

We are exposed to risks from legal proceedings and audits, which may result in substantial costs and expenses or interruption of our normal business operations.

We are party to various legal proceedings that arise in the ordinary course of our business, which include commercial, employment, tort and other litigation.

We are subject to intellectual property infringement claims against us in the ordinary course of our business, either because of the products and services we sell or the business systems and processes we use to sell such products and services, in the form of cease-and-desist letters, licensing inquiries, lawsuits and other communications and demands. In our industry, such intellectual property claims have become more frequent as the complexity of technological products and the intensity of competition in our industry have increased. Increasingly, many of these assertions are brought by non-practicing entities whose principal business model is to secure patent licensing revenue, but we may also be subject to demands from inventors, competitors or other patent holders who may seek licensing revenue, lost profits and/or an injunction preventing us from engaging in certain activities, including selling certain products or services.

We also are subject to proceedings, investigations and audits by federal, state, international, national, provincial and local authorities, including as a result of our sales to governmental entities. We also are subject to audits by various vendor partners and large customers, including government agencies, relating to purchases and sales under various contracts. In addition, we are subject to indemnification claims under various contracts.

Current and future litigation, infringement claims, governmental proceedings and investigations, audits or indemnification claims that we face may result in substantial costs and expenses and significantly divert the attention of our management regardless of the outcome. In addition, these matters could lead to increased costs or interruptions of our normal business operations. Litigation, infringement claims, governmental proceedings and investigations, audits or indemnification claims involve uncertainties and the eventual outcome of any such matter could adversely affect our business, results of operations or cash flows.

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

Revenues from the Public Sector Solutions segment are derived from sales to federal, state, and local government departments and agencies, as well as to educational institutions, through various contracts and open market sales. Government contracting is a highly regulated area. Noncompliance with government procurement regulations or contract provisions could result in civil, criminal, and administrative liability, including substantial monetary fines or damages, termination of government contracts, and suspension, debarment, or ineligibility from doing business with the government. Our current arrangements with these government agencies allow them to cancel orders with little or no notice and do not require them to purchase products from us in the future. The effect of any of these possible actions by any government department or agency could adversely affect our financial position, results of operations, and cash flows.

We face uncertainties relating to unclaimed property and the collection of state sales and use tax.

We collect and remit sales and use taxes in states in which we have either voluntarily registered or have a physical presence. Various states have sought to impose on direct marketers the burden of collecting state sales and use taxes on the sales of products shipped to their residents. Many states have adopted rules that require companies and their affiliates to register in those states as a condition of doing business with those state agencies. Our three sales companies are registered in substantially all states, however, if a state were to determine that our earlier contacts with that state exceeded the constitutionally permitted contacts, the state could assess a tax liability relating to our prior year sales. Various states have from time to time initiated unclaimed property audits of our company escheatment practices.

Risks Related to Our Common Stock

Our common stock price may be volatile and may decline regardless of our operating performance, and holders of our common stock could lose a significant portion of their investment.

The market price for our common stock may be volatile. Our stockholders may not be able to resell their shares of common stock at or above the price at which they purchased such shares, due to fluctuations in the market price of our common stock, which may be caused by a number of factors, many of which we cannot control, including the risk factors described in this Annual Report on Form 10-K and the following:

- changes in financial estimates by any securities analysts who follow our common stock, our failure to meet these estimates or failure of securities analysts to maintain coverage of our common stock;
- downgrades by any securities analysts who follow our common stock;
- future sales of our common stock by our officers, directors and significant stockholders;
- market conditions or trends in our industry or the economy as a whole;
- investors' perceptions of our prospects;
- announcements by us or our competitors of significant contracts, acquisitions, joint ventures or capital commitments; and
- changes in key personnel.

In addition, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies, including companies in our industry. In the past, securities class action litigation has followed periods of market volatility. If we were involved in securities litigation, we could incur substantial costs, and our resources and the attention of management could be diverted from our business.

In the future, we may also issue our securities in connection with investments or acquisitions. The number of shares of our common stock issued in connection with an investment or acquisition could constitute a material portion of our then-outstanding shares of our common stock and depress our stock price.

We are controlled by one principal stockholder.

Patricia Gallup, our principal stockholder, beneficially owned or controlled, in the aggregate, approximately 56% of the outstanding shares of our common stock as of December 31, 2021. Because of her beneficial stock ownership, the stockholder 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 stockholder can control decisions to adopt, amend, or repeal our charter and our bylaws, or take other actions requiring the vote or consent of our stockholders and prevent a takeover of us by one or more third parties, or sell or otherwise transfer their stock to a third party, which could deprive our stockholders of a control premium that might otherwise be realized by her in connection with an acquisition of our Company. Such control may result in decisions that are not in the best interest of our unaffiliated public stockholders.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We lease our corporate headquarters located at 730 Milford Road, Merrimack, New Hampshire 03054-4631, from an affiliated company, G&H Post, which is related to us through common ownership. In addition to the rent payable under the facility lease, we are required to pay real estate taxes, insurance, and common area maintenance charges. The lease has been recorded as a right-of-use asset in the financial statements.

We also lease an office facility adjacent to our corporate headquarters from the same affiliated company, G&H Post. This facility is used by our Public Sector Segment. The lease requires us to pay our proportionate share of real estate taxes and common area maintenance charges as either additional rent or directly to third parties and also to pay insurance premiums for the leased property. The lease has been recorded as a right-of-use asset in the financial statements.

We lease a facility in Wilmington, Ohio, which houses our distribution and order fulfillment operations and services all three of our business segments. We also operate sales and support offices throughout the United States and lease facilities at these locations. These leased facilities are utilized by all three of our business segments. Leasehold improvements associated with these properties are amortized over the terms of the leases or their useful lives, whichever is shorter. We believe that our physical properties will be sufficient to support our anticipated needs through the next twelve months and beyond.

Item 3. Legal Proceedings

We are subject to various legal proceedings and claims, including patent infringement claims, which have arisen during the ordinary course of business. The outcome of such matters is not expected to have a material effect on our business, financial position, results of operations, or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

Market Information

Our common stock commenced trading on March 3, 1998, on the Nasdaq Global Select Market and trades today under the symbol "CNXN". As of March 11, 2022, there were 26,260,139 shares of our common stock outstanding, held by approximately 41 stockholders of record. This figure does not include an estimate of the number of beneficial holders whose shares are held of record by brokerage firms.

Dividends

In 2021, we declared a special cash dividend of $1.00 per share. The total cash payment of $26.2 million was made on December 3, 2021 to stockholders of record at the close of business on November 18, 2021. In 2020, we declared a special cash dividend of $0.32 per share. The total cash payment of $8.4 million was made on January 29, 2021 to stockholders of record at the close of business on January 12, 2021. The declaration and payment of any future dividends is at the discretion of our Board of Directors and will depend upon our financial position, strategic plans, general business conditions and any other factors deemed relevant by our Board of Directors.

Share Repurchase Authorization

The following table sets forth certain information with respect to repurchases of our common stock during the quarter ended December 31, 2021.

ISSUER PURCHASES OF EQUITY SECURITIES

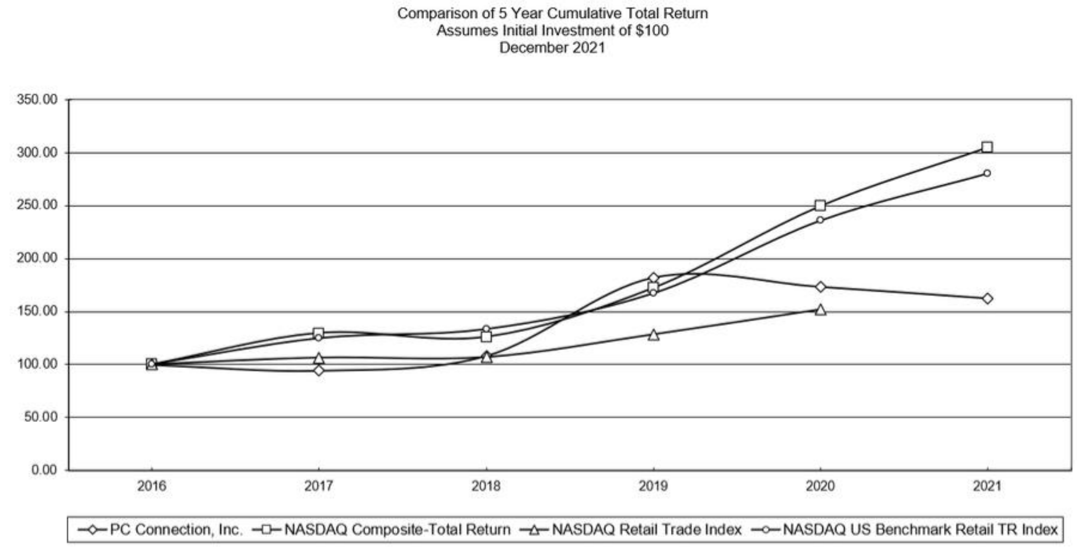
Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands) (1)
10/01/21-10/31/21	—	$ —	—	$ 12,692
11/01/21-11/30/21	—	—	—	$ 12,692
12/01/21-12/31/21	—	—	—	$ 12,692
	—	$ —	—	

(1) In 2001, our Board of Directors authorized the spending of up to $15.0 million to repurchase shares of our common stock. In 2014, our Board approved an amendment to the share repurchase program authorizing up to an additional $15.0 million in share repurchases, for a total authorized repurchase amount of $30.0 million. On December 17, 2018, we announced that our Board approved an amendment to the share repurchase program authorizing up to $25.0 million in additional share repurchases. There is no fixed termination date for this repurchase program. As of December 31, 2021, we have repurchased an aggregate of 2.6 million shares for $42.3 million under our Board-approved repurchase programs. At December 31, 2021, the maximum approximate dollar value of shares that may yet be purchased under Board-authorized programs was $12.7 million.

Stock Performance Graph

The following performance graph and related information shall not be deemed "soliciting material" or to be "filed" with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or the Exchange Act, each as amended, except to the extent that we specifically incorporate it by reference into such filing.

The following graph compares our annual percentage change in cumulative total return on shares of our common stock over the past five years with the cumulative total return of companies comprising the NASDAQ Composite Index and the NASDAQ US Benchmark Retail TR Index. This presentation assumes that $100 was invested in shares of the relevant issuers on December 31, 2016, and that dividends received were immediately invested in additional shares of our common stock. The graph plots the value of the initial $100 investment at one-year intervals for the fiscal years shown. The NASDAQ US Benchmark Retail TR Index replaces the CRSP NASDAQ Retail Trade Index in this analysis and going forward, as the CRSP Index data is no longer accessible. The CRSP index has been included with data through 2020.



Company Name / Index	Base Period Dec-16	Years Ended Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
PC Connection, Inc.	100.00	94.51	108.39	182.17	173.48	162.67
Nasdaq Stock Market-Composite	100.00	129.64	125.96	172.18	249.51	304.85
Nasdaq US Benchmark Retail TR Index	100.00	124.68	133.27	167.14	235.98	280.54
Nasdaq Retail Trade Index	100.00	106.38	106.87	128.58	152.43	-

Item 6. [Reserved]

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to promote understanding of the results of operations and financial conditions. MD&A is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and the accompanying Notes to Financial Statements (Part II, Item 8 of this Form 10-K). This section discusses the results of operations for the year ended December 31, 2021 and year-to-year comparison between the year ended December 31, 2021 and the year ended December 31, 2020. Discussion of the year ended December 31, 2020 and the year-to-year comparison between the year ended December 31, 2020 and the year ended December 31, 2019 can be found in Part II, Item 7 "Management's Discussions and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended December 31, 2020. Our MD&A also includes the identification of certain trends and other statements that may predict or anticipate future business or financial results that are subject to important factors that could cause our actual results to differ materially from those indicated. See "Cautionary Note Concerning Forward-Looking Statements" and "Item 1A. Risk Factors."

OVERVIEW

We are a Fortune 1000 Global Solutions Provider that simplifies the information technology, or IT, purchasing experience, guiding the connection between people and technology. Our dedicated Account Managers partner with customers to design, deploy, and support cutting-edge IT environments using the latest hardware, software, and services. We provide a wide range of IT solutions, from the desktop to the cloud—including computer systems, data center solutions, software and peripheral equipment, networking communications, and other products and accessories that we purchase from manufacturers, distributors, and other suppliers. Our Technology Solutions Group, or TSG, and state-of-the-art Technology Integration and Distribution Center, or TIDC, with ISO 9001:2015 certified technical configuration lab offer end-to-end services related to the design, configuration, and implementation of IT solutions. Our team also provides a comprehensive portfolio of managed services and professional services. These services are performed by our personnel and by third-party providers. Our GlobalServe offering ensures worldwide coverage for our multinational customers, delivering global procurement solutions through our network of incountry suppliers in over 150 countries.

The "Connection®" brand includes Connection Business Solutions, Connection Enterprise Solutions, and Connection Public Sector Solutions, which provide IT solutions and services to small- to medium-sized businesses, or SMBs, enterprise, and public sector markets.

Financial results for each of our segments are included in the financial statements attached hereto. We generate sales through (i)outbound telemarketing and field sales contacts by sales representatives focused on the business, educational, healthcare, and government markets, (ii) our websites, and (iii) direct responses from customers responding to our advertising media. We offer a broad selection of over 460,000 products at competitive prices, including products from vendors like Apple, Cisco Systems, Dell, Dell-EMC, Hewlett-Packard Inc., Hewlett-Packard Enterprise, Lenovo, Microsoft, and VMware, and we partner with more than 2,500 suppliers. We are able to leverage our state-of-the art logistic capabilities to rapidly ship product to customers, typically the same day the order is received.

As a value added reseller in the IT supply chain, we do not manufacture IT hardware or software. We are dependent on our suppliers—manufacturers and distributors that historically have sold only to resellers rather than directly to end users. However, certain manufacturers have, on multiple occasions, sold or attempted to sell directly to our customers, and in some cases, have restricted our ability to sell their products directly to certain customers, thereby attempting to eliminate our role. We believe that the success of these direct sales efforts by suppliers will depend on their ability to meet our customers' ongoing demands and provide objective, unbiased solutions to meet their needs. We believe more of our customers are seeking comprehensive IT solutions, rather than simply the acquisition of specific IT products. Our advantage is our ability to be product-neutral and provide a broader combination of products, services, and advice tailored to customer needs. By providing customers with customized solutions from a variety of manufacturers, we believe we can mitigate the negative impact of continued direct sales initiatives from individual manufacturers. Through the formation of our Technical Solutions Group, we are able to provide customers complete IT solutions, from identifying their needs, to designing, developing, and managing the integration of products and services to implement their IT projects. Such service offerings carry higher margins than traditional product sales. Additionally, the technical certifications of our service engineers permit us to offer higher-end, more complex products that generally carry higher gross margins. We expect these service offerings and technical certifications to continue to play a role in sales generation and improve gross margins in this competitive environment.

The primary challenges we continue to face in effectively managing our business are (1) increasing our revenues while at the same time improving our gross margin in all three segments, (2) recruiting, retaining, and improving the productivity of our sales and technical support personnel, and (3) effectively controlling our selling, general, and administrative, or SG&A, expenses while making major investments in our IT systems and solution selling personnel, especially in relation to changing revenue levels.

To support future growth, we are expanding our IT solutions business, which requires the addition of highly-skilled service engineers. Although we expect to realize the ultimate benefit of higher-margin service revenues under this multi-year initiative, we believe that our cost of services will increase as we add service engineers. If our service revenues do not grow enough to offset the cost of these headcount additions, our operating results may be negatively impacted.

Market conditions and technology advances significantly affect the demand for our products and services. Virtual delivery of software products and advanced Internet technology providing customers enhanced functionality have substantially increased customer expectations, requiring us to invest on an ongoing basis in our own IT development to meet these new demands.

Our investments in IT infrastructure are designed to enable us to operate more efficiently and provide our customers enhanced functionality.

EFFECTS OF COVID-19

As the effects of the COVID-19 pandemic continue to evolve, it is difficult to predict and forecast the impact it might have on our business and results of operations in the future. However, global supply chain disruptions have limited our ability to acquire products in a timely manner and we anticipate these global supply chain challenges will persistent through the first half of 2022. In response to the delays we are experiencing in acquiring products, we increased our inventory levels during the year ended December 31, 2021 to allay some of our customers' concerns associated with the global supply chain challenges caused by the COVID-19 pandemic. Relatedly, we also experienced an increase in our backlog as supply global supply chain challenges delayed our ability to fulfil customer orders. We continue to monitor the effects on our customers, suppliers, and the economy as a whole and will continue to adjust our business practices, as necessary, to respond to the changing demand for, and supply of, our products.

RESULTS OF OPERATIONS

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

	Years Ended December 31,		
	2021	2020	2019
Net sales (in millions)	$ 2,892.6	$ 2,590.3	$ 2,820.0
Gross margin	16.1 %	16.2 %	16.0 %
Selling, general and administrative expenses	12.7	13.3	12.0
Income from operations	3.3	2.8	4.0

Net sales of $2,892.6 million in 2021 reflected an increase of $302.3 million compared to 2020, which was driven by higher net sales across all of our business segments. The increase in net sales was primarily driven by the growing hybrid work trend resulting in higher demand for mobility products. Additionally, we saw revenue growth in our manufacturing and healthcare vertical markets compared to 2020. Gross profit increased year-over-year by $45.8 million, primarily due to the increase of net sales. SG&A expenses increased year-over-year by $22.3 million, driven primarily by increased personnel cost of $21.2 million associated with the increased variable compensation due to the higher levels of gross profit and increased employee benefit costs. Operating income increased year-over-year both in dollars and as a percentage of net sales by $24.4 million and 50 basis points, respectively, primarily as a result of the increase in net sales.

Sales Distribution

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

	Years Ended December 31,		
	2021	**2020**	**2019**
Sales Segment			
Enterprise Solutions	43 %	43 %	42 %
Business Solutions	38	37	38
Public Sector Solutions	19	20	20
Total	100 %	100 %	100 %
Product Mix			
Notebooks/Mobility	38 %	32 %	29 %
Desktops	9	10	12
Software	10	11	12
Servers/Storage	7	8	8
Net/Com Product	7	8	8
Displays and sound	10	8	9
Accessories	12	14	13
Other Hardware/Services	7	9	9
Total	100 %	100 %	100 %

Gross Profit Margins

The following table summarizes our overall gross profit margins, as a percentage of net sales, for the last three years:

	Years Ended December 31,		
	2021	**2020**	**2019**
Sales Segment			
Enterprise Solutions	14.5 %	14.5 %	14.4 %
Business Solutions	19.2	19.4	19.1
Public Sector Solutions	13.3	13.8	13.6
Total Company	16.1 %	16.2 %	16.0 %

Cost of Sales

Cost of sales includes the invoice cost of the product, direct employee and third party cost of services, direct costs of packaging, inbound and outbound freight, and provisions for inventory obsolescence, adjusted for discounts, rebates, and other vendor allowances.

Operating Expenses

The following table reflects our most significant operating expenses for the last three years (in millions of dollars):

($ in millions)	Years Ended December 31, 2021	2020	2019
Personnel costs	$ 277.8	$ 256.6	$ 257.8
Advertising	15.8	14.0	19.4
Service contracts/subscriptions	17.3	15.0	12.9
Professional fees	16.4	19.4	10.6
Depreciation and amortization	12.2	13.6	13.3
Facilities operations	8.3	8.5	8.5
Credit card fees	7.0	6.8	6.6
Other	13.3	11.8	9.5
Total SG&A expense	$ 368.1	$ 345.7	$ 338.6
As a percentage of net sales	12.7 %	13.3 %	12.0 %

Restructuring and other charges

There were no restructuring related costs incurred for the year ended December 31, 2021. In the years ended December 31 2020 and 2019, we undertook actions across the business to lower our cost structure and align our business in an effort to improve our ability to execute our strategy. In connection with these restructuring initiatives, we incurred restructuring and related costs of $1.0 million and $0.7 million for the years ended December 31, 2020 and 2019, respectively.

YEAR-OVER-YEAR COMPARISONS

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

Net sales increased by 11.7% to $2,892.6 million in 2021 from $2,590.3 million in 2020. Changes in net sales and gross profit by operating segment are shown in the following table (dollars in millions):

	Years Ended December 31, 2021 Amount	2021 % of Net Sales	2020 Amount	2020 % of Net Sales	% Change
Net Sales:					
Enterprise Solutions	$ 1,249.5	43.2 %	$ 1,115.6	43.1 %	12.0 %
Business Solutions	1,098.5	38.0	966.0	37.3	13.7
Public Sector Solutions	544.6	18.8	508.7	19.6	7.1
Total	$ 2,892.6	100.0 %	$ 2,590.3	100.0 %	11.7 %
Gross Profit:					
Enterprise Solutions	$ 180.6	14.5 %	$ 161.7	14.5 %	11.7 %
Business Solutions	211.4	19.2	187.0	19.4	13.0
Public Sector Solutions	72.6	13.3	70.1	13.8	3.5
Total	$ 464.6	16.1 %	$ 418.8	16.2 %	10.9 %

- Net sales of $1,249.5 million for the Enterprise Solutions segment reflect an increase of $133.9 million, or 12.0%, year-over-year as a result of our customers’ needs for mobility products to support their work-from-anywhere initiatives. Net sales of notebooks/mobility, displays and sound, and desktops increased year-over-year by $125.4 million, $47.3 million, and $11.5 million, respectively. These increases were partially offset by decreases in accessories, other hardware/services, net/com products, and servers/storage of $22.3 million, $11.9 million, $9.8 million, and $10.1 million, respectively.

- Net sales of $1,098.5 million for the Business Solutions segment reflect an increase of $132.5 million, or 13.7% year-over-year. The increase in net sales was primarily driven by strong growth in our customers' needs for mobility products to support their work-from-anywhere initiatives. We experienced increases in notebooks/mobility, other hardware/services, displays and sound, net/com products and accessories of $107.0 million, $10.8 million, $13.7 million, $6.5 million and $1.6 million, respectively. Those increases were partially offset by the decrease of net sales of $4.6 million and $2.0 million in software and desktops sales, respectively.

- Net sales of $544.6 million for the Public Sector Solutions segment increased by $35.9 million, or 7.1%, compared with the same period a year ago. The increase was primarily driven by an increase of sales in state, local government and educational institutions, partially offset by the decrease of sales to Federal Governments. Net sales of notebooks/mobility products, desktops, and displays and sounds products increased by $38.1 million, $9.2 million and $7.7 million, respectively, compared with the prior year, which was partially offset by the decrease of net sales in net/com products and servers/storage of $13.6 million, and $5.6 million, respectively.

Gross profit for 2021 increased year-over-year in dollars but gross margin slightly decreased, as explained below:

- Gross profit for the Enterprise Solutions segment increased $18.9 million, or 11.7% year-over-year. This increase is primarily due to the 12.0% increase in net sales. The gross margin was flat compared with the prior year.

- Gross profit for the Business Solutions segment increased $24.4 million, or 13.0% year-over-year. This increase is as a result of a 13.7% increase in net sales. However, gross margin decreased year-over-year by 20 basis points, primarily due to a change of product mix.

- Gross profit for the Public Sector Solutions segment increased by $2.5 million, or 3.5% year-over-year, primarily as a result of higher net sales in the current period. Gross margin decreased by 50 basis points based on changes in product mix.

SG&A in 2021 increased in dollars but decreased as a percentage of net sales compared to the prior year. SG&A expenses attributable to our three operating segments and the remaining unallocated Headquarters/Other group expenses are summarized below (dollars in millions):

	Years Ended December 31,				
	2021		2020		
	Amount	% of Net Sales	Amount	% of Net Sales	% Change
Enterprise Solutions	$ 106.0	8.5 %	$ 102.2	9.2 %	3.7 %
Business Solutions	167.6	15.3	154.5	16.0	8.5
Public Sector Solutions	77.5	14.2	72.8	14.3	6.5
Headquarters/Other, unallocated	17.0		16.2		4.9
Total	$ 368.1	12.7 %	$ 345.7	13.3 %	6.5 %

- SG&A expenses for the Enterprise Solutions segment increased in dollars but decreased as a percentage of net sales. The year-over-year change in SG&A dollars was primarily attributable to a $2.3 million increase in the use of Headquarter services, primarily due to the higher personnel costs associated with the higher levels of gross profit and the increased employee benefit costs. This year-over-year increase is also driven by a $1.9 million increase in personnel cost. SG&A expenses as a percentage of net sales were 8.5% for the Enterprise Solutions segment for the year ended December 31, 2021, which reflects a decrease of 70 basis points. This decrease year-over-year was largely due to the higher net sales in 2021.

- SG&A expenses for the Business Solutions segment increased in dollars but decreased as a percentage of net sales. The year-over-year increase in SG&A dollars was primarily driven by the increased Headquarter services of $7.1

million, including the higher variable compensation expenses resulting from the higher gross profit for the year ended December 31, 2021. The year-over-year increase in SG&A was also attributable to increased personnel costs and advertising costs in the amount of $4.1 million and $1.7 million respectively. SG&A expenses as a percentage of net sales were 15.3% for the Business Solutions segment for the year ended December 31, 2021 compared to 16.0% for 2020, which reflects a decrease of 70 basis points year-over-year, largely resulting from higher net sales compared with the prior year.

- SG&A expenses for the Public Sector Solutions segment increased in dollars but decreased as a percentage of net sales. The increase in SG&A dollars year-over-year is primarily attributable to an increase in the usage of Headquarter services of $3.5 million, which included an increase in variable compensation expenses associated with the higher gross profit for the year ended December 31, 2021. Increased personnel costs of $0.2 million as well as the increased bad debt expense of $0.5 million also contributed to the year-over-year SG&A increase. SG&A expenses as a percentage of net sales were 14.2 % for the Public Sector Solutions segment for the year ended December 31, 2021, which reflects a decrease of 10 basis points. This decrease year-over-year is primarily attributable to higher net sales compared with the same period a year ago.

- SG&A expenses for the Headquarters/Other group increased by $0.8 million primarily due to an increase in unallocated executive oversight costs year-over-year. This increase was primarily driven by the increased variable compensation costs resulting from the higher gross profit during the current year.

Income from operations for the year ended December 31, 2021 increased to $96.5 million, compared to $72.1 million for the same period in the prior year, primarily due to the increases in net sales and gross profit, along with an increase in SG&A expense year-over-year. Income from operations as a percentage of net sales increased to 3.3% for the year ended December 31, 2021, compared to 2.8% of net sales for the same period in the prior year, primarily due to the increase in net sales and lower SG&A expenses as a percentage of net sales year-over-year.

Income taxes. Our effective tax rate was 27.6% for the year-ended December 31, 2021, compared to 23.8% for the year ended December 31, 2020. Our provision for income taxes for the year ended December 31, 2021 was $26.6 million, which included $0.3 million of discrete items mainly related to research and development tax credits recognized in the year ended December 31, 2021. Our provision for income taxes for the year ended December 31, 2020 was $17.4 million, which included $2.9 million of discrete items mainly related to research and development tax credits recognized in the year ended December 31, 2020. The non-taxable life insurance gain reduced our effective tax rate by 0.3% for the year ended December 31, 2020.

Net income increased by $14.1 million to $69.9 million for the year ended December 31, 2021, from $55.8 million in the prior year, which resulted from the increase in operating income in the current year.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Overview

Our primary sources of liquidity have historically been internally generated funds from operations and borrowings under our bank line of credit. We have historically used and expect to use in the future those funds to meet our capital requirements, which consist primarily of working capital for operational needs, capital expenditures for computer equipment and software used in our business, repurchases of common stock for treasury, dividend payments, and as opportunities arise, possible acquisitions of new businesses.

We believe that funds generated from operations, together with available credit under our bank line of credit, will be sufficient to finance our working capital, capital expenditures, and other requirements for the next twelve calendar months and beyond. Our investments in IT systems and infrastructure are designed to enable us to operate more efficiently and to provide our customers enhanced functionality.

We expect to meet our cash requirements for 2022 and beyond through a combination of cash on hand, cash generated from operations, and borrowings on our bank line of credit, as follows:

- *Cash on Hand*. At December 31, 2021, we had $108.3 million in cash and cash equivalents.
- *Cash Generated from Operations*. We expect to generate cash flows from operations in excess of operating cash needs by generating earnings and managing net changes in inventories and receivables with changes in payables to generate a positive cash flow.
- *Credit Facilities*. As of December 31, 2021, no borrowings were outstanding against our $50.0 million bank line of credit, which is available until March 31, 2025. Accordingly, our entire line of credit was available for borrowing at December 31, 2021. This line of credit can be increased, at our option, to $80.0 million for approved acquisitions or other uses authorized by the bank. Borrowings are, however, limited by certain minimum collateral and earnings requirements, as described more fully below. As of December 31, 2021, we are in compliance with all of our financial covenants.

Our ability to continue funding our planned growth, both internally and externally, is dependent upon our ability to generate sufficient cash flow from operations or to obtain additional funds through equity or debt financing, or from other sources of financing, as may be required. While we do not anticipate needing any additional sources of financing to fund our operations at this time, if demand for IT products declines, our cash flows from operations may be substantially affected. See also related risks listed under “Item 1A. Risk Factors.”

Summary Sources and Uses of Cash

The following table summarizes our sources and uses of cash over the last three years (in millions of dollars):

	Years Ended December 31,		
	2021	2020	2019
Net cash provided by operating activities	$ 57.8	$ 36.1	$ 36.6
Net cash used in investing activities	(8.7)	(11.0)	(25.7)
Net cash used in financing activities	(36.4)	(19.5)	(12.5)
Increase (decrease) in cash and cash equivalents	$ 12.7	$ 5.6	$ (1.6)

Cash provided by operating activities was $57.8 million for the year ended December 31, 2021. Cash flow provided by operations during the year ended December 31, 2021, resulted primarily from net income, adding back other non-cash charges and increases in accounts payable and accrued expenses, which increased by $32.5 million for the year ended December 31, 2021, and was driven primarily by the timing of payments. These factors that contributed to the positive inflow of cash from operating activities were partially offset by increases in inventory of $65.7 million for the year ended December 31, 2021, primarily driven by the increase of inventory purchases for customer requested future rollouts and concerns associated with the global supply chain challenges caused by the COVID-19 pandemic. Operating cash flow for the year ended December 31, 2020 resulted primarily from cash provided by net income prior to non-cash charges of $55.8 million and increases in account payables and accrued expenses of $43.1 million primarily due to the timing of payments. Those inflow of cash from operating activities were partially offset by increases in account receivable of $63.6 million for the year ended December 31, 2020.

In order to manage our working capital and operating cash needs, we monitor our cash conversion cycle, defined as days of sales outstanding in accounts receivable plus days of supply in inventory minus days of purchases outstanding in accounts payable, based on a rolling three-month average. Components of our cash conversion cycle are as follows:

	December 31,	
(in days)	2021	2020
Days of sales outstanding (DSO)(1)	65	75
Days of supply in inventory (DIO)(2)	28	23
Days of purchases outstanding (DPO)(3)	(38)	(44)

Cash conversion cycle	55	54

(1) Represents the rolling three-month average of the balance of accounts receivable, net at the end of the period, divided by average daily net sales for the same three-month period. Also incorporates components of other miscellaneous receivables.

(2) Represents the rolling three-month average of the balance of merchandise inventory at the end of the period divided by average daily cost of sales for the same three-month period.

(3) Represents the rolling three-month average of the combined balance of accounts payable-trade, excluding cash overdrafts, and accounts payable-inventory financing at the end of the period divided by average daily cost of sales for the same three-month period.

The cash conversion cycle was 55 days at December 31, 2021, which is increased in comparison to the cash conversion cycle 54 days at December 31, 2020.

Cash used in investing activities for the year ended December 31, 2021 consisted of $10.3 million of purchases of property and equipment. These expenditures were primarily for computer equipment and capitalized internally-developed software in connection with investments in our IT infrastructure. Cash used for capital expenditures for the year ended December 31, 2021 was partially offset by $1.5 million of cash proceeds from life insurance. Cash used in investing activities for the prior year consisted of $11.0 million purchases of property and equipment.

Cash used in financing activities increased for the year ended December 31, 2021 compared to the prior year and consisted primarily of $34.6 million in special dividend payments. In the prior year period, financing activities consisted primarily of a $8.4 million payment of a special $0.32 per share dividend and $10.2 million for the purchase of treasury shares.

Debt Instruments, Contractual Agreements, and Related Covenants

Below is a summary of certain provisions of our credit facilities and other contractual obligations. For more information about the restrictive covenants in our debt instruments and inventory financing agreements, see “Factors Affecting Sources of Liquidity” below. For more information about our obligations, commitments, and contingencies, see our consolidated financial statements and the accompanying notes included in this annual report.

Bank Line of Credit. Our bank line of credit extends until March 2025 and is collateralized by our accounts receivable. Our borrowing capacity is up to $50.0 million at the greatest of (i) the prime rate (3.25% at December 31, 2021), (ii) the federal funds effective rate plus 0.50% per annum and (iii) the one-month London Interbank Offered Rate, or LIBOR, plus 1.00% per annum, provided that the rate shall at no time be less than 0% per annum. In addition, we have the option to increase the facility by an additional $30.0 million to meet additional borrowing requirements. Our credit facility is subject to certain covenant requirements which are described below under “Factors Affecting Sources of Liquidity.” We did not have any borrowings under the credit facility at December 31, 2021.

In December of 2021, we entered into an amendment to our credit facility to, among other things, extend the maturity date to March 31, 2025, at which time any amounts outstanding become due. See “Part II – Item 9b. Other Information – Third Amendment to Third Amended and Restated Credit and Security Agreement” for additional information.

Cash receipts are automatically applied against any outstanding borrowings. Any excess cash on account may either remain on account to generate earned credits to offset up to 100% of cash management fees, or may be invested in short-term qualified investments. Borrowings under the line of credit are classified as current. At December 31, 2021, the entire $50.0 million facility was available for borrowing.

Operating Leases. We lease facilities from our principal stockholders and facilities from third parties under non-cancelable operating leases. Certain leases require us to pay real estate taxes, insurance, and common area maintenance charges.

Factors Affecting Sources of Liquidity

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

Bank Line of Credit. Our bank line of credit extends until March 2025 and is collateralized by our accounts receivable. As of December 31, 2021, the entire $50.0 million facility was available for borrowing. Our credit facility contains certain financial ratios and operational covenants and other restrictions (including restrictions on additional debt, guarantees, and other distributions, investments, and liens) with which we and all of our subsidiaries must comply. Any failure to comply with these covenants would constitute a default and could prevent us from borrowing additional funds under this line of credit. This credit facility contains two financial tests:

- The funded debt ratio (defined as the average outstanding advances under the line for the quarter, divided by the consolidated Adjusted EBITDA for the trailing four quarters) must not be more than 2.0 to 1.0. We don't have any outstanding borrowings under the credit facility during the fourth quarter of 2021, and accordingly, the funded debt ratio did not limit potential borrowings as of December 31, 2021. Future decreases in our consolidated Adjusted EBITDA, however, could limit our potential borrowings under the credit facility.

- Minimum Consolidated Net Worth must be at least $346.7 million, plus 50% of consolidated net income for each quarter, beginning with the quarter ended December 31, 2016. Such amount was calculated at December 31, 2021 as $516.8 million, whereas our actual consolidated stockholders' equity at this date was $682.5 million.

Capital Markets. Our ability to raise additional funds in the capital market depends upon, among other things, general economic conditions, the condition of the information technology industry, our financial performance and stock price, and the state of the capital markets. In addition, market volatility, inflation and interest rate fluctuations may increase our cost of financing or restrict our access to potential sources of future liquidity.

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A critical accounting policy has been defined as one that is both important to the portrayal of the registrant's financial condition and results and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Further, "critical accounting policies" are those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions.

We believe that our accounting policies described below meet the definition of critical accounting policies and estimates.

Revenue Recognition

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services. We enter into contracts that can include various combinations of products and services, which are generally capable of being distinct and accounted for as separate performance obligations. In most instances, when several performance obligations are aggregated into one single transaction, these performance obligations are fulfilled at the same point in time. We account for an arrangement when it has approval and commitment from both parties, the rights are identified, the contract has commercial substance, and collectability of consideration is probable. We generally obtain oral or written purchase authorizations from our customers for a specified amount of product at a specified price, which constitutes an arrangement. Revenue is recognized at the amount expected to be collected, net of any taxes collected from customers, which are subsequently remitted to governmental authorities. We generally invoice for our products at the time of shipping, and accordingly there is not a significant financing component included in our arrangements.

Nature of Products and Services

IT products typically represent a distinct performance obligation, and revenue is recognized at the point in time when control is transferred to the customer which is generally upon delivery to the customer. We recognize revenue as the principal in the transaction with the customer (i.e., on a gross basis), as we control the product prior to delivery to the customer and derive the economic benefits from the sales transaction given our control over customer pricing.

We do not recognize revenue for goods that remain in our physical possession before the customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from the products, the goods are ready for physical transfer to and identified as belonging to the customer, and when we have no ability to use the product or to direct it to another customer.

Licenses for on-premise software provide the customer with a right to take possession of the software. Customers may purchase perpetual licenses or enter into subscriptions to the licensed software. We are the principal in these transactions and recognize revenue for the on-premise license at the point in time when the software is made available to the customer and the commencement of the term of the software license or when the renewal term begins, as applicable.

For certain on-premise licenses for security software, the customer derives substantially all of the benefit from these arrangements through the third-party delivered software maintenance, which provides software updates and other support services. We do not have control over the delivery of these performance obligations, and accordingly we are the agent in these transactions. We recognize revenue for security software net of the related cost of sales at the point in time when our vendor and customer accept the terms and conditions in the sales arrangement. Cloud products allow customers to use hosted software over the contractual period without taking possession of the software and are provided on a subscription basis. We do not exercise control over these products or services and therefore are an agent in these transactions. We recognize revenue for cloud products net of the related costs of sales at the point in time when our vendor and customer accept the terms and conditions in the sales arrangements.

We use our own engineering personnel to assist in projects involving the design and installation of systems and networks, and we also engage third-party service providers to perform warranty maintenance, implementations, asset disposal, and other services. Service revenue is recognized in general over time as we perform the underlying services and satisfy our performance obligations. We evaluate such engagements to determine whether we are the principal or the agent in each transaction. For those transactions in which we do not control the service, we act as an agent and recognize the transaction revenue on a net basis at a point in time when the vendor and customer accept the terms and conditions in the sales arrangement.

Similarly, we recognize revenue from agency sales transactions on a net sales basis. In agency sales transactions, we facilitate product sales by equipment and software manufacturers directly to our customers and receive agency, or referral, fees for such transactions. We do not take title to the products or assume any maintenance or return obligations in these transactions; title is passed directly from the supplier to our customer. Amounts recognized on a net basis included in net sales for such third-party services and agency sales transactions were $50.0 million, $47.8 million, and $51.0 million for the years ended December 31, 2021, 2020, and 2019, respectively.

Certain software sales include on-premise licenses that are combined with software maintenance. Software maintenance conveys rights to updates, bug fixes and help desk support, and other support services transferred over the underlying contract period. On-premise licenses are considered distinct performance obligations when sold with the software maintenance, as we sell these items separately. We recognize revenue related to the software maintenance as the agent in these transactions because we do not have control over the on-going software maintenance service. Revenue allocated to software maintenance is recognized at the point in time when our vendor and customer accept the terms and conditions in the sales arrangements.

Certain of our larger customers are offered the opportunity by vendors to purchase software licenses and maintenance under enterprise agreements, or EAs. Under EAs, customers are considered to be compliant with applicable license requirements for the ensuing year, regardless of changes to their employee base. Customers are charged an annual true-up fee for changes in the number of users over the year. With most EAs, our vendors will transfer the license and bill the customer directly, paying resellers, such as us, an agency fee or commission on these sales. We record these agency fees as a component of net sales as earned and there is no corresponding cost of sales amount. In certain instances, we invoice the customer directly under an EA and account for the individual items sold based on the nature of each item. Our vendors typically dictate how the EA will be sold to the customer.

We also offer extended service plans, or ESP, on IT products, both as part of the initial arrangement and separately from the IT products. We recognize revenue related to ESP as the agent in the transaction because we do not have control over the on-going ESP service and do not provide any service after the sale. Revenue allocated to ESP is recognized at the point in time when our vendor and customer accept the terms and conditions in the sales arrangement.

All amounts billed to a customer in a sales transaction related to shipping and handling, if any, represent revenues earned for the goods provided, and these amounts have been included in net sales. Costs related to shipping and handling billing are classified as cost of sales. Sales are reported net of sales, use, or other transaction taxes that are collected from customers and remitted to taxing authorities.

Critical Accounting Estimates

Our contracts with customers often include promises to transfer multiple products or services to a customer. Determining whether we are the agent or the principal and whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment.

We estimate the standalone selling price, or SSP, for each distinct performance obligation when a single arrangement contains multiple performance obligations and the fulfillment occurs at different points of times. We maximize the use of observable inputs in the determination of the estimate for SSP for the items that we do not sell separately, including on-premise licenses sold with software maintenance, and IT products sold with ESP. In instances where SSP is not directly observable, such as when we do not sell the product or service separately, we determine the SSP using information that may include market conditions and other observable inputs.

We provide our customers with a limited thirty-day right of return, which is generally limited to defective merchandise, and gives rise to variable consideration. Revenue is recognized based on the most likely amount to which we are expected to be entitled. The estimated variable consideration is included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur once the uncertainty is resolved. We make estimates of product returns based on significant historical experience. We record our sales return reserve as a reduction of revenues and either as reduction of accounts receivable or, for customers who have already paid, as accrued expenses and as a reduction of cost of sales and an associated right of return asset. At December 31, 2021, we recorded sales reserves of $4.2 million and $0.2 million as components of accounts receivable and accrued expenses, respectively. At December 31, 2020, we recorded sales reserves of $4.0 million and $0.3 million as components of accounts receivable and accrued expenses, respectively.

We regularly evaluate the adequacy of our estimates for product returns. Future market conditions and product transitions may require us to take action to change such programs and related estimates. When the variables used to estimate these reserves change, or if actual results differ significantly from the estimates, we would be required to increase or reduce revenue to reflect the impact.

Accounts Receivable

We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and customers' current creditworthiness. Our allowance for credit losses is generally computed by (1) applying specific percentage reserves on accounts that are past due, and (2) specifically reserving for customers known to be in financial difficulty. Therefore, if the financial condition of certain of our customers were to deteriorate, or if we noted there was a lengthening of the timing of the settlement of receivables that was symptomatic of a general deterioration in the ability of our customers to pay, we would have to increase our allowance for credit losses. This would negatively impact our earnings. Our cash flows would be impacted to the extent that receivables could not be collected. For example, during the year ended December 31, 2021, we experienced delays in collecting amounts owed to us, and in some cases, we may be unable to collect amounts owed to us altogether. As a result of these delays and other considerations, we recorded bad debt expenses for reserve for credit losses for $3.3 million for the year ended December 31, 2021. During the year ended December 31, 2020, we recorded $3.3 million bad debt expenses for reserve for credit losses.

In addition to accounts receivable from customers, we record receivables from our vendors/suppliers for cooperative advertising, price protection, supplier reimbursements, rebates, and other similar arrangements. A portion of such receivables is estimated based on information available from our vendors at discrete points in time. While such estimates have historically approximated actual cash received, a change in estimates could give rise to a reduction in the receivable. This could negatively impact our earnings and our cash flows.

Our trade receivables are charged off in the period in which they are deemed uncollectible. Recoveries of trade receivables previously charged are recorded when received. Write offs of customer and vendor receivables totaled $3.9 million in 2021 and $0.1 million in 2020.

Considerable estimate is used in assessing the ultimate realization of customer receivables and vendor/supplier receivables, including reviewing the financial stability of a customer, vendor information, and gauging current market conditions. If our evaluations are incorrect, we may incur additional charges in the future on our consolidated statements of income.

Inventories

Inventories (all finished goods) consisting of software packages, computer systems, and peripheral equipment are stated at cost (determined under a weighted-average cost method which approximates the first-in, first-out method) or net realizable value, whichever is lower. Inventory quantities on hand are reviewed regularly, and provisions are made for obsolete, slow moving, and non-saleable inventory, based primarily on management’s forecast of customer demand for those products in inventory.

Estimate is used to determine the quarterly inventory allowance provision. Actual future write-offs of inventory for salability and obsolescence reasons may differ from estimates and calculations used to determine valuation allowances due to changes in customer demand, customer negotiations, technology shifts and other factors. The IT industry is characterized by rapid technological change and new product development that could result in increased obsolescence of inventory on hand. Increased obsolescence or decreased customer demand beyond management’s expectations could require additional provisions, which could negatively impact our earnings. We recorded obsolescence charges of $2.7 million, $1.7 million, and $3.4 million for the years ended 2021, 2020 and 2019, respectively. Historically, there have been no unusual charges precipitated by specific technological or forecast issues.

Value of Goodwill and Long-Lived Assets, Including Intangibles

We carry a variety of long-lived assets on our consolidated balance sheet, which are all currently classified as held for use. These include property and equipment, identifiable intangibles, an internet domain name, which is an indefinite-lived intangible asset not subject to amortization, and goodwill. An impairment review is undertaken on (1) an annual basis for goodwill and an indefinite-lived intangible; and (2) on an event-driven basis for all long-lived assets when facts and circumstances suggest that cash flows from such assets may be diminished. We have historically reviewed the carrying value of all these assets based partly on our projections of cash flows. Any impairment charge that is recorded negatively impacts our earnings.

Our Enterprise Solutions and Business Solutions segments hold $66.2 million and $7.4 million of goodwill, respectively. We test goodwill for impairment each year and more frequently if potential impairment indicators arise. In 2021 and 2020, we performed a “step 0” qualitative analysis. ASC 350—Intangible – Goodwill and Other states that an entity may assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. This analysis allows the Company to consider qualitative factors that might impact the carrying amount of its goodwill to determine whether a more detailed quantitative analysis would be necessary. Factors considered when performing the impairment assessment included the Company’s performance relative to historical and projected future operating results, macroeconomic conditions, industry and market trends, cost factors that may have a negative impact on earnings and cash flows, changes in the Company’s stock price and market capitalization, and other relevant entity-specific events. Based on the qualitative analysis, the Company determined goodwill was not impaired for the years ended December 31, 2021 and 2020. While we believe that our conclusions are reasonable, different assumptions could materially affect our valuations and result in impairment charges against the carrying values of those remaining assets in our Enterprise Solutions and Business Solutions segments. However, at December 31, 2021, a 10 percent decline in projected cash flows or 10 percent increase in the discount rate would not result in an impairment.

Please see Note 3, “Goodwill and Other Intangible Assets” to the Consolidated Financial Statements included in Item 8 of Part II of this report for a discussion of the significant assumptions used in our annual impairment test analysis.

RECENTLY ISSUED FINANCIAL ACCOUNTING STANDARDS

Recently issued financial accounting standards are detailed in Note 1, “Summary of Significant Accounting Policies,” in the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

We invest cash balances in excess of operating requirements in short-term securities, generally with maturities of 90 days or less. In addition, our bank line of credit provides for borrowings which bear interest at variable rates based on the greatest of (i) the prime rate (3.25% at December 31, 2021), (ii) the federal funds effective rate plus 0.50% per annum and (iii) the one-month London Interbank Offered Rate, or LIBOR, plus 1.00% per annum, provided that the rate shall at no time be less than 0% per annum. We believe the effect, if any, of reasonably possible near-term changes in interest rates on our financial position, results of operations, and cash flows should not be material. Our bank of line credit exposes earnings to changes in short-term interest rates since interest rates on the underlying obligations are variable. Our average outstanding borrowings during 2021 was minimal. Accordingly, the change in earnings resulting from a hypothetical 10% increase or decrease in interest rates is not material. Inflation generally affects us by increasing our cost of labor and research, manufacturing and development costs. We believe that inflation has not had a material effect on our financial statements included elsewhere in this Annual Report on Form 10-K. However, our operations may be subject to inflation in the future.

Item 8. Consolidated Financial Statements and Supplementary Data

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

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Management’s Evaluation of Disclosure Controls and Procedures

The Company’s management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company’s disclosure controls and procedures as of December 31, 2021. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The Company's disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives as described above. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective at the reasonable assurance level.

Management's Annual Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles and includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2021. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework (2013)*.

Based on its assessment, management concluded that, as of December 31, 2021, the Company's internal control over financial reporting was effective based on those criteria.

The Company's independent registered public accounting firm has issued an audit report on the Company's internal control over financial reporting as of December 31, 2021. This report appears below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of PC Connection, Inc. and subsidiaries (the “Company”) as of December 31, 2021, based on criteria established in *Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control — Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2021, of the Company and our report dated March 14, 2021, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Boston, Massachusetts
March 14, 2022

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal year ended December 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other information

Third Amendment to Third Amended and Restated Credit and Security Agreement.

We entered into a Third Amended and Restated Credit and Security Agreement on February 24, 2012, by and among us, the guarantors party thereto, the lenders from time to time party thereto, and Citizens Bank, N.A., or Citizens, as agent for the lenders, pursuant to which we may borrow up to $50.0 million, which amount may be increased to $80.0 million at our option in certain circumstances, or the Credit Facility. The Credit Facility includes various customary financial ratios and affirmative and negative operating covenants, including minimum net worth and maximum funded debt ratio requirements, and default acceleration provisions.

On December 2, 2021, we, as borrower, and GovConnection, Inc., PC Connection Sales Corporation, MoreDirect, Inc. and GlobalServe, Inc., as guarantors, entered into the Third Amendment to Third Amended and Restated Credit and Security Agreement with Citizens, as a lender and as agent for the lenders, or the Third Amendment. The Third Amendment, among other things, (i) extended the maturity date of the Credit Agreement from February 10, 2022 to March 31, 2025, (ii) replaced the Eurodollar Rate with the LIBOR Rate, (iii) replaced the Base Rate with the Alternate Base Rate, which is defined as a rate per annum equal to the greatest of (a) the Prime Rate in effect on such day, (b) the Federal Funds Effective Rate in effect on such day plus 0.50% per annum and (c) the Adjusted LIBOR Rate in effect on such day for deposits in dollars for a one month or three month interest period plus 1.00% per annum, provided that the Alternate Base Rate shall at no time be less than 0% per annum and (iv) modified the LIBOR Rate provisions to provide for a successor benchmark using the secured overnight financing rate, or SOFR. In connection with the Third Amendment, we paid a one-time facility fee to Citizens. Capitalized terms used in this Item 9B. and not otherwise defined herein shall have the respective meanings ascribed to them in the Third Amendment. The foregoing description of the Third Amendment does not purport to be complete and is qualified in its entirety by reference to the full text of the Third Amendment, which is filed as Exhibit 10.49 hereto and incorporated herein by reference.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not Applicable.

PART III

Item 10. Directors, Executive Officers, and Corporate Governance

In addition to the information included below, the information included under the headings “Election of Directors,” “Information Concerning Directors, Nominees, and Executive Officers,” “Delinquent Section 16(a) Reports,” “Code of Business Conduct and Ethics Policy,” “Director Candidates,” and “Board Committees – Audit Committee” in our definitive Proxy Statement for our 2022 Annual Meeting of Stockholders to be filed with the SEC (the “Proxy Statement”) is incorporated herein by reference. With the exception of the foregoing information and other information specifically incorporated by reference into this Form 10-K, the Proxy Statement is not being filed as a part hereof.

Information about our Executive Officers

Our executive officers and their ages as of March 14, 2022 are as follows:

Name	Age	Position
Patricia Gallup	67	Chair and Chief Administrative Officer
Timothy McGrath	63	President and Chief Executive Officer
Thomas Baker	56	Senior Vice President, Chief Financial Officer and Treasurer

Patricia Gallup is our co-founder and has served as Chair of our Board of Directors since September 1994, and as Chief Administrative Officer since August 2011. Ms. Gallup has served as a member of our executive management team since 1982.

Timothy McGrath has served as our Chief Executive Officer since August 2011, and as President since May 2010. Mr. McGrath has served as a member of our executive management team since he joined the Company in 2005.

Thomas Baker has served as our Chief Financial Officer and as a member of our executive management team since he joined the Company since March 2019. Prior to joining the Company, Mr. Baker had served as Corporate Vice President and Chief Financial Officer for the New Markets and Service Group at Applied Materials, Inc., a semiconductor capital equipment company, since 2013.

Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics that applies to our officers, including our principal executive, financial and accounting officers, and our directors and employees. We have posted the text of our Code of Business Conduct and Ethics under the “Investor Relations” section of our website, www.connection.com. We intend to disclose on our website any amendments to, or waivers from, the Code of Business Conduct and Ethics that are required to be disclosed pursuant to the disclosure requirements of Item 5.05 of Form 8-K.

Item 11. Executive Compensation

The information included under the headings “Executive Compensation” and “Director Compensation” in the Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information included under the headings “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” in the Proxy Statement is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information included under the headings “Certain Relationships and Related Transactions,” “Policies and Procedures for Related Person Transactions” and “Director Independence” in the Proxy Statement is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information included under the heading “Principal Accounting Fees and Services” and “Pre-Approval Policies and Procedures” in the Proxy Statement is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(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, as set forth below, is filed with this report:

All other schedules have been omitted because they are either not applicable or the relevant information has already been disclosed in the financial statements.

(3) The exhibits listed in the Exhibit Index in Item 15(b) below are filed as part of this Annual Report on Form 10-K.

(b) Exhibits

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

EXHIBIT INDEX

Exhibits	
3.1(5)	Amended and Restated Certificate of Incorporation of Registrant, as amended.
3.2(10)	Amended and Restated Bylaws of Registrant.
4.1(1)	Form of specimen certificate for shares of Common Stock, $0.01 par value per share, of the Registrant.
4.2 (28)	Description of Securities Registered Under Section 12 of the Exchange Act
9.1(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(1)*	Form of Registration Rights Agreement among the Registrant, Patricia Gallup, David Hall, and the 1998 PC Connection Voting Trust.
10.2 (29)*	2020 Stock Incentive Plan.
10.3(21)*	Amended and Restated 2007 Stock Incentive Plan, as amended.
10.4(23)*	Amended and Restated 1997 Employee Stock Purchase Plan, as amended.
10.5(9)*	Form of Incentive Stock Option Agreement for 2007 Stock Incentive Plan.
10.6(9)*	Form of Nonstatutory Stock Option Agreement for 2007 Stock Incentive Plan.
10.7(15)*	Amended and Restated Form of Restricted Stock Agreement for Amended and Restated 2007 Stock Incentive Plan.
10.8(15)*	Form of Restricted Stock Unit Agreement for Amended and Restated 2007 Stock Incentive Plan.
10.9(17)	Form of Stock Equivalent Unit Agreement for 2007 Amended and Restated Stock Incentive Plan.
10.10(19)*	Executive Bonus Plan, as amended.
10.11(1)*	Employment Agreement, dated as of January 1, 1998, between the Registrant and Patricia Gallup.
10.12(11)*	Employment Agreement, dated as of May 12, 2008, between the Registrant and Timothy McGrath.
10.13(7)	Agreement for Inventory Financing, dated as of October 31, 2002, by and among the Registrant, Merrimack Services Corporation, GovConnection, Inc., MoreDirect, Inc., and IBM Credit Corporation.
10.14(7)	Guaranty, dated as of November 14, 2002, entered into by Registrant in connection with the Agreement for Inventory Financing, dated as of October 31, 2002, by and among the Registrant, Merrimack Services Corporation, GovConnection, Inc., MoreDirect, Inc., and IBM Credit Corporation.
10.15(7)	Guaranty, dated as of November 14, 2002, entered into by PC Connection Sales Corporation in connection with the Agreement for Inventory Financing, dated as of October 31, 2002, by and among the Registrant, Merrimack Services Corporation, GovConnection, Inc., MoreDirect, Inc., and IBM Credit Corporation.
10.16(7)	Acknowledgement, Waiver, and Amendment to Agreement for Inventory Financing, dated as of November 25, 2003, by and among the Registrant, Merrimack Services Corporation, GovConnection, Inc., MoreDirect, Inc., and IBM Credit LLC.
10.17(8)	Second Amendment, dated May 9, 2004, to the Agreement for Inventory Financing between the Registrant and its subsidiaries Merrimack Services Corporation, GovConnection, Inc., and MoreDirect, Inc., and IBM Credit LLC.
10.18(8)	Third Amendment, dated May 27, 2005, to the Agreement for Inventory Financing between the Registrant and its subsidiaries Merrimack Services Corporation, GovConnection, Inc., and MoreDirect, Inc., and IBM Credit LLC.
10.19(18)	Fourth Amendment, dated May 11, 2006, to the Agreement for Inventory Financing between the Registrant and its subsidiaries Merrimack Services Corporation, GovConnection, Inc., and MoreDirect, Inc., and IBM Credit LLC.
10.20(18)	Fifth Amendment, dated September 19, 2010, to the Agreement for Inventory Financing between the Registrant and its subsidiaries Merrimack Services Corporation, GovConnection, Inc., and MoreDirect, Inc., and IBM Credit LLC.
10.21(18)	Sixth Amendment, dated January 10, 2012, to the Agreement for Inventory Financing between the Registrant and its subsidiaries GovConnection, Inc., and MoreDirect, Inc., and IBM Credit LLC.
10.22(25)	Seventh Amendment, dated July 16, 2014, to the Agreement for Inventory Financing between the Registrant and its subsidiaries GovConnection, Inc., and MoreDirect, Inc., and IBM Credit LLC.
10.23(25)	Eighth Amendment, dated July 13, 2015, to the Agreement for Inventory Financing between the Registrant and its subsidiaries GovConnection, Inc., and MoreDirect, Inc., and IBM Credit LLC.

10.24(25)	Ninth Amendment, dated January 4, 2017, to the Agreement for Inventory Financing between the Registrant and its subsidiaries GovConnection, Inc., and MoreDirect, Inc., and IBM Credit LLC.
10.25(25)	Agreement for Credit, dated January 1, 2014, by and among the Registrant, and its subsidiaries PC Connection Sales Corporation, GovConnection, Inc., and MoreDirect, Inc., and Castle Pines Capital LLC.
10.26(16)	Third Amended and Restated Credit and Security Agreement, dated February 24, 2012, among Citizens Bank of Massachusetts, as lender and as agent, other financial institutions party thereto from time to time, as lenders, PC Connection, Inc., as borrower, GovConnection, Inc., PC Connection Sales Corporation, MoreDirect, Inc., and Professional Computer Center, Inc., each as guarantors.
10.27(25)	First Amendment, dated December 24, 2013, to the Third Amended and Restated Credit and Security Agreement, among Citizens Bank of Massachusetts, as lender and as agent, other financial institutions party thereto from time to time, as lenders, PC Connection, Inc., as borrower, GovConnection, Inc., PC Connection Sales Corporation, MoreDirect, Inc., and Professional Computer Center, Inc., each as guarantors.
10.28(24)	Second Amendment, dated February 10, 2017, to the Third Amended and Restated Credit and Security Agreement, among Citizens Bank of Massachusetts, as lender and as agent, other financial institutions party thereto from time to time, as lenders, PC Connection, Inc., as borrower, GovConnection, Inc., PC Connection Sales Corporation, MoreDirect, Inc., and Professional Computer Center, Inc., each as guarantors.
10.29(1)	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.
10.30(2)	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.
10.31(14)	Amendment No. 2 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.
10.32(20)	Amendment No. 3, dated May 9, 2014, 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.
10.33(12)	Lease between the Merrimack Services Corporation and G&H Post LLC, dated August 11, 2008, for property located at Merrimack, New Hampshire.
10.34(22)	Lease Agreement between the Registrant and Wilmington Investors, LLC, dated August 27, 2014, for property located at 3188 Progress Way, Building 11, Wilmington, Ohio.
10.35(3)	Lease between ComTeq Federal, Inc. and Rockville Office/Industrial Associates dated December 14, 1993, for property located at 7503 Standish Place, Rockville, Maryland.
10.36(3)	First Amendment, dated November 1, 1996, to the Lease Agreement between ComTeq Federal, Inc. and Rockville Office/Industrial Associates, dated December 14, 1993, for property located in Rockville, Maryland.
10.37(3)	Second Amendment, dated March 31, 1998, to the Lease Agreement between ComTeq Federal, Inc. and Rockville Office/Industrial Associates, dated December 14, 1993, for property located in Rockville, Maryland.
10.38(3)	Third Amendment, dated August 31, 2000, to the Lease Agreement between ComTeq Federal, Inc. and Rockville Office/Industrial Associates, dated December 14, 1993, property located in Rockville, Maryland.
10.39(6)	Fourth Amendment, dated November 20, 2002, to the Lease Agreement between GovConnection, Inc. (formerly known as ComTeq Federal, Inc.) and Metro Park I, LLC (formerly known as Rockville Office/Industrial Associates), dated December 14, 1993, for property located in Rockville, Maryland.
10.40(8)	Fifth Amendment, dated December 12, 2005, to the Lease Agreement between GovConnection, Inc. and Metro Park I, LLC, dated December 14, 1993, for property located in Rockville, Maryland.
10.41(13)	Sixth Amendment, dated September 18, 2008, to the Lease Agreement between GovConnection, Inc. and Metro Park I, LLC, dated December 14, 1993, for property located in Rockville, Maryland.

10.42(17)	Seventh Amendment, dated May 21, 2012, to the Lease Agreement between GovConnection, Inc. and Metro Park I, LLC, dated December 14, 1993, for property located in Rockville, Maryland.
10.43(26)*	Employment Agreement, dated March 1, 2019, between the Registrant and Thomas Baker
10.44(26)*	Letter Agreement, dated February 28, 2019, between the Registrant and Stephen Sarno.
10.45(27)	Amendment No. 1, dated April 16, 2015, to Lease Agreement between the Registrant and Wilmington Investors, LLC, dated August 27, 2014, for property located at 3336 Progress Way, Building 11, Wilmington, OH
10.46(30)	Incentive and Retention agreement, dated as of March 15, 2021, between the Registrant and Timothy McGrath.
10.47(30)	Incentive and Retention agreement, dated March 15, 2021, between the Registrant and Thomas Baker
10.48(29)	Form of Restricted Stock Units for 2020 Stock Incentive Plan
10.49**	Third Amendment, dated December 2, 2021, to the Third Amended and Restated Credit and Security Agreement, among Citizens Bank of Massachusetts, as lender and as agent, other financial institutions party thereto from time to time, as lenders, PC Connection, Inc., as borrower, GovConnection, Inc., PC Connection Sales Corporation, MoreDirect, Inc., and Professional Computer Center, Inc., each as guarantors.
21.1	Subsidiaries of Registrant.
23.1	Consent of Deloitte & Touche LLP.
31.1	Certification of the Company's President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Company's Senior Vice President, Chief Financial Officer and Treasurer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Company's President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Company's Senior Vice President, Chief Financial Officer and Treasurer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS **	Inline XBRL Instance Document* - The Instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
101.SCH **	Inline XBRL Taxonomy Extension Schema Document.
101.CAL **	Inline XBRL Taxonomy Calculation Linkbase Document.
101.DEF **	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB **	Inline XBRL Taxonomy Label Linkbase Document.
101.PER **	Inline XBRL Taxonomy Presentation Linkbase Document.
104**	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101)

---

(1) 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.
(2) 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.
(3) Incorporated by reference from exhibits filed with the Company's annual report on Form 10-K, File Number 0-23827, filed on March 30, 2001.
(4) Incorporated by reference from exhibits filed with the Company's proxy statement pursuant to Section 14(a), File Number 0-23827, filed on April 17, 2001.
(5) Incorporated by reference from the exhibits filed with the Company's registration statement (333-63272) on Form S-4 filed under the Securities Act of 1933.
(6) Incorporated by reference from exhibits filed with the Company's annual report on Form 10-K, File Number 0-23827, filed on March 31, 2003.
(7) Incorporated by reference from exhibits filed with the Company's annual report on Form 10-K, File Number 0-23827, filed on March 30, 2004.
(8) Incorporated by reference from exhibits filed with the Company's annual report on Form 10-K, File Number 0-23827, filed on March 30, 2006.
(9) Incorporated by reference from exhibits filed with the Company's quarterly report on Form 10-Q, filed on August 10, 2007.

(10) Incorporated by reference from exhibits filed with the Company’s current report on Form 8-K, filed on January 9, 2008.
(11) Incorporated by reference from exhibits filed with the Company's quarterly report on Form 10-Q, filed on May 12, 2008.
(12) Incorporated by reference from exhibits filed with the Company's quarterly report on Form 10-Q, filed on August 11, 2008.
(13) Incorporated by reference from exhibits filed with the Company's quarterly report on Form 10-Q, filed on November 10, 2008.
(14) Incorporated by reference from exhibits filed with the Company’s annual report on Form 10-K, File Number 0-23827, filed on March 16, 2009.
(15) Incorporated by reference from exhibits filed with the Company's quarterly report on Form 10-Q, filed on November 10, 2010.
(16) Incorporated by reference from exhibits filed with the Company’s annual report on Form 10-K, File Number 0-23827, filed on February 28, 2012.
(17) Incorporated by reference from exhibits filed with the Company's quarterly report on Form 10-Q, filed on August 8, 2012.
(18) Incorporated by reference from exhibits filed with the Company's annual report on Form 10-K, File Number 0-23827, filed on March 4, 2013.
(19) Incorporated by reference from exhibits filed with the Company’s current report on Form 8-K, filed on May 29, 2013.
(20) Incorporated by reference from exhibits filed with the Company's quarterly report on Form 10-Q, filed on May 9, 2014.
(21) Incorporated by reference from Appendix A filed with the Company’s proxy statement pursuant to Section 14(a), File Number 0-23827, filed on April 9, 2019.
(22) Incorporated by reference from exhibits filed with the Company's quarterly report on Form 10-Q, filed on October 31, 2014.
(23) Incorporated by reference from Appendix B filed with the Company’s proxy statement pursuant to Section 14(a), File Number 0-23827, filed on April 9, 2019.
(24) Incorporated by reference from exhibits filed with the Company’s current report on Form 8-K, filed on February 16, 2017.
(25) Incorporated by reference from exhibits filed with the Company's annual report on Form 10-K, File Number 0-23827, filed on March 3, 2017.
(26) Incorporated by reference from exhibits filed with the Company's quarterly report on Form 10-Q, filed on May 2, 2019.
(27) Incorporated by reference from exhibits filed with the Company's quarterly report on Form 10-Q, filed on October 30, 2019.
(28) Incorporated by reference from exhibits filed with the Company's quarterly report on Form 10-K, filed on February 6, 2020.
(29) Incorporated by reference from exhibits filed with the Company's annual report on Form 10-K, filed on March 16, 2021.
(30) Incorporated by reference from exhibits filed with the Company's quarterly report on Form 10-Q, filed on May 7, 2021.

* Management contract or compensatory plan or arrangement.
** Submitted electronically herewith.

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets at December 31, 2021 and December 31, 2020, (ii) Consolidated Statements of Income for the years ended December 31, 2021, 2020, and 2019, (iii) Consolidated Statements of Changes in Stockholders’ Equity for the years ended December 31, 2021, 2020, and 2019, (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2021, 2020, and 2019, and (v) Notes to Consolidated Financial Statements.

Attached as Exhibit 104 to this report is the Cover Page Interactive Data File (embded within the Inline XBRL document).

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PC CONNECTION, INC.

Date: March 14, 2022

By: /s/ TIMOTHY J. MCGRATH
Timothy J. McGrath
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ TIMOTHY J. MCGRATH **Timothy J. McGrath**	President and Chief Executive Officer (Principal Executive Officer)	March 14, 2022
/s/ THOMAS C. BAKER **Thomas C. Baker**	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	March 14, 2022
/s/ PATRICIA GALLUP **Patricia Gallup**	Chairman of the Board	March 14, 2022
/s/ DAVID BEFFA-NEGRINI **David Beffa-Negrini**	Director	March 14, 2022
/s/ BARBARA DUCKETT **Barbara Duckett**	Director	March 14, 2022
/s/ JACK FERGUSON **Jack Ferguson**	Director	March 14, 2022
/s/ Gary Kinyon **Gary Kinyon**	Director	March 14, 2022

PC CONNECTION, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of PC Connection, Inc. and subsidiaries (the "Company") as of December 31, 2021 and 2020, 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, 2021, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 14, 2022, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Revenue — Refer to Notes 1 and 2 to the financial statements

Critical Audit Matter Description

As described in Note 1 to the consolidated financial statements, the Company recognizes revenue upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services.

Significant judgment is exercised by the Company in determining revenue recognition for these customer agreements, and includes the following:

- Determination of whether products and services are considered distinct performance obligations that should be accounted for separately versus together, such as hardware, software and maintenance products as well as services related to the installation or implementation of products.
- Determination of stand-alone selling prices for each distinct performance obligation and for products and services.
- As a reseller, the determination if they are the principal or the agent for each performance obligation, which impacts whether the related revenue for each performance obligations is recognized on a gross or net basis.

- The timing of transfer of control for each distinct performance obligation and the identification and treatment of contract terms that may impact the timing and amount of revenue recognized.

Given these factors and due to the volume of transactions, the related audit effort in evaluating management's judgments in determining revenue recognition for these customer agreements was extensive and required a high degree of auditor judgment.

How the Critical Audit Matter Was Addressed in the Audit

Our principal audit procedures related to the Company's revenue recognition for these customer agreements included the following:

- We evaluated management's significant accounting policies related to these customer agreements for reasonableness.
- We selected a sample of customer contracts and performed the following procedures:
  - Obtained and read contract source documents for each selection, including master agreements, and other documents that were part of the agreement.
  - Tested management's identification and treatment of contract terms.
  - Assessed the terms in the customer agreement and evaluated the appropriateness of management's application of their accounting policies, along with their use of estimates, in the determination of revenue recognition conclusions.
- We evaluated the reasonableness of management's estimate of stand-alone selling prices for products and services that are not sold separately.
- We selected a sample of products and services sold and performed an evaluation of the Company’s determination of principal versus agent.
- We selected a sample of orders shipped at year end and evaluated whether revenue has been properly recognized by comparing the IT products shipped to the respective contract or customer purchase order if applicable and evidence of transfer of control.
- We tested the mathematical accuracy of management's calculations of revenue and the associated timing of revenue recognized in the financial statements.

/s/ Deloitte & Touche LLP

Boston, Massachusetts

March 14, 2022

We have served as the Company's auditor since 1984

PC CONNECTION, INC. AND SUBSIDIARIES

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

	December 31, 2021	December 31, 2020
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 108,310	$ 95,655
Accounts receivable, net	607,532	611,021
Inventories, net	206,555	140,867
Prepaid expenses and other current assets	10,016	11,437
Total current assets	932,413	858,980
Property and equipment, net	61,011	61,537
Right-of-use assets	9,579	12,821
Goodwill	73,602	73,602
Intangibles assets, net	5,868	7,088
Other assets	910	1,345
Total Assets	$ 1,083,383	$ 1,015,373
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 281,836	$ 266,846
Accrued payroll	30,966	17,828
Accrued expenses and other liabilities	61,830	57,586
Total current liabilities	374,632	342,260
Deferred income taxes	19,278	18,525
Noncurrent operating lease liabilities	6,789	9,631
Other liabilities	211	8,630
Total Liabilities	400,910	379,046
Stockholders' Equity:		
Common Stock, $.01 par value, 100,000 shares authorized, 29,025 and 28,943 issued, 26,252 and 26,170 outstanding at December 31, 2021 and 2020, respectively	290	289
Additional paid-in capital	122,354	119,891
Retained earnings	605,766	562,084
Treasury stock at cost, 2,773 and 2,773 shares at December 31, 2021 and 2020, respectively	(45,937)	(45,937)
Total Stockholders' Equity	682,473	636,327
Total Liabilities and Stockholders' Equity	$ 1,083,383	$ 1,015,373

See notes to consolidated financial statements.

PC CONNECTION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(amounts in thousands, except per share data)

	Years Ended December 31,		
	2021	**2020**	**2019**
Net sales	$ 2,892,595	$ 2,590,290	$ 2,820,034
Cost of sales	2,428,016	2,171,483	2,368,724
Gross profit	464,579	418,807	451,310
Selling, general and administrative expenses	368,062	345,741	338,635
Restructuring and other charges	—	992	703
Income from operations	96,517	72,074	111,972
Other income, net	5	1,122	707
Income before taxes	96,522	73,196	112,679
Income tax provision	(26,616)	(17,431)	(30,568)
Net income	$ 69,906	$ 55,765	$ 82,111
Earnings per common share:			
Basic	$ 2.67	$ 2.13	$ 3.12
Diluted	$ 2.65	$ 2.12	$ 3.10
Shares used in computation of earnings per common share:			
Basic	26,196	26,157	26,335
Diluted	26,364	26,336	26,505

See notes to consolidated financial statements.

PC CONNECTION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(amounts in thousands)

	Common Stock		Additional	Retained	Treasury Shares		
	Shares	**Amount**	**Paid-In Capital**	**Earnings**	**Shares**	**Amount**	**Total**
Balance - December 31, 2018	28,787	$ 288	$ 115,842	$ 441,010	(2,391)	$ (31,237)	$ 525,903
Issuance of common stock under Employee Stock Purchase Plan	32	—	1,253	—	—	—	1,253
Stock-based compensation expense	—	—	1,863	—	—	—	1,863
Restricted stock units vested	51	—	—	—	—	—	—
Shares withheld for taxes paid on stock awards	—	—	(913)	—	—	—	(913)
Repurchase of common stock for treasury	—	—	—	—	(135)	(4,478)	(4,478)
Dividend declaration	—	—	—	(8,427)	—	—	(8,427)
Net income	—	—	—	82,111	—	—	82,111
Balance - December 31, 2019	28,870	$ 288	$ 118,045	$ 514,694	(2,526)	$ (35,715)	$ 597,312
Issuance of common stock under Employee Stock Purchase Plan	12	—	536	—	—	—	536
Stock-based compensation expense	—	—	2,668	—	—	—	2,668
Restricted stock units vested	61	1	(1)	—	—	—	—
Shares withheld for taxes paid on stock awards	—	—	(1,357)	—	—	—	(1,357)
Repurchase of common stock for treasury	—	—	—	—	(247)	(10,222)	(10,222)
Dividend declaration	—	—	—	(8,375)	—	—	(8,375)
Net income	—	—	—	55,765	—	—	55,765
Balance - December 31, 2020	28,943	$ 289	$ 119,891	$ 562,084	(2,773)	$ (45,937)	$ 636,327
Stock-based compensation expense	—	—	4,231	—	—	—	4,231
Restricted stock units vested	82	1	(1)	—	—	—	—
Shares withheld for taxes paid on stock awards	—	—	(1,767)	—	—	—	(1,767)
Dividend declaration	—	—	—	(26,224)	—	—	(26,224)
Net income	—	—	—	69,906	—	—	69,906
Balance - December 31, 2021	29,025	$ 290	$ 122,354	$ 605,766	(2,773)	$ (45,937)	$ 682,473

See notes to consolidated financial statements.

PC CONNECTION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(amounts in thousands)

	Years Ended December 31,		
	2021	2020	2019
Cash Flows provided by Operating Activities:			
Net income	$ 69,906	$ 55,765	$ 82,111
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	12,202	13,603	13,314
Adjustments to credit losses reserve	3,307	3,316	25
Stock-based compensation expense	4,231	2,668	1,863
Deferred income taxes	753	(1,645)	2,986
Gain from life insurance	—	(1,061)	—
(Gain) loss on disposal of fixed assets	(36)	28	213
Changes in assets and liabilities:			
Accounts receivable	(1,318)	(63,650)	(101,953)
Inventories	(65,688)	(16,201)	(5,471)
Prepaid expenses and other current assets	1,421	622	(1,476)
Other non-current assets	435	(398)	264
Accounts payable	14,814	32,515	34,960
Accrued expenses and other liabilities	17,727	10,536	9,767
Net cash provided by operating activities	57,754	36,098	36,603
Cash Flows used in Investing Activities:			
Purchases of equipment and capitalized software	(10,302)	(11,033)	(25,656)
Proceeds from sale of equipment	69	—	—
Proceeds from life insurance	1,500	—	—
Net cash used in investing activities	(8,733)	(11,033)	(25,656)
Cash Flows used in Financing Activities:			
Purchase of treasury shares	—	(10,222)	(4,478)
Dividend payments	(34,599)	(8,427)	(8,452)
Issuance of stock under Employee Stock Purchase Plan	—	536	1,253
Payment of payroll taxes on stock-based compensation through shares withheld	(1,767)	(1,357)	(913)
Net cash used in financing activities	(36,366)	(19,470)	(12,590)
Increase (decrease) in cash and cash equivalents	12,655	5,595	(1,643)
Cash and cash equivalents, beginning of year	95,655	90,060	91,703
Cash and cash equivalents, end of year	$ 108,310	$ 95,655	$ 90,060
Non-cash Investing and Financing Activities:			
Accrued capital expenditures	$ 334	$ 442	$ 1,463
Dividend declarations	—	8,375	8,427
Life insurance recorded as receivable	—	1,500	—
Supplemental Cash Flow Information:			
Income taxes paid	$ 21,465	$ 19,441	$ 28,460

See notes to consolidated financial statements.

PC CONNECTION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, except per share data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PC Connection, Inc. is a Fortune 1000 Global Solutions Provider that simplifies the information technology, or IT, purchasing experience, guiding the connection between people and technology. The Company's dedicated Account Managers partner with customers to design, deploy, and support cutting-edge IT environments using the latest hardware, software, and services. The Company provides a wide range of IT solutions, from the desktop to the cloud—including computer systems, data center solutions, software and peripheral equipment, networking communications, and other products and accessories that the Company purchases from manufacturers, distributors, and other suppliers. The Company also offers comprehensive portfolio of managed services and professional services. These services are performed by the Company's personnel and by third-party providers. The Company's GlobalServe offering ensures worldwide coverage for the Company's multinational customers, delivering global procurement solutions through the Company's network of incountry suppliers in over 150 countries.

The Company operates through three sales segments:

- Connection Enterprise Solutions (formerly MoreDirect)—serving large enterprise customers (Large Accounts)
- Connection Business Solutions (formerly PC Connection Sales Corp)—serving SMBs
- Connection Public Sector Solutions (formerly GovConnection)—serving federal, state, and local government and educational institutions

The following is a summary of the Company's significant accounting policies:

Principles of Consolidation

The consolidated financial statements include the accounts of PC Connection, Inc. and its subsidiaries, all of which are wholly-owned. 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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts and disclosures of assets and liabilities and the reported amounts and disclosures of revenue and expenses during the period. Management bases its estimates and judgments on the information available at the time and various other assumptions believed to be reasonable under the circumstances. By nature, estimates are subject to an inherent degree of uncertainty. Actual results could differ from those estimates and assumptions.

Revenue Recognition

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. The Company enters into contracts that can include various combinations of products and services, which are generally capable of being distinct and accounted for as separate performance obligations. In most instances, when several performance obligations are aggregated into one single transaction, these performance obligations are fulfilled at the same point in time. The Company accounts for an arrangement when it has approval and commitment from both parties, the rights are identified, the contract has commercial substance, and collectability of consideration is probable. The Company generally obtains oral or written purchase authorizations from its customers for a specified amount of product at a specified price, which constitutes an arrangement. Revenue is recognized at the amount expected to be collected, net of any taxes collected from customers, which are subsequently remitted to governmental authorities. The Company generally invoices for its products at the time of shipping, and accordingly there is not a significant financing component included in our arrangements.

Cost of Sales and Certain Other Costs

Cost of sales includes the invoice cost of the product, direct employee and third party cost of services, direct costs of packaging, inbound and outbound freight, and provisions for inventory obsolescence, adjusted for discounts, rebates, and other vendor allowances.

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 our cash equivalents approximates fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The accounting guidance includes a fair value hierarchy that priorities the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are as as follows:

- *Level 1*: Quoted prices for identical assets or liabilities in active markets.;
- *Level 2*: Observable inputs other than those described as Level 1;
- *Level 3*: Unobservable inputs that are supportable by little or no market activities and are based on significant assumptions and estimates.;

The company's money market funds are valued at the closing price reported by the fund sponsor from an actively traded exchange. It is included as cash equivalents within the Company's consolidated balance sheet and is categorized as a level 1 measurement.

The majority of payments due from credit card processors and banks for third-party credit card and debit card transactions process within one to five business days. All credit card and debit card transactions that process in less than seven days are classified as cash and cash equivalents. Amounts due from banks for credit card transactions classified as cash equivalents totaled $4,748 and $3,776 at December 31, 2021 and 2020, respectively.

Accounts Receivable

Account receivable are recorded at the invoice amount, net of allowances. Customers are evaluated for their credit worthiness at the time of contract inception and, the Company performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and customer creditworthiness. Based on the results of the credit assessments, the Company will extend credit under its standard payment terms or may request alternative early payment actions. The Company determines the required allowance for expected credit losses using information such as its customer credit history and financial condition, industry and market segment information, credit reports, and economic trends and conditions. Allowances can be affected by changes in the industry, customer credit issues or customer bankruptcies or expectations of any such events in a future period when reasonable and supportable. Historical information is utilized beyond reasonable and supportable forecast periods. Amounts are charged against the allowance when it is determined that expected credit losses may occur. We assess collectability by reviewing account receivable on an aggregated basis where similar characteristics exist and on an individual basis when we identify specific customers with collectability issues, and if necessary, records a reserve against those receivables it determines may not be collectable. Trade receivables are written off in the period in which they are deemed uncollectible. Recoveries of trade receivables previously charged are recorded when received.

Inventories

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

Advertising Costs and Vendor Consideration

Vendors have the ability to fund advertising activities for which the Company receives advertising consideration. This vendor consideration, to the extent that it represents specific reimbursements of incremental and identifiable costs, is offset against selling, general and administrative expenses ("SG&A") expenses. Advertising consideration that cannot be associated with a specific program or that exceeds the fair value of advertising expense associated with that program is classified as an offset to cost of sales. The Company's vendor partners generally consolidate their funding of advertising and other marketing programs, and accordingly, the Company classifies substantially all vendor consideration as a reduction of cost of sales rather than a reduction of advertising expense. Other advertising costs are expensed as incurred. Advertising expense, which is classified as a component of SG&A expenses, totaled $15,827, $14,021, and $19,407 for the years ended December 31, 2021, 2020, and 2019, respectively.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation and amortization. The estimated useful lives of the assets range from three to seven years. Computer software, including licenses and internally developed software, is capitalized and amortized over lives generally ranging from three to ten years. Depreciation is recorded using the straight-line method. 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.

Costs incurred to develop internal-use software during the application development stage are recorded in property and equipment at cost. External direct costs of materials and services consumed in developing or obtaining internal-use computer software and payroll-related costs for employees developing internal-use computer software projects, to the extent of their time spent directly on the project and specific to application development, are capitalized.

When events or circumstances indicate a potential impairment, the Company evaluates the carrying value of property and equipment based upon current and anticipated undiscounted cash flows. The Company recognizes impairment when it is probable that such estimated future cash flows will be less than the asset carrying value. No property and equipment impairment was recognized for each of the years ended December 31, 2021, 2020 and 2019.

Leases

The Company enters into operating lease contracts, as assessed at contract inception, primarily for real estate and equipment. On the lease commencement date, the Company records operating lease liabilities based on the present value of the future lease payments. In determining the present value of future lease payments, the Company utilized estimated rates that it would have incurred to borrow, over a similar term, the funds necessary to purchase the respective leased asset with cash.

The Company elects to apply the short-team lease exception to any leases with contractual obligations of one year or less. These leases will not have a right-of-use ("ROU") assets and associated lease liabilities on the balance sheet. Instead, rent will be recognized on a straight-line

Goodwill and Other Intangible Assets

The Company's intangible assets consist of (1) goodwill, which is not subject to amortization; (2) an internet domain name, which is an indefinite-lived intangible not subject to amortization; and (3) amortizing intangibles, which consist of customer lists, trade names, and customer relationships, which are being amortized over their useful lives.

Note 3 describes the annual impairment methodology that the Company uses each year in calculating the recoverability of goodwill and non-amortizing intangibles. This same impairment test is performed at other times during the course of a year should an event occur or circumstance change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

Recoverability of amortizing intangible assets is assessed only when events have occurred that may give rise to impairment. When a potential impairment has been identified, forecasted undiscounted net cash flows of the operations to which the asset relates are compared to the current carrying value of the long-lived assets present in that operation. If such cash flows are less than such carrying amounts, long-lived assets including such intangibles, are written down to their respective fair values. No intangible assets impairment was recognized for each of the years ended December 31, 2021, 2020 and 2019.

Concentrations

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. No single customer accounted for more than 4% of total net sales in 2021, 2020, and 2019.

Product purchases from Ingram Micro, Inc., TD Synnex Corporation, and Dell Inc. accounted for approximately 23%, 23% and 12% respectively, of our total product purchases in 2021. Product purchases from Ingram Micro, Inc., TD Synnex Corporation and HP Inc. accounted for approximately 21%, 15% and 12% respectively, of the Company's total product purchases in 2020. Product purchases from Ingram Micro, Inc., TD Synnex Corporation and HP Inc. accounted for approximately 21%, 14% and 8% respectively, of the Company's total product purchases in 2019. No other singular vendor supplied more than 10% of the Company's total product purchases in 2021, 2020 and 2019. We believe that, while the Company may experience some short-term disruption if products from Ingram Micro, Inc., TD Synnex Corporation, Dell Inc., and HP Inc., or any of these vendors become unavailable to us, alternative sources for these products are available.

Products manufactured by HP Inc. collectively represented approximately 15% of the Company's net sales in 2021, 18% in 2020 and 19% in 2019. In the event the Company experiences either a short-term or permanent disruption of supply of HP products, such disruption would likely have a material adverse effect on the Company's results of operations and cash flows.

Restructuring and other charges

Restructuring and other charges are presented separately from SG&A expenses. In the years ended December 31 2020 and 2019, we undertook actions across the business to lower our cost structure and align our business in an effort to improve our ability to execute our strategy. In connection with these restructuring initiatives, we incurred restructuring and related costs of $1.0 million and $0.7 million for the years ended December 31, 2020 and 2019, respectively. There were no restructuring related costs incurred for the year ended December 31, 2021.

Earnings Per Share

Basic earnings per common share is computed using the weighted average number of shares outstanding. Diluted earnings per share is computed using the weighted average number of shares outstanding adjusted for the incremental shares attributable to nonvested stock units and stock options outstanding, if dilutive.

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

	2021	2020	2019
Numerator:			
Net income	$ 69,906	$ 55,765	$ 82,111
Denominator:			
Denominator for basic earnings per share	26,196	26,157	26,335
Dilutive effect of employee stock awards	168	179	170
Denominator for diluted earnings per share	26,364	26,336	26,505
Earnings per share:			
Basic	$ 2.67	$ 2.13	$ 3.12
Diluted	$ 2.65	$ 2.12	$ 3.10

For the years ended December 31, 2021, 2020, and 2019, the Company did not exclude any outstanding nonvested stock units or stock options from the computation of diluted earnings per share because including them would have had an anti-dilutive effect.

Recently Issued Financial Accounting Standards

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848)*: *Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This guidance provides temporary optional expedients and exceptions to the U.S. GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens of the expected market transition from the London Interbank Offered Rate (“LIBOR”) and other interbank offered rates to alternative reference rates, such as the Secured Overnight Financing Rate. This ASU is applied prospectively and becomes effective immediately upon the transition from LIBOR. The Company’s secured credit facility agreement references LIBOR, which is expected to be discontinued as a result of reference rate reform. The optional amendments are effective as of March 12, 2020 through December 31, 2022. The Company is currently evaluating the effect of the adoption of this standard on the Company, but does not believe the adoption will have a material effect on its consolidated financial statements.

2. REVENUE

Nature of Products and Services

Information technology (“IT”) products typically represent a distinct performance obligation, and revenue is recognized at the point in time when control is transferred to the customer which is generally upon delivery to the customer. The Company recognizes revenue as the principal in the transaction with the customer (i.e., on a gross basis), as it controls the product prior to delivery to the customer and derive the economic benefits from the sales transaction given the Company’s control over customer pricing.

The Company does not recognize revenue for goods that remain in its physical possession before the customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from the products, the goods are ready for physical transfer to and identified as belonging to the customer, and when the Company has no ability to use the product or to direct it to another customer.

Licenses for on-premise software provide the customer with a right to take possession of the software. Customers may purchase perpetual licenses or enter into subscriptions to the licensed software. The Company is the principal in these transactions and recognizes revenue for the on-premise license at the point in time when the software is made available to the customer and the commencement of the term of the software license or when the renewal term begins, as applicable.

For certain on-premise licenses for security software, the customer derives substantially all of the benefit from these arrangements through the third-party delivered software maintenance, which provides software updates and other support services. The Company does not have control over the delivery of these performance obligations, and accordingly the Company is the agent in these transactions. The Company recognizes revenue for security software net of the related costs of sales at the point in time when its vendor and customer accept the terms and conditions in the sales arrangement. Cloud products allow customers to use hosted software over the contractual period without taking possession of the software and are provided on a subscription basis. The Company does not exercise control over these products or services and therefore is an agent in these transactions. The Company recognizes revenue for cloud products net of the related costs of sales at the point in time when its vendor and customer accept the terms and conditions in the sales arrangements.

Certain software sales include on-premise licenses that are combined with software maintenance. Software maintenance conveys rights to updates, bug fixes and help desk support, and other support services transferred over the underlying contract period. On-premise licenses are considered distinct performance obligations when sold with the software maintenance, as the Company sells these items separately. The Company recognizes revenue related to the software maintenance as the agent in these transactions because it does not have control over the on-going software maintenance service. Revenue allocated to software maintenance is recognized at the point in time when the Company's vendor and customer accept the terms and conditions in the sales arrangements.

Certain of the Company's larger customers are offered the opportunity by vendors to purchase software licenses and maintenance under enterprise agreements ("EAs"). Under EAs, customers are considered to be compliant with applicable license requirements for the ensuing year, regardless of changes to their employee base. Customers are charged an annual true-up fee for changes in the number of users over the year. With most EAs, the Company's vendors will transfer the license and bill the customer directly, paying resellers, such as the Company, an agency fee or commission on these sales. The Company records these agency fees as a component of net sales as earned and there is no corresponding cost of sales amount. In certain instances, the Company invoices the customer directly under an EA and account for the individual items sold based on the nature of each item. The Company's vendors typically dictate how the EA will be sold to the customer.

The Company also offers extended service plans ("ESP") on IT products, both as part of the initial arrangement and separately from the IT products. The Company recognizes revenue related to ESP as the agent in the transaction because it does not have control over the on-going ESP service and does not provide any service after the sale. Revenue allocated to ESP is recognized at the point in time when the Company's vendor and customer accept the terms and conditions in the sales arrangement.

The Company uses its own engineering personnel to assist in projects involving the design and installation of systems and networks, and also engages third-party service providers to perform warranty maintenance, implementations, asset disposal, and other services. Service revenue is recognized in general over time as the Company performs the underlying services and satisfies its performance obligations. The Company evaluates such engagements to determine whether it is the principal or the agent in each transaction. For those transactions in which the Company does not control the service, the Company acts as an agent and recognizes the transaction revenue on a net basis at a point in time when the vendor and customer accept the terms and conditions in the sales arrangement.

All amounts billed to a customer in a sales transaction related to shipping and handling, if any, represent revenues earned for the goods provided, and these amounts have been included in net sales. Costs related to shipping and handling billing are classified as cost of sales. Sales are reported net of sales, use, or other transaction taxes that are collected from customers and remitted to taxing authorities.

Significant Judgments

The Company's contracts with customers often include promises to transfer multiple products or services to a customer. Determining whether the Company is the agent or the principal and whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment.

The Company estimates the standalone selling price ("SSP") for each distinct performance obligation when a single arrangement contains multiple performance obligations and the fulfillment occurs at different points of times. The Company maximizes the use of observable inputs in the determination of the estimate for SSP for the items that it does not sell separately, including on-premise licenses sold with software maintenance, and IT products sold with ESP. In instances where SSP is not directly observable, such as when the Company does not sell the product or service separately, the Company determines the SSP using information that may include market conditions and other observable inputs.

The Company provides its customers with a limited thirty-day right of return, which is generally limited to defective merchandise, and gives rise to variable consideration. Revenue is recognized based on the most likely amount to which it is expected to be entitled. The estimated variable consideration is included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur once the uncertainty is resolved. The Company makes estimates of product returns based on significant historical experience. The Company records its sales return reserve as a reduction of revenues and either as reduction of accounts receivable or, for customers who have already paid, as accrued expenses and as a reduction of cost of sales and an associated right of return asset.

Description of Revenue

The Company disaggregates revenue from its arrangements with customers by type of products and services, as it believes this method best depicts how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors.

The following tables represent a disaggregation of revenue from arrangements with customers for the year ended December 31, 2021, 2020 and 2019, along with the reportable segment for each category.

	For the Year Ended December 31, 2021			
	Business Solutions	Enterprise Solutions	Public Sector Solutions	Total
Notebooks/Mobility	$ 426,022	$ 428,868	$ 241,146	$ 1,096,036
Desktops	87,822	140,468	45,989	274,279
Software	120,104	119,423	39,611	279,138
Servers/Storage	92,922	66,027	37,081	196,030
Net/Com Products	81,681	86,454	34,336	202,471
Displays and Sound	99,474	125,610	59,153	284,237
Accessories	115,048	179,249	44,104	338,401
Other Hardware/Services	75,423	103,360	43,220	222,003
Total net sales	$ 1,098,496	$ 1,249,459	$ 544,640	$ 2,892,595

	For the Year Ended December 31, 2020			
	Business Solutions	Enterprise Solutions	Public Sector Solutions	Total
Notebooks/Mobility	$ 319,046	$ 303,471	$ 203,090	$ 825,607
Desktops	89,828	129,011	36,744	255,583
Software	124,681	115,596	42,793	283,070
Servers/Storage	93,535	76,107	42,694	212,336
Net/Com Products	75,141	96,203	47,930	219,274
Displays and Sound	85,769	78,312	51,502	215,583
Accessories	113,402	201,562	47,504	362,468
Other Hardware/Services	64,630	115,307	36,432	216,369
Total net sales	$ 966,032	$ 1,115,569	$ 508,689	$ 2,590,290

	For the Year Ended December 31, 2019			
	Business Solutions	Enterprise Solutions	Public Sector Solutions	Total
Notebooks/Mobility	$ 317,282	$ 322,530	166,132	$ 805,944
Desktops	127,373	154,602	63,949	345,924
Software	146,287	133,584	54,956	334,827
Servers/Storage	105,617	72,445	60,334	238,396
Net/Com Products	94,340	72,185	52,776	219,301
Displays and Sound	88,667	105,172	56,183	250,022
Accessories	98,890	211,772	46,647	357,309
Other Hardware/Services	81,593	121,530	65,188	268,311
Total net sales	$ 1,060,049	$ 1,193,820	$ 566,165	$ 2,820,034

Contract Balances

The following table provides information about contract liabilities from arrangements with customers as of December 31, 2021 and December 31, 2020:

	December 31, 2021	December 31, 2020
Contract liabilities, which are included in "Accrued expenses and other liabilities"	$ 8,628	$ 3,509

Changes in the contract liability balances during the years ended December 31, 2021 and 2020 are as follows (in thousands):

	2021
Balances at December 31, 2020	$ 3,509
Cash received in advance and not recognized as revenue	28,114
Amounts recognized as revenue as performance obligations satisfied	(22,995)
Balances at December 31, 2021	$ 8,628

	2020
Balances at December 31, 2019	$ 5,942
Cash received in advance and not recognized as revenue	10,800
Amounts recognized as revenue as performance obligations satisfied	(13,233)
Balances at December 31, 2020	$ 3,509

3. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

Goodwill is held by the Company's Large Account and SMB segments. Goodwill and intangible assets with indefinite lives are subject to an annual impairment test as of November 30 and tested more frequently if events or circumstances occur that would indicate a potential decline in fair value.

In 2021 and 2020, the Company performed a qualitative "step 0"analysis. ASC 350—*Intangible – Goodwill and Other* states that an entity may assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. This analysis allows the Company to consider qualitative factors that might impact the carrying amount of its goodwill to determine whether a more detailed quantitative analysis would be necessary. Factors considered when performing the impairment assessment included the Company's performance relative to historical and projected future operating results, macroeconomic conditions, industry and market trends, cost factors that may have a negative impact on earnings and cash flows, changes in the Company's stock price and market capitalization, and other relevant entity-specific events.

Based on the above qualitative analysis, the Company determined goodwill was not impaired for the years ended December 31, 2021 and 2020.

The carrying amount of goodwill for the periods presented is detailed below:

Balance at December 31, 2021	SMB	Large Account	Public Sector	Total
Goodwill, gross	$ 8,539	$ 66,236	$ 7,634	$ 82,409
Accumulated impairment losses	(1,173)	–	(7,634)	(8,807)
Net balance	$ 7,366	$ 66,236	$ —	$ 73,602

Balance at December 31, 2020	SMB	Large Account	Public Sector	Total
Goodwill, gross	$ 8,539	$ 66,236	$ 7,634	$ 82,409
Accumulated impairment losses	(1,173)	–	(7,634)	(8,807)
Net balance	$ 7,366	$ 66,236	$ —	$ 73,602

Intangible Assets

At December 31, 2021, the Company's intangible assets included a domain name for $450, which has an indefinite life and is not subject to amortization. In addition, in 2016 the Company acquired customer relationships from its Softmart and GlobalServe acquisitions, which are amortized on a straight-line basis over their estimated useful lives of 10 years. The Company's remaining intangible assets are amortized in proportion to the estimates of the future cash flows underlying the valuation of the assets. Intangible assets and related accumulated amortization are detailed below:

		December 31, 2021			December 31, 2020		
	Estimated Useful Lives	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Customer list	8	$ 3,400	$ 3,400	$ —	$ 3,400	$ 3,400	$ —
Tradename	5	1,190	1,190	—	1,190	1,190	—
Customer relationships	10	12,200	6,782	5,418	12,200	5,562	6,638
Total intangible assets		$ 16,790	$ 11,372	$ 5,418	$ 16,790	$ 10,152	$ 6,638

In 2021, 2020, and 2019, the Company recorded amortization expense of $1,220, $1,220, and $1,257, respectively. The estimated amortization expense relating to intangible assets in each of the five succeeding years and thereafter is as follows:

For the Years Ended December 31,	
2022	$ 1,220
2023	1,220
2024	1,220
2025	1,220
2026	538
	$ 5,418

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

	December 31,	
	2021	**2020**
Trade	$ 568,964	$ 553,823
Vendor consideration, returns and other	47,506	66,461
Due from employees	105	159
Total gross accounts receivable	616,575	620,443
Allowances for:		
Sales returns	(4,218)	(4,014)
Credit losses	(4,825)	(5,408)
Accounts receivable, net	$ 607,532	$ 611,021

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	December 31,	
	2021	**2020**
Computer software, including licenses and internally-developed software	$ 96,264	$ 100,285
Furniture and equipment	37,040	35,788
Leasehold improvements	8,668	8,683
Total	141,972	144,756
Accumulated depreciation and amortization	(80,961)	(83,219)
Property and equipment, net	$ 61,011	$ 61,537

We recorded depreciation and amortization expense for property and equipment of $10,982, $12,383, and $12,057 in 2021, 2020, and 2019, respectively.

6. LEASES

The Company leases certain facilities from a related party, which is affiliated with the Company through common ownership. Included in the right-of-use asset as of December 31, 2021 was $2,318 and a corresponding lease liability of $2,318 associated with related party leases.

As of December 31, 2021, the Company had no leases that were classified as financing leases and there were no additional operating or financing leases that have not yet commenced. Refer to the following table for quantitative information related to the Company's leases for the year ended December 31, 2021 and 2020:

	Year Ended December 31, 2021		
	Related Parties	Others	Total
Lease Cost			
Capitalized operating lease cost	$ 1,253	$ 3,021	$ 4,274
Short-term lease cost	426	92	518
Total lease cost	$ 1,679	$ 3,113	$ 4,792
Other Information			
Cash paid for amounts included in the measurement of lease liabilities and capitalized operating leases:			
Operating cash flows	$ 1,253	$ 3,128	$ 4,381
Weighted-average remaining lease term (in years):			
Capitalized operating leases	1.92	4.46	3.89
Weighted-average discount rate:			
Capitalized operating leases	3.92%	3.92%	3.92%

	Year Ended December 31, 2020		
	Related Parties	Others	Total
Lease Cost			
Capitalized operating lease cost	$ 1,385	$ 3,170	$ 4,555
Short-term lease cost	295	14	309
Total lease cost	$ 1,680	$ 3,184	$ 4,864
Other Information			
Cash paid for amounts included in the measurement of lease liabilities and capitalized operating leases:			
Operating cash flows	$ 1,385	$ 3,272	$ 4,657
Weighted-average remaining lease term (in years):			
Capitalized operating leases	2.92	5.57	4.89
Weighted-average discount rate:			
Capitalized operating leases	3.92%	3.92%	3.92%

As of December 31, 2021, future lease payments over the remaining term of capitalized operating leases were as follows:

For the Years Ended December 31,	Related Parties	Others	Total
2022	$ 1,253	$ 2,471	$ 3,724
2023	1,149	1,948	3,097
2024	—	1,644	1,644
2025	—	1,577	1,577
2026	—	888	888
Thereafter	—	1	1
	$ 2,402	$ 8,529	$ 10,931
Imputed interest			(720)
Lease liability balance at December 31, 2021			$ 10,211

As of December 31, 2021, the ROU asset had a balance of $9,579. The long-term lease liability was $6,789 and the short-term lease liability, which is included in accrued expenses and other liabilities in the consolidated balance sheets, was $3,422.

As of December 31, 2020, the ROU asset had a balance of $12,821 The long-term lease liability was $9,631 and the short-term lease liability, which is included in accrued expenses and other liabilities in the consolidated balance sheets, was $3,928.

7. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consisted of the following:

	December 31,	
	2021	2020
Customer and vendor deposits	$ 33,429	$ 28,438
Sales tax	10,471	8,400
Dividend Payable	—	8,375
Short term lease liability	3,422	3,928
Other	14,508	8,445
Accrued expenses and other liabilities	$ 61,830	$ 57,586

8. GAIN ON LIFE INSURANCE

The Company owns and is the beneficiary of one life insurance policy on Patricia Gallup, the Company’s Chair and Chief Administrative Officer. This policy had a total cash value recorded as “Other assets” on the Company’s balance sheet of approximately $200 as of December 31, 2021 and December 31, 2020 respectively.

On November 14, 2020, David Hall, one of the Company co-founders and a member of the Company’s Board of Directors passed away. The Company owned and was the beneficiary of two life insurance policies on Mr. Hall. These policies had a total cash value of approximately $400 recorded as “Other assets” on the Company’s balance sheet as of December 31, 2019. After the death of Mr. Hall, $1,500 was recorded as receivable on the Company’s balance sheet in 2020. The difference between the total insurance proceeds and the cash surrender value of the policies was $1,061, which was recorded as non-operating income for the year ended December 31, 2020. The life insurance proceeds were received in 2021, which are not subject to federal or state income taxes.

9. BANK BORROWINGS

The Company has a $50,000 credit facility collateralized by its account receivables that expires March 31, 2025. This facility can be increased, at the Company's option, to $80,000 for permitted acquisitions or other uses authorized by the lender on substantially the same terms. Amounts outstanding under this facility bear interest at greatest of (i) the prime rate (3.25% at December 31, 2021), (ii) the federal funds effective rate plus 0.50% per annum and (iii) the one-month London Interbank Offered Rate ("LIBOR"), plus 1.00% per annum, provided that the rate shall at no time be less than 0% per annum. The credit facility includes various customary financial ratios and operating covenants, including minimum net worth and maximum funded debt ratio requirements, and default acceleration provisions. The credit facility does not include restrictions on future dividend payments. Funded debt ratio is the ratio of average outstanding advances under the credit facility to Adjusted Earnings Before Interest Expense, Taxes, Depreciation, Amortization, and Special Charges (Adjusted EBITDA). The maximum allowable funded debt ratio under the agreement is 2.0 to 1.0. Decreases in the Company's consolidated Adjusted EBITDA could limit its potential borrowing capacity under the credit facility. The Company had no outstanding bank borrowings at December 31, 2021 or 2020, and accordingly, the entire $50,000 facility was available for borrowings under the credit facility. As of December 31, 2021, the Company was in compliance with all financial covenants contained in the agreement governing the credit facility.

In December of 2021, we entered into an amendment to our credit facility to, among other things, extend the maturity date to March 31, 2025, at which time any amounts outstanding shall become due. See "Part II – Item 9b. Other Information – Third Amendment to Third Amended and Restated Credit and Security Agreement" for additional information.

10. STOCKHOLDERS' EQUITY AND SHARE-BASED COMPENSATION

Preferred Stock

The Company's Amended and Restated Certificate of Incorporation (the "Restated Certificate") authorizes the issuance of up to 10,000 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 December 31, 2021 or 2020.

Share Repurchase Authorization

As of December 31, 2017, there was $30.0 million authorized for share repurchase. In 2018, the Company's Board approved a share repurchase program authorizing up to $25.0 million in additional share repurchases. There is no fixed termination date for this repurchase program. Purchases may be made in open-market transactions, block transactions on or off an exchange, or in privately negotiated transactions. The timing and amount of any share repurchases will be based on market conditions and other factors.

There was no shares repurchases during the year ended December 31, 2021. The Company repurchased 247 and 135 shares for $10.2 million and $4.5 million during the years ended December 31, 2020 and 2019, respectively, under Board-authorized repurchase programs. As of December 31, 2021, the Company has repurchased an aggregate of 2,599 shares for $42.3 million under Board-authorized repurchase programs, and the maximum approximate dollar value of shares that may yet be purchased under the Company's existing Board-authorized program is $12.7 million.

Dividend Payments

The following table summarizes the Company's special cash dividends declared in the years ended December 31, 2021, 2020 and 2019:

	2021	2020	2019
Dividend per share	$ 1.00	$ 0.32	$ 0.32
Stockholder record date	11/18/2021	1/12/2021	12/27/2019
Total dividend	$ 26,224	$ 8,375	$ 8,427
Payment date	12/03/2021	1/29/2021	1/10/2020

The dividends paid in January 2020 and 2019 were included in accrued expenses and other liabilities at December 31, 2020 and 2019, respectively. Declaration of any future cash dividends will depend upon the Company's financial position, strategic plans, and general business conditions.

Equity Compensation Plan Descriptions

In 2007, the Board adopted and the Company's stockholders approved the 2007 Stock Incentive Plan. In 2010, the Board adopted and the stockholders approved the Amended and Restated 2007 Stock Incentive Plan (the "2007 Plan"), which, among other things, extended the term of the 2007 Plan to 2020. In May 2019, the Company's stockholders approved an amendment to the 2007 Plan, which authorized the issuance of 1,900 shares of common stock. Under the terms of the 2007 Plan, the Company is authorized, for a ten-year period, to grant options, stock appreciation rights, nonvested stock, nonvested stock units, and other stock-based awards to employees, officers, directors, and consultants.

In 2020, the Board adopted and the Company's stockholders approved the 2020 Stock Incentive Plan (the "2020 plan"), which replaces the Amended and Restated 2007 Stock Incentive Plan. The 2020 plan extended the term of the Restated 2007 plan and authorized the issuance of 350 shares of common stock plus any shares that remain available for grant under the Restated 2007 plan. As of December 31, 2021, there were 188 shares eligible for future grants under the 2020 Plan.

1997 Employee Stock Purchase Plan

In November 1997, the Board adopted and the Company's stockholders approved the 1997 Employee Stock Purchase Plan (the "Purchase Plan"). The Purchase Plan authorizes the issuance of common stock to participating employees. Under the Purchase Plan, as amended, employees are eligible to purchase Company stock at 95% of the purchase price as of the last business day of each six-month offering period. An aggregate of 1,203 shares of common stock has been reserved for issuance under the Purchase Plan, of which 1,200 shares have been purchased. The Purchase Plan was suspended by the Board since June, 2020. No decision has been made whether to resume the Purchase Plan as of December 31, 2021.

Accounting for Share-Based Compensation

The Company measures the grant date fair value of equity awards given to employees and recognize that cost, adjusted for forfeitures, over the period that services are performed. The Company values grants with multiple vesting periods as a single award, estimates expected forfeitures based upon historical patterns of employee turnover, and records share-based compensation as a component of SG&A expenses.

The following table summarizes the share-based compensation expenses included in the consolidated statements of net income (dollars in thousands):

	2021	2020	2019
Pre-tax expense for nonvested units	$ 4,231	$ 2,668	$ 1,863
Tax benefit	(1,167)	(635)	(505)
Net effect on net income	$ 3,064	$ 2,033	$ 1,358

In 2021, 2020, and 2019, the Company issued nonvested stock units that settle in stock and vest over periods up to six years. Recipients of nonvested stock units do not possess stockholder rights. The fair value of nonvested stock units is based on the end of day market value of our common stock on the grant date. The following table summarizes our nonvested stock unit activity in 2021:

	Nonvested Stock Units	
	Shares	Weighted-Average Grant Date Fair Value
Nonvested at January 1, 2021	460	$ 32.17
Granted	180	46.02
Vested	(120)	31.37
Canceled	(11)	44.66
Nonvested at December 31, 2021	509	36.98

The weighted-average grant-date fair value of nonvested stock units granted in 2021, 2020 and 2019 was $46.02, $44.31 and $42.06, respectively. The total fair value of nonvested stock units that vested in 2021, 2020, and 2019 was $5,529, $4,044, and $3,476, respectively. Unearned compensation cost related to the nonvested portion of outstanding nonvested stock units was $17,366 as of December 31, 2021, and is expected to be recognized over a weighted-average period of approximately 3.6 years. The aggregate intrinsic value of the nonvested stock units at December 31, 2021, which is calculated based on the positive difference between the fair value of the Company's stock on December 31, 2021 and the grant price of the underlying awards, was $21,934.

Stock Equivalent Units

The Company has also previously issued stock equivalent units, ("SEUs"), which settle in cash and vest ratably over four years, to non-executive employees. The fair value of these liability awards is based on the closing market price of the Company's common stock, and is remeasured at the end of each reporting period until the SEUs vest. The Company reports the compensation as a component of SG&A expense and the related liability as accrued payroll on the consolidated balance sheets.

	2021	2020	2019
Units issued	—	—	—
Compensation expense	$ 425	$ 840	$ 1,802

11. INCOME TAXES

The provision for income taxes consisted of the following:

	Years Ended December 31,		
	2021	2020	2019
Current:			
Federal	$ 18,450	$ 13,350	$ 20,481
State	7,413	5,726	7,101
Total current	25,863	19,076	27,582
Deferred:			
Federal	655	(1,108)	2,186
State	98	(537)	800
Total deferred	753	(1,645)	2,986
Provision for income taxes	$ 26,616	$ 17,431	$ 30,568

The components of the deferred taxes at December 31, 2021 and 2020 are as follows:

	2021	2020
Deferred tax assets:		
Allowance for credit losses	$ 1,266	$ 1,418
Inventory costs capitalized for tax purposes	254	165
Inventory valuation reserves	402	271
Sales return reserves	164	158
Deductible expenses, primarily employee-benefit related	18	661
Accrued compensation	2,792	3,295
Operating lease liability	2,668	3,559
Other	1,399	1,475
Compensation under non-statutory stock option agreements	866	393
State tax loss carryforwards	1,411	1,079
Total gross deferred tax assets	11,240	12,474
Less: Valuation allowance	(1,174)	(942)
Net deferred tax assets	10,066	11,532
Deferred tax liabilities:		
Goodwill and other intangibles	(14,243)	(13,625)
Property and equipment	(12,552)	(12,976)
Right-of-use assets	(2,503)	(3,366)
Prepaid expenses	(46)	(90)
Total gross deferred tax liabilities	(29,344)	(30,057)
Net deferred tax liability	$ (19,278)	$ (18,525)
Current deferred tax assets	$ —	$ —
Noncurrent deferred tax liability	(19,278)	(18,525)
Net deferred tax liability	$ (19,278)	$ (18,525)

The Company has deferred tax assets from state net operating loss carryforwards aggregating $1,786 at December 31, 2021 representing state tax benefits, net of federal taxes, of approximately $1,411. These loss carryforwards are subject to five, fifteen, or twenty-year carryforward periods, with $3 expiring in 2022, $3 expiring in 2023, $4 expiring in 2024, $4 expiring in 2025, $3 expiring in 2026, $1,516 expiring beyond 2026, and $253 with no expiration. The Company has provided valuation allowances of $1,174 and $942 at December 31, 2021 and 2020, respectively, against the state tax loss carryforwards, representing the portion of carryforward losses that the Company believes are not likely to be realized. The net change in the total valuation allowance reflects a $232 increase in 2021, and a $50 decrease in 2020, respectively.

A reconciliation of the Company's 2021, 2020, and 2019 income tax provision to total income taxes at the statutory federal tax rate is as follows:

	2021	2020	2019
Federal income taxes, at statutory tax rate	$ 20,270	$ 15,378	$ 23,663
State income taxes, net of federal benefit	5,954	3,987	6,977
Nondeductible expenses	645	365	651
Tax credits	—	(2,093)	—
Other, net	(253)	(206)	(723)
Income tax provision	$ 26,616	$ 17,431	$ 30,568

The Company files one consolidated U.S. Federal income tax return that includes all of its subsidiaries as well as several consolidated, combined, and separate Company returns in many U.S. state tax jurisdictions. The tax years 2017-

2020 remain open to examination by the major state taxing jurisdictions in which the Company files. The tax years 2018-2020 remain open to examination by the Internal Revenue Service.

A reconciliation of unrecognized tax benefits for 2021, 2020, and 2019, is as follows:

	2021	2020	2019
Balance at January 1,	$ —	$ —	$ 368
Additions on tax positions of prior years	—	—	—
Lapses of applicable statute of limitations	—	—	(368)
Settlements	—	—	—
Balance at December 31,	$ —	$ —	$ —

For the year ended December 31, 2019, the unrecognized tax benefits decreased by $368 related to the expiration of various state statute of limitation periods.

Previously, the Company recognized interest and penalties related to unrecognized income tax benefits as a component of income tax expense, and the corresponding accrual was included as a component of our liability for unrecognized income tax benefits. The Company did not recognize any interest and penalties for the years ended December 31, 2021, 2020 or 2019.

12. 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 2021, 2020, and 2019. The Company made matching contributions to the employee savings element of such plan of $5,951, $5,656, and $2,778 in 2021, 2020, and 2019, respectively.

13. COMMITMENTS AND CONTINGENCIES

Contingencies

The Company is subject to various legal proceedings and claims, including patent infringement claims, which have arisen during the ordinary course of business. In the opinion of management, the outcome of such matters is not expected to have a material effect on our business, financial position, results of operations, or cash flows.

The Company records a liability when it believes that a loss is both probable and reasonably estimable. On a quarterly basis, the Company reviews each of these legal proceedings to determine whether it is probable, reasonably possible, or remote that a liability has been incurred and, if it is at least reasonably possible, whether a range of loss can be reasonably estimated. Significant judgment is required to determine both the likelihood of there being a loss and the estimated amount of such loss. Until the final resolution of such matters, there may be an exposure to loss in excess of the amount recorded, and such amounts could be material. The Company expenses legal fees in the period in which they are incurred.

The Company is subject to audits by states on sales and income taxes, employment matters, and other assessments. Additional liabilities for these and other audits could be assessed, and such outcomes could have a material negative impact on our financial position, results of operations, and cash flows.

14. SEGMENT AND RELATED DISCLOSURES

The internal reporting structure used by the Company's chief operating decision maker ("CODM") to assess performance and allocate resources determines the basis for our reportable operating segments. The Company's CODM is its Chief Executive Officer, and he evaluates operations and allocates resources based on a measure of operating income.

The Company's operations are organized under three reporting segments—the Business Solutions segment, which serves primarily small- and medium-sized businesses; the Enterprise Solutions segment, which serves primarily medium-to-large corporations; and the Public Sector Solutions segment, which serves primarily federal, state, and local government and educational institutions. In addition, the Headquarters/Other group provides services in areas such as finance, human resources, information technology, marketing, and product management. Most of the operating costs associated with the Headquarters/Other group functions are charged to the operating segments based on their estimated usage of the underlying functions. The Company reports these charges to the operating segments as "Allocations." Certain headquarters costs relating to executive oversight and other fiduciary functions that are not allocated to the operating segments are included under the heading of Headquarters/Other in the tables below.

Net sales presented below exclude inter-segment product revenues. Segment information applicable to the Company's reportable operating segments for the years ended December 31, 2021, 2020, and 2019 is shown below:

	Years Ended December 31,		
	2021	2020	2019
Net sales:			
Business Solutions	$ 1,098,496	$ 966,032	$ 1,060,049
Enterprise Solutions	1,249,459	1,115,569	1,193,820
Public Sector Solutions	544,640	508,689	566,165
Total net sales	$ 2,892,595	$ 2,590,290	$ 2,820,034
Operating income (loss):			
Business Solutions	$ 43,783	$ 32,351	$ 52,557
Enterprise Solutions	74,653	59,382	67,837
Public Sector Solutions	(4,928)	(2,763)	7,319
Headquarters/Other	(16,991)	(16,896)	(15,741)
Total operating income	96,517	72,074	111,972
Other (expenses) income, net	5	1,122	707
Income before taxes	$ 96,522	$ 73,196	$ 112,679
Selected operating expense:			
Depreciation and amortization:			
Business Solutions	$ 655	$ 636	$ 596
Enterprise Solutions	2,408	2,771	2,474
Public Sector Solutions	62	60	89
Headquarters/Other	9,077	10,136	10,155
Total depreciation and amortization	$ 12,202	$ 13,603	$ 13,314
Total assets:			
Business Solutions	$ 401,624	$ 365,366	
Enterprise Solutions	645,938	588,264	
Public Sector Solutions	84,787	96,233	
Headquarters/Other	(48,966)	(34,490)	
Total assets	$ 1,083,383	$ 1,015,373	

The assets of the Company's operating segments presented above consist primarily of accounts receivable, net intercompany receivable, goodwill, and other intangibles. Goodwill of $66,236 and $7,366 is held by the Enterprise Solutions and Business Solutions segments, respectively, as of December 31, 2021. Assets reported under the Headquarters/Other group are managed by corporate headquarters, including cash, inventory, property and equipment and intercompany balance, net. Total assets for the Headquarters/Other group are presented net of intercompany balances eliminations of $39,390 and $43,388 for the years ended December 31, 2021 and 2020, respectively. The Company's capital expenditures consist largely of IT hardware and software purchased to maintain or upgrade its management information systems. These systems serve all of the Company's subsidiaries, to varying degrees, and as a result, the CODM does not evaluate capital expenditures on a segment basis.

Substantially all of the Company’s sales in 2021, 2020, and 2019 were made to customers located in the United States. Shipments to customers located in foreign countries were not more than 2% of total net sales in 2021, 2020, and 2019. All of the Company’s assets at December 31, 2021 and 2020 were located in the United States. The Company’s primary target customers are SMBs, medium-to-large corporate accounts, and federal, state, and local government agencies, educational institutions, and medium-to-large corporate accounts.

PC CONNECTION, INC. AND SUBSIDIARIES

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, 2019	$ 3,397	27,943	(27,874)	$ 3,466
Year Ended December 31, 2020	$ 3,466	29,435	(28,887)	$ 4,014
Year Ended December 31, 2021	$ 4,014	32,635	(32,431)	$ 4,218
Allowance for Credit Losses				
Year Ended December 31, 2019	$ 3,102	25	(925)	$ 2,202
Year Ended December 31, 2020	$ 2,202	3,316	(110)	$ 5,408
Year Ended December 31, 2021	$ 5,408	3,307	(3,890)	$ 4,825

THIRD AMENDMENT TO
THIRD AMENDED AND RESTATED CREDIT AND SECURITY AGREEMENT

This THIRD AMENDMENT TO THIRD AMENDED AND RESTATED CREDIT AND SECURITY AGREEMENT (this "Amendment") is entered into as of December 2, 2021 by and among PC CONNECTION, INC., a Delaware corporation (the "Borrower"), the Guarantors listed on the signature pages hereof, the lenders from time to time party to the Credit Agreement (as defined below) (each, a "Lender", and collectively, the "Lenders"), and CITIZENS BANK, N.A., a national banking association ("Citizens"), as agent for the Lenders (in such capacity, together with its successor and assigns in such capacity, the "Agent").

W I T N E S S E T H:

WHEREAS, the Borrower, Guarantors, the Lenders and the Agent entered into that certain Third Amended and Restated Credit and Security Agreement, dated as of February 24, 2012 (as amended by that certain First Amendment to Third Amended and Restated Credit and Security Agreement, dated as of December 24, 2013 and by that certain Second Amendment to Third Amended and Restated Credit and Security Agreement, dated as of February 10, 2017, as amended hereby, and as may be further amended, restated, amended and restated, supplemented or otherwise modified from time to time, the "Credit Agreement");

WHEREAS, the Borrower has requested that the Agent and the Lenders agree to amend the Credit Agreement and the Other Documents in certain respects to the extent set forth in this Amendment; and

WHEREAS, the Borrower, Guarantors, the Agent and the Lenders party hereto are willing to amend the Credit Agreement and the Other Documents upon the terms and subject to the conditions set forth below.

NOW THEREFORE, in consideration of the foregoing and for other good and valid consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

1. Defined Terms. Capitalized terms used but not defined herein shall have the respective meanings ascribed to such terms in the Credit Agreement.

2. Amendment. In reliance upon the representations and warranties set forth in Section 4 below and upon satisfaction of the conditions to effectiveness set forth in Section 3 below, the parties hereto agree to amend the Credit Agreement as follows:

(a) All references in the Credit Agreement and the Other Documents to "Eurodollar Rate" are hereby amended to refer to "LIBOR Rate", and all references to "Eurodollar Rate Loan" are hereby amended to refer to "LIBOR Loan".

(b) All references in the Credit Agreement and the Other Documents to "Base Rate" are hereby amended to refer to "Alternate Base Rate"; and all references to "Base Rate Loan" are hereby amended to refer to "ABR Loan".

(c) Section 1.2 of the Credit Agreement is hereby amended to include the following new defined terms:

"Adjusted LIBOR Rate" means, with respect to any Interest Period, an interest rate per annum equal to the LIBOR Rate in effect for such Interest Period multiplied by the Statutory Reserve Rate; provided, however, that the Adjusted LIBOR Rate shall at no time be less than 0% per annum.

"Alternate Base Rate" means, for any day, a rate per annum equal to the greatest of (a) the Prime Rate in effect on such day, (b) the Federal Funds Effective Rate in effect on such day plus 0.50% per annum and (c) the Adjusted LIBOR Rate in effect on such day for deposits in Dollars for a one month or three month Interest Period (subject to any interest rate floor set forth in the definition of "Adjusted LIBOR Rate") plus 1.00% per annum, provided that the Alternate Base Rate shall at no time be less than 0% per annum. If Agent shall have determined (which determination shall be conclusive absent clearly manifest error) that it is unable to ascertain the Federal Funds Effective Rate or the Adjusted LIBOR Rate for any reason, including the inability or failure of Agent to obtain sufficient quotations in accordance with the terms of the definition of the term Federal Funds Effective Rate, the Alternate Base Rate shall be determined without regard to clause (b) or (c), as applicable, of the preceding sentence until the circumstances giving rise to such inability no longer exist. Any change in the Alternate Base Rate due to a change in the Prime Rate, the Federal Funds Effective Rate or the Adjusted LIBOR Rate shall be effective from and including the effective date of such change in the Prime Rate, the Federal Funds Effective Rate or the Adjusted LIBOR Rate, respectively.

"Available Tenor" means, as of any date of determination and with respect to the then current Benchmark, as applicable, any tenor for such Benchmark or payment period for interest calculated with reference to such Benchmark, as applicable, that is or may be used for determining the length of an interest period pursuant to this Agreement as of such date and not including, for the avoidance of doubt, any tenor for such Benchmark that is then-removed pursuant to clause (d) of the Section of this Agreement titled "Benchmark Replacement Setting."

"Benchmark" means, initially, USD LIBOR; provided that if a Benchmark Transition Event or an Early Opt-in Election, as applicable, and its related Benchmark Replacement Date have occurred with respect to USD LIBOR or the then-current Benchmark, then "Benchmark" means the applicable Benchmark Replacement to the extent that such Benchmark Replacement has replaced such prior benchmark rate pursuant to clause (a) of the Section of this Agreement titled "Benchmark Replacement Setting."

"Benchmark Replacement" means, for any Available Tenor, the first alternative set forth in the order below that can be determined by the Agent for the applicable Benchmark Replacement Date:

(1) the sum of: (a) Term SOFR and (b) the related Benchmark Replacement Adjustment;

(2) the sum of: (a) Daily Simple SOFR and (b) the related Benchmark Replacement Adjustment;

(3) the sum of: (a) the alternate benchmark rate that has been selected by the Agent in its reasonable discretion as the replacement for the then-current Benchmark for the applicable Corresponding Tenor giving due consideration to (i) any selection or recommendation of a replacement benchmark rate or the mechanism for determining such a rate by the Relevant Governmental Body or (ii) any evolving or then-prevailing market convention for determining a benchmark rate as a replacement for the then-current Benchmark for U.S. dollar- denominated syndicated or bilateral credit facilities at such time and (b) the related Benchmark Replacement Adjustment;

provided that, in the case of clause (1), such Unadjusted Benchmark Replacement is displayed on a screen or other information service that publishes such rate from time to time as selected by the Agent in its reasonable discretion. If the Benchmark Replacement as determined pursuant to clause (1), (2) or (3) above would be less than the Floor, the Benchmark Replacement will be deemed to be the Floor for the purposes of this Agreement and the Other Documents.

"Benchmark Replacement Adjustment" means, with respect to any replacement of the then-current Benchmark with an Unadjusted Benchmark Replacement for any applicable Interest Period and Available Tenor for any setting of such Unadjusted Benchmark Replacement:

(1) for purposes of clauses (1) and (2) of the definition of "Benchmark Replacement," the first alternative set forth in the order below that can be determined by the Lender:

(a) the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) as of the Reference Time such Benchmark Replacement is first set for such Interest Period that has been selected or recommended by the Relevant Governmental Body for the replacement of such Benchmark with the applicable Unadjusted Benchmark Replacement for the applicable Corresponding Tenor;

(b) the spread adjustment (which may be a positive or negative value or zero) as of the Reference Time such Benchmark Replacement is first set for such Interest Period that would apply to the fallback rate for a derivative transaction referencing the ISDA Definitions to be effective upon an index cessation event with respect to such Benchmark for the applicable Corresponding Tenor; and

(2) for purposes of clause (3) of the definition of "Benchmark Replacement," the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected by the Agent in its reasonable discretion for the applicable Corresponding Tenor giving due consideration to (i) any selection or recommendation of a spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of such Benchmark with the applicable Unadjusted Benchmark Replacement by the Relevant Governmental Body on the applicable Benchmark Replacement Date or (ii) any evolving or then-prevailing market convention for determining a spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of such Benchmark with the applicable Unadjusted Benchmark Replacement for U.S. dollar-denominated syndicated or bilateral credit facilities;

provided that, in the case of clause (1) above, such adjustment is displayed on a screen or other information service that publishes such Benchmark Replacement Adjustment from time to time as selected by the Agent in its reasonable discretion.

"Benchmark Replacement Conforming Changes" means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the definition of "Alternate Base Rate," the definition of "Business Day," the definition of "Interest Period," the definition of "LA Interest Period", the timing and frequency of determining rates and making payments of interest, timing of borrowing requests or prepayment, conversion or continuation notices, length of lookback periods, the applicability of breakage provisions and other technical, administrative or operational matters) that the Agent decides in its reasonable discretion may be appropriate to reflect the adoption and implementation of such Benchmark Replacement and to permit the administration thereof by the Agent in a manner substantially consistent with market practice (or, if the Agent decides that adoption of any portion of such market practice is not administratively feasible or if the Agent determines that no market practice for the administration of such Benchmark Replacement exists, in such other manner of administration as the Agent decides is reasonably necessary in connection with the administration of this Agreement and the Other Documents).

"Benchmark Replacement Date" means the earliest to occur of the following events with respect to the then-current Benchmark:

(1) in the case of clause (1) or (2) of the definition of "Benchmark Transition Event," the later of (a) the date of the public statement or publication of information referenced therein and (b) the date on which the administrator of such Benchmark (or the published component used in the calculation thereof) permanently or indefinitely ceases to provide all Available Tenors of such Benchmark (or such component thereof);

(2) in the case of clause (3) of the definition of "Benchmark Transition Event," the date of the public statement or publication of information referenced therein; or

(3) in the case of an Early Opt-in Election, the sixth (6^{th}) Business Day after the date notice of such Early Opt-in Election is provided to the Borrower, so long as the Agent has not received, by 5:00 p.m. (New York City time) on the fifth (5^{th}) Business Day after the date notice of such Early Opt-in Election is provided to the Borrower, written notice of objection to such Early Opt-in Election from the Borrower.

For the avoidance of doubt, (i) if the event giving rise to the Benchmark Replacement Date occurs on the same day as, but earlier than, the Reference Time in respect of any determination, the Benchmark Replacement Date will be deemed to have occurred prior to the Reference Time for such determination and (ii) the "Benchmark Replacement Date" will be deemed to have occurred in the case of clause (1) or (2) with respect to any Benchmark upon the occurrence of the applicable event or events set forth therein with respect to all then-current Available Tenors of such Benchmark (or the published component used in the calculation thereof).

"<u>Benchmark Transition Event</u>" means the occurrence of one or more of the following events with respect to the then-current Benchmark:

(1) a public statement or publication of information by or on behalf of the administrator of such Benchmark (or the published component used in the calculation thereof) announcing that such administrator has ceased or will cease to provide all Available Tenors of such Benchmark (or such component thereof), permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide any Available Tenor of such Benchmark (or such component thereof);

(2) a public statement or publication of information by the regulatory supervisor for the administrator of such Benchmark (or the published component used in the calculation thereof), the Board of Governors of the Federal Reserve System, the Federal Reserve Bank of New York, an insolvency official with jurisdiction over the administrator for such Benchmark (or such component), a resolution authority with jurisdiction over the administrator for such Benchmark (or such component) or a court or an entity with similar insolvency or resolution authority over the administrator for such Benchmark (or such component), which states that the administrator of such Benchmark (or such component) has ceased or will cease to provide all Available Tenors of such Benchmark (or such component thereof) permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide any Available Tenor of such Benchmark (or such component thereof); or

(3) a public statement or publication of information by the regulatory supervisor for the administrator of such Benchmark (or the published component used in the calculation thereof) or a Governmental Authority having jurisdiction over the Lenders announcing that all Available Tenors of such Benchmark (or such component thereof) are no longer representative.

For the avoidance of doubt, a “Benchmark Transition Event” will be deemed to have occurred with respect to any Benchmark if a public statement or publication of information set forth above has occurred with respect to each then-current Available Tenor of such Benchmark (or the published component used in the calculation thereof).

“Benchmark Unavailability Period” means the period (if any) (x) beginning at the time that a Benchmark Replacement Date pursuant to clauses (1) or (2) of that definition has occurred if, at such time, no Benchmark Replacement has replaced the then-current Benchmark for all purposes hereunder and under any Other Document in accordance with the Section of this Agreement titled “Benchmark Replacement Setting” and (y) ending at the time that a Benchmark Replacement has replaced the then-current Benchmark for all purposes hereunder and under any Other Document in accordance with the Section of this Agreement titled “Benchmark Replacement Setting.”

“Change in Law” means the occurrence of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty, (b) any change in any law, rule, regulation or treaty or in the administration, interpretation, implementation or application thereof by any Governmental Authority or (c) the making or issuance of any request, rule, guideline or directive (whether or not having the force of law) by any Governmental Authority or the compliance therewith by Agent or any Lender; provided that notwithstanding anything herein to the contrary, (i) the Dodd- Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines and directives thereunder or issued in connection therewith and (ii) all requests, rules, guidelines and directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a “Change in Law”, regardless of the date enacted, adopted or issued.

“Corresponding Tenor” with respect to any Available Tenor means, as applicable, either a tenor (including overnight) or an interest payment period having approximately the same length (disregarding business day adjustment) as such Available Tenor.

“Daily Simple SOFR” means, for any day, SOFR, with the conventions for this rate (which will include a lookback) being established by the Agent in accordance with the conventions for this rate selected or recommended by the Relevant Governmental Body for determining “Daily Simple SOFR” for business loans; provided, that if the Agent decides that any such convention is not administratively feasible for the Agent or the Lenders, then the Agent may establish another convention in its reasonable discretion.

"Early Opt-in Election" means, if the then-current Benchmark is USD LIBOR, the occurrence of:

(1) (a) a determination by the Agent or (b) a notification by the Required Lenders to the Agent (with a copy to the Borrower) that the Required Lenders have determined that at least five currently outstanding U.S. dollar-denominated syndicated or bilateral credit facilities at such time contain (as a result of amendment or as originally executed) a SOFR-based rate (including SOFR, a term SOFR or any other rate based upon SOFR) as a benchmark rate (and such credit facilities are identified in the notice to the Borrower described in clause (2) below and are publicly available for review), and

(2) the election by the Agent, or the election by the Required Lenders, to trigger a fallback from USD LIBOR and the provision by the Agent of written notice of such election to the Borrower.

"Excluded Taxes" means any of the following Taxes imposed on or with respect to Lender or required to be withheld or deducted from a payment to Agent or any Lender: Taxes imposed on or measured by net income, franchise Taxes, and branch profits Taxes, in each case, imposed as a result of Agent or any Lender being organized under the laws of the jurisdiction imposing such Tax (or any political subdivision thereof).

"Indemnified Taxes" means (a) Taxes, other than Excluded Taxes, imposed on or with respect to any payment made by or on account of any obligation of any Loan Party under any Other Document and (b) to the extent not otherwise described in clause (a), Other Taxes.

"Federal Funds Effective Rate" means, for any day, a rate per annum (expressed as a decimal, rounded upwards, if necessary, to the next higher 1/100 of 1%) equal to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day, provided that (a) if the day for which such rate is to be determined is not a Business Day, the Federal Funds Effective Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, (b) if such rate is not so published for any day, the Federal Funds Effective Rate for such day shall be the average of the quotations for such day on such transactions received by Lender from three federal funds brokers of recognized standing selected by it and (c) if the Federal Funds Effective Rate shall be less than zero, such rate shall be deemed to be zero for purposes of this Credit Agreement.

"Floor" means the benchmark rate floor, if any, provided in this Agreement initially (as of the execution of this Agreement, the modification, amendment or renewal of this Agreement or otherwise) with respect to USD LIBOR.

"ISDA Definitions" means the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc. or any successor thereto, as amended or supplemented from time to time, or any successor definitional booklet for interest rate derivatives published from time to time by the International Swaps and Derivatives Association, Inc. or such successor thereto.

"LIBOR Loan" means a Loan bearing interest based on the Adjusted LIBOR Rate.

"LIBOR Rate" means, with respect to each day during each Interest Period pertaining to an applicable Loan in Dollars, the rate per annum determined by Lender to be the arithmetic average of the London Interbank Offered Rates administered by the ICE Benchmark Administration (or any Person that takes over administration of such rate) for deposits in Dollars for a duration equal to or comparable to the duration of such Interest Period which appear on the relevant Bloomberg page (or such other commercially available source providing quotations of the London Interbank Offered Rates for deposits in Dollars as may be designated by Lender from time to time) at or about 11:00 a.m. (London time) on the Quotation Day for such Interest Period; provided that if such rate is not available at such time for any reason, then the "LIBOR Rate" with respect to such Loan for such period shall be the Interpolated Screen Rate, where applicable. Each calculation by Lender of the LIBOR Rate hereunder shall be conclusive and binding on the parties hereto for all purposes, absent clearly manifest error. Notwithstanding the foregoing, for purposes of this Agreement, the LIBOR Rate shall at no time be less than 0% per annum.

"Loan Documents" means this Agreement and the Other Documents.

"Loan Party" means each Borrower and Guarantor and "Loan Parties" means, collectively, all Borrowers and Guarantors.

"Other Taxes" means all present or future stamp, court or documentary, intangible, recording, filing or similar Taxes that arise from any payment made under, from the execution, delivery, performance, enforcement or registration of, from the receipt or perfection of a security interest under, or otherwise with respect to, any this Agreement or any Other Document.

"Prime Rate" means a rate per annum equal to the prime rate of interest announced from time to time by Citizens Bank or its parent company (which is not necessarily the lowest rate charged to any customer), changing when and as said prime rate changes.

"Quotation Day" means the day that is two (2) Business Days prior to the start of an Interest Period.

"Reference Time" with respect to any setting of the then-current Benchmark means (1) if such Benchmark is USD LIBOR, 11:00 a.m. (London time) on the day that is two London banking days preceding the date of such setting, and (2) if such

Benchmark is not USD LIBOR, the time determined by the Agent in its reasonable discretion.

"Relevant Governmental Body" means the Board of Governors of the Federal Reserve System or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Board of Governors of the Federal Reserve System or the Federal Reserve Bank of New York, or any successor thereto.

"SOFR" means, with respect to any Business Day, a rate per annum equal to the secured overnight financing rate for such Business Day published by the SOFR Administrator on the SOFR Administrator's Website on the immediately succeeding Business Day.

"SOFR Administrator" means the Federal Reserve Bank of New York (or a successor administrator of the secured overnight financing rate).

"SOFR Administrator's Website" means the website of the Federal Reserve Bank of New York, currently at http://www.newyorkfed.org, or any successor source for the secured overnight financing rate identified as such by the SOFR Administrator from time to time.

"Statutory Reserve Rate" means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any basic, marginal, special, emergency, supplemental or other reserves) expressed as a decimal established by the Board to which Lender is subject for eurocurrency funding (currently referred to as "eurocurrency liabilities" in Regulation D of the Board). Such reserve percentages shall include those imposed pursuant to Regulation D. LIBOR Loans and LIBOR Advantage Loans shall be deemed to constitute eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to Agent under Regulation D or any comparable regulation. The Statutory Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

"Taxes" means all present or future taxes, levies, imposts, duties, deductions, withholdings (including backup withholding), assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

"Term SOFR" means, for the applicable Corresponding Tenor as of the applicable Reference Time, the forward-looking term rate based on SOFR that has been selected or recommended by the Relevant Governmental Body.

"Unadjusted Benchmark Replacement" means the applicable Benchmark Replacement excluding the related Benchmark Replacement Adjustment.

"USD LIBOR" means the London interbank offered rate for U.S. dollars as set forth in the definition of "LIBOR Rate".

(d) The following defined term(s) appearing in Section 1.2 of the Credit Agreement shall be amended and restated to read as follows:

"LIBOR Advantage Rate" means, the Benchmark Rate for a one-month interest period.

(e) Section 3.9 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

Section 3.9 Alternate Rate of Interest.

(a) Temporary Unavailability of LIBOR Rate. If prior to the commencement of any Interest Period for a LIBOR Loan:

(i) Agent determines (which determination shall be conclusive absent manifest error) that adequate and reasonable means do not exist for ascertaining the Adjusted LIBOR Rate or the LIBOR Rate, as applicable, for such Interest Period; or

(ii) Agent determines in its reasonable discretion (which determination shall be conclusive) that the Adjusted LIBOR Rate or the LIBOR Rate, as applicable, for such Interest Period, will not adequately and fairly reflect the cost of making or maintaining such Loan for such Interest Period;

then Agent shall give notice thereof to Borrower by telephone or as otherwise permitted hereunder as promptly as practicable thereafter and, until Agent notifies Borrower that the circumstances giving rise to such notice no longer exist, (x) any requested conversion of any loan to, or continuation of any loan as, a LIBOR Loan shall be ineffective, and (y) if any request is made for a LIBOR Loan, such loan shall be made as an ABR Loan.

(b) Benchmark Replacement Setting.

(i) Benchmark Replacement. Notwithstanding anything to the contrary herein or in any Other Document (and any Interest Rate Protection Agreement shall be deemed not to be a "Other Document" for purposes of this Section 3.9 (b)), if a Benchmark Transition Event or an Early Opt-in Election, as applicable, and its related Benchmark Replacement Date have occurred prior to the Reference Time in respect of any setting of the then-current Benchmark, then, (x) if a Benchmark Replacement is determined in accordance with clause (1) or (2) of the definition of "Benchmark Replacement" for such Benchmark Replacement Date, in connection with a Benchmark Transition Event, such Benchmark Replacement will replace such Benchmark for all purposes hereunder and under any Other Document in respect of such Benchmark setting and subsequent Benchmark settings without any amendment to, or further action or consent of any other party to, this Credit Agreement or any Other Document and (y) if a Benchmark Replacement is determined in accordance with clause (3) of the definition of "Benchmark Replacement" for such Benchmark Replacement Date, or in connection with an Early Opt-in Election, such Benchmark Replacement will replace such Benchmark for all purposes hereunder and under any Other Document in respect of any Benchmark setting at or after 5:00 p.m. (New York City time) on the fifth (5th) Business Day after the date notice of such Benchmark Replacement is provided to Borrower without any amendment to this Credit Agreement or any Other Document, or further action or consent of Borrower or any other Loan Party (other than Benchmark Replacement Conforming Changes made in accordance with clause (b) below).

(ii) Benchmark Replacement Conforming Changes. In connection with the implementation of a Benchmark Replacement, Agent will have the right to make Benchmark Replacement Conforming Changes from time to time and, notwithstanding anything to the contrary herein or in any Other Document, any amendments implementing such Benchmark Replacement Conforming Changes will become effective without any further action or consent of Borrower or any other Loan Party.

(iii) Notices; Standards for Decisions and Determinations. Agent will promptly notify Borrower of (i) any occurrence of a Benchmark Transition Event or an Early Opt-in Election, as applicable, and its related Benchmark Replacement Date, (ii) the implementation of any Benchmark Replacement, (iii) the effectiveness of any Benchmark Replacement Conforming Changes, (iv) the removal or reinstatement of any tenor of a Benchmark pursuant to clause (d) below and (v) the commencement or conclusion of any Benchmark Unavailability Period, provided that the failure to give such notice under this clause (v) shall not affect the commencement or conclusion of any Benchmark Unavailability Period. Any determination, decision or election that may be made by Agent pursuant to this Section 3.9(b) including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection, will be conclusive and binding absent manifest error and may be made in its sole discretion and without consent from Borrower, except, in each case, as expressly required pursuant to this Section 3.9(b).

(iv) Unavailability of Tenor of Benchmark. Notwithstanding anything to the contrary herein or in any Other Document, at any time (including in connection with the implementation of a Benchmark Replacement), (i) if the then-current Benchmark is a term rate (including Term SOFR or USD LIBOR) and either (A) any tenor for such Benchmark is not displayed on a screen or other information service that publishes such rate from time to time as selected by Agent in its reasonable discretion or (B) the regulatory supervisor for the administrator of such Benchmark has provided a public statement or publication of information announcing that any tenor for such Benchmark is or will be no longer representative, then Agent may modify the definition of "Interest Period" for any Benchmark settings at or after such time to remove such unavailable or nonrepresentative tenor and (ii) if a tenor that was removed pursuant to clause (i) above either (A) is subsequently displayed on a screen or information service for a Benchmark (including a Benchmark Replacement) or (B) is not, or is no longer, subject to an announcement that it is or will no longer be representative for a Benchmark (including a Benchmark Replacement), then Agent may modify the definition of "Interest Period" for all Benchmark settings at or after such time to reinstate such previously removed tenor.

(v) Benchmark Unavailability Period. Upon the commencement of a Benchmark Unavailability Period, Borrower may revoke any pending request for a borrowing of, conversion to or continuation of Loans to be made, converted or continued with respect to the then-current Benchmark during any Benchmark Unavailability Period and, failing that, Borrower will be deemed to have converted any such request into a request for a borrowing of or conversion to ABR Loans. During any Benchmark Unavailability Period or at any time that a tenor for the then-current Benchmark is not an Available Tenor, the component of the Alternate Base Rate based upon the then-current Benchmark or such tenor for such Benchmark, as applicable, will not be used in any determination of the Alternate Base Rate.

(f) Section 3.10 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

Section 3.10 Increased Costs; Illegality.

(a) Increased Costs Generally. If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit, liquidity, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender (except any reserve requirement reflected in the Adjusted LIBOR Rate) or Agent;

(ii) subject Agent or any Lender to any Taxes (other than Indemnified Taxes) on its loans, loan principal, letters of credit, commitments, or other obligations, or its deposits, reserves, other liabilities or capital attributable thereto; or

(iii) impose on Agent or any Lender or the London interbank market any other condition, cost or expense (other than Taxes) affecting this Credit Agreement or Loans made by Lenders or any Letter of Credit;

and the result of any of the foregoing shall be to increase the cost to any Lender of making, converting to, continuing or maintaining any Loan or of maintaining its obligation to make any such Loan, or to increase the cost to any Lender of issuing or maintaining any Letter of Credit (or of maintaining its obligation to issue any Letter of Credit), or to reduce the amount of any sum received or receivable by Agent or any Lender hereunder (whether of principal, interest or any other amount) then, upon request of Agent or any Lender, Borrower will pay to such Lender such additional amount or amounts as will compensate Agent or such Lender for such additional costs incurred or reduction suffered.

(b) Capital Requirements. If Agent determines that any Change in Law affecting Agent , any Lender, or any Lender's holding company, if any, regarding capital or liquidity requirements, has or would have the effect of reducing the rate of return on any Lender's capital or on the capital of any such Lender's holding company, if any, as a consequence of this Credit Agreement, the Commitments or the Loans or the Letters of Credit issued by any Lender, to a level below that which Lender or such Lender's holding company could have achieved but for such Change in Law (taking into consideration such Lender's policies and the policies of such Lender's holding company with respect to capital adequacy and liquidity), then from time to time Borrower will pay to such Lender such additional amount or amounts as will compensate such Lender or such Lender's holding company for any such reduction suffered.

(c) Certificates for Reimbursement. A certificate of Agent or any Lender setting forth the amount or amounts necessary to compensate any Lender or its holding company, as the case may be, as specified in paragraph (a) or (b) of this Section and delivered to Borrower, shall be conclusive absent manifest error. Borrower shall pay Agent, on behalf of such Lender, the amount shown as due on any such certificate within 10 days after receipt thereof.

(d) Delay in Requests. Failure or delay on the part of Agent or any Lender to demand compensation pursuant to this Section shall not constitute a waiver of Agent's or such Lender's right to demand such compensation; provided, that the Borrower shall not be required to compensate a Lender pursuant to this Section for any increased costs or reductions incurred more than nine months prior to the date that such Lender, as the case may be, notifies the Company of the Change in Law giving rise to such increased costs or reductions and of such Lender's intention to claim compensation therefor; provided further that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the nine-month period referred to above shall be extended to include the period of retroactive effect thereof.

(e) Illegality. Notwithstanding any other provision of this Credit Agreement, if, after the Agreement Date, any Change in Law shall make it unlawful for any Lender to make or maintain any LIBOR Loan or to give effect to its obligations as contemplated hereby with respect to any LIBOR Loan, then, by written notice to Borrower:

(i) Agent may declare that LIBOR Loans will not thereafter (for the duration of such unlawfulness) be made hereunder (or be continued for additional Interest Periods) and ABR Loans will not thereafter (for such duration) be converted into LIBOR Loans, whereupon any request for a LIBOR Loan or to convert an ABR Loan to a LIBOR Loan or to continue a LIBOR Loan, as applicable, for an additional Interest Period shall be deemed a request for an ABR Loan (or a request to continue an ABR Loan as such for an additional Interest Period or to convert a

LIBOR Loan into an ABR Loan, as applicable), unless such declaration shall be subsequently withdrawn; and

(ii) Agent may require that all outstanding LIBOR Loans be converted to ABR Loans, in which event all such LIBOR Loans shall be automatically converted to ABR Loans, as of the effective date of such notice as provided in the last sentence of this paragraph.

In the event Agent shall exercise its rights under clause (i) or (ii) of this paragraph, all payments and prepayments of principal that would otherwise have been applied to repay the LIBOR Loans that would have been made by any Lender or the converted LIBOR Loans of any Lender shall instead be applied to repay the ABR Loans made by such Lender in lieu of, or resulting from the conversion of, such LIBOR Loans, as applicable. For purposes of this paragraph, a notice to Borrower by Agent shall be effective as to each LIBOR Loan made by any Lender, if lawful, on the last day of the Interest Period currently applicable to such LIBOR Loan; in all other cases such notice shall be effective on the date of receipt by Borrower.

(g) Section 13.1 of the Credit Agreement is hereby amended by replacing “February 10, 2022” with “March 31, 2025”.

(h) The following new Sections 15.19 and 15.20 are hereby added to the Credit Agreement:

Section 15.19 USA PATRIOT Act. Agent hereby notifies Borrower that pursuant to the requirements of the USA PATRIOT Act, it is required to obtain, verify and record information that identifies each Loan Party, which information includes the name and address of each Loan Party and other information that will allow Agent and each Lender to identify each Loan Party in accordance with the USA PATRIOT Act. Borrower shall, and shall cause each Subsidiary to, provide such information and take such actions as are reasonably requested by Agent in order to assist Agent and each Lender in maintaining compliance with the USA PATRIOT Act.

Section 15.20 Acknowledgement Regarding Any Supported QFCs. To the extent that the Loan Documents provide support, through a guarantee or otherwise, for Interest Rate Protection Agreements or any other agreement or instrument that is a QFC (such support, “QFC Credit Support” and each such QFC a “Supported QFC”), the parties acknowledge and agree as follows with respect to the resolution power of the Federal Deposit Insurance Corporation under the Federal Deposit Insurance Act and Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act (together with the regulations promulgated thereunder, the “U.S. Special Resolution Regimes”) in respect of such Supported QFC and QFC Credit Support (with the provisions below applicable notwithstanding that the Loan Documents and any Supported QFC may in fact be stated to be governed by the laws of the State of Massachusetts and/or of the United States or any other state of the United States):

(a) In the event a Covered Entity that is party to a Supported QFC (each, a "Covered Party") becomes subject to a proceeding under a U.S. Special Resolution Regime, the transfer of such Supported QFC and the benefit of such QFC Credit Support (and any interest and obligation in or under such Supported QFC and such QFC Credit Support, and any rights in property securing such Supported QFC or such QFC Credit Support) from such Covered Party will be effective to the same extent as the transfer would be effective under the U.S. Special Resolution Regime if the Supported QFC and such QFC Credit Support (and any such interest, obligation and rights in property) were governed by the laws of the United States or a state of the United States. In the event a Covered Party or a BHC Act Affiliate of a Covered Party becomes subject to a proceeding under a U.S. Special Resolution Regime, Default Rights under the Loan Documents that might otherwise apply to such Supported QFC or any QFC Credit Support that may be exercised against such Covered Party are permitted to be exercised to no greater extent than such Default Rights could be exercised under the U.S. Special Resolution Regime if the Supported QFC and the Loan Documents were governed by the laws of the United States or a state of the United States. Without limitation of the foregoing, it is understood and agreed that rights and remedies of the parties with respect to a Defaulting Lender shall in no event affect the rights of any Covered Party with respect to a Supported QFC or any QFC Credit Support.

(b) As used in this Section 15.20, the following terms have the following meanings:

"BHC Act Affiliate" of a party means an "affiliate" (as such term is defined under, and interpreted in accordance with, 12 U.S.C. 1841(k)) of such party.

"Covered Entity" means any of the following:

(i) a "covered entity" as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 252.82(b);

(ii) a "covered bank" as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 47.3(b); or

(iii) a "covered FSI" as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 382.2(b).

"Default Right" has the meaning assigned to that term in, and shall be interpreted in accordance with, 12 C.F.R. §§ 252.81, 47.2 or 382.1, as applicable.

"QFC" has the meaning assigned to the term "qualified financial contract" in, and shall be interpreted in accordance with, 12 U.S.C. 5390(c)(8)(D).

3. Conditions Precedent. The effectiveness of this Amendment is subject to the following conditions:

(a) The execution and delivery to the Agent and each Lender of:

(i) this Amendment by the Borrower, Guarantors, the Agent, and the Lenders, in form and substance satisfactory to the Agent and the Lenders;

(ii) a certificate of good standing and foreign qualification to do business (or foreign equivalent thereof) of the Borrower and each Guarantor listed on the signature page hereof from their respective applicable secretary of state; and

(iii) results of lien and judgment searches in respect of the Borrower and each Guarantor satisfactory to the Agent;

(b) The Agent and Lenders shall have received all fees payable to Agent and Lenders pursuant to the Agreement on or prior to the date hereof and all other amounts due to the Agent pursuant to the Agreement (including reimbursement of fees and expenses (including fees and expenses of counsel) incurred in connection with this Amendment).

(c) After giving effect to this Amendment, the representations and warranties set forth in Section 4 of this Amendment shall be true and correct in all respects.

4. Representations and Warranties. The Borrower and each Guarantor hereby represents and warrants to Agent and each Lender that:

(a) the Borrower and each Guarantor is a corporation or limited liability company, as applicable, duly organized, validly existing and in good standing under the laws of the jurisdiction of its formation or organization;

(b) the Borrower and each Guarantor has the power and authority to execute, deliver and perform its obligations under this Amendment;

(c) the execution, delivery and performance by the Borrower and each Guarantor of this Amendment has been duly authorized by all necessary corporate or limited liability company action, as applicable;

(d) this Amendment constitutes the legal, valid and binding obligation of the Borrower and each Guarantor, as applicable, enforceable against each such party in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws limiting creditors' rights generally or by equitable principles relating to enforceability;

(e) no pending or threatened litigation, arbitration, actions or proceedings exist, which if adversely determined could reasonably be expected to result in a Material Adverse Effect;

(f) no material liabilities or indebtedness for borrowed money exist, other than the Obligation and Indebtedness permitted pursuant to Section 7.8 of the Credit Agreement;

(g) since June 30, 2021, there shall not have occurred any event, condition or state of facts which could reasonably be expected to have a Material Adverse Effect;

(h) no Default or Event of Default exists and remains continuing or would exist after giving effect to this Amendment and the transactions contemplated hereby; and

(i) all representations and warranties contained in the Credit Agreement are true and correct in all material respects as of the date hereof, except to the extent made as of a specific date, in which case each such representation and warranty were true and correct in all material respects as of such date; provided, that if any representation and warranty is qualified as to materiality or Material Adverse Effect, such representation and warranty is true and correct in all respects as of the date hereof, except to the extent made as of a specific date, in which case each such representation and warranty was true and correct in all respects as of such date.

5. Agreement in Full Force and Effect. The Credit Agreement and the Other Documents shall remain in full force and effect and are hereby ratified and confirmed in all respects. Except as expressly set forth herein, this Amendment shall not be deemed to be an amendment or modification of any provisions of the Credit Agreement or any Other Document or any right, power or remedy of Agent or the Lenders, nor constitute a waiver of any provision of the Credit Agreement or any Other Document, or any other document, instrument and/or agreement executed or delivered in connection therewith or of any Event of Default under any of the foregoing, in each case, whether arising before or after the date hereof or as a result of performance hereunder or thereunder. This Amendment also shall not preclude the future exercise of any right, remedy, power, or privilege available to Agent and/or the Lenders whether under the Credit Agreement or the Other Documents, at law or otherwise and nothing contained herein shall constitute a course of conduct or dealing among the parties hereto. All references to the Credit Agreement shall be deemed to mean the Credit Agreement as modified hereby. This Amendment shall not constitute a novation or satisfaction and accord of the Credit Agreement and the Other Documents. The parties hereto agree to be bound by the terms and conditions of the Credit Agreement and the Other Documents as modified by this Amendment, as though such terms and conditions were set forth herein. Each reference in the Credit Agreement to “this Agreement,” “hereunder,” “hereof,” “herein” or words of similar import shall mean and be a reference to the Credit Agreement as modified by this Amendment, and each reference herein or in any Other Document to the “Credit Agreement” shall mean and be a reference to the Credit Agreement as modified by this Amendment.

6. Counterparts. This Amendment may be executed by one or more of the parties to this Amendment in any number of separate counterparts, each of which when so executed, shall be deemed an original and all said counterparts when taken together shall be deemed to constitute but one and the same instrument. Delivery of counterparts by facsimile or electronic mail shall be deemed equally effective as delivery of originals.

7. Successors and Assigns. This Amendment shall be binding upon and inure to the benefit of the Borrower and each Guarantor and its successors and assigns and the Agent and each Lender and their respective successors and assigns.

8. Reaffirmation. The Borrower and each Guarantor as debtor, grantor, pledgor, or in other any other similar capacity in which such party grants liens or security interests in its property pursuant to the Loan Documents hereby (a) ratifies and reaffirms all of its payment and performance obligations, contingent or otherwise, under each of the Loan Documents to which it is a party and (b) ratifies and reaffirms such grant of security interests and liens and confirms and agrees that such security interests and liens hereafter secure all of the Obligations. The Borrower and each Guarantor hereby consents to this Amendment and acknowledges that each of the Loan Documents remains in full force and effect and is hereby ratified and reaffirmed. Except as expressly set forth herein, the execution of this Amendment shall not operate as a waiver of any right, power or remedy of Agent or the Lenders, constitute a waiver of any provision of any of the Loan Documents or serve to effect a novation of the Obligations.

9. Acknowledgment of Rights; Release of Claims. The Borrower and each Guarantor hereby acknowledges that: (a) it has no defenses, claims or set-offs to the enforcement by the Agent or any Lender of such party's liabilities, obligations and agreements on the date hereof; (b) to its knowledge, the Agent and each Lender have fully performed all undertakings and obligations owed to it as of the date hereof; and (c) neither the Agent nor any Lender waives, diminishes or limits any term or condition contained in the Credit Agreement or any of the Other Documents. The Borrower and each Guarantor hereby remises, releases, acquits, satisfies and forever discharges the Agent and each Lender, their respective agents, employees, officers, directors, predecessors, attorneys and all others acting or purporting to act on behalf of or at the direction of the Agent or any Lender ("Releasees"), of and from any and all manner of known and unknown actions, causes of action, suit, debts, accounts, covenants, contracts, controversies, agreements, variances, damages, judgments, claims and demands whatsoever, in law or in equity, which any of such parties ever had, now has or, to the extent arising from or in connection with any act, omission or state of facts taken or existing on or prior to the date hereof, may have after the date hereof against the Releasees, for, upon or by reason of any matter, cause or thing whatsoever through the date hereof. Without limiting the generality of the foregoing, the Borrower and each Guarantor waives and affirmatively agrees not to allege or otherwise pursue any defenses, affirmative defenses, counterclaims, claims, causes of action, setoffs or other rights they do, shall or may have as of the date hereof, including, but not limited to, the rights to contest: (i) the right of Agent and each Lender to exercise their respective rights and remedies described in this Amendment; (ii) any provision of this Amendment, the Credit Agreement or any Other Document; or (iii) any conduct of the Releasees relating to or arising out of the Credit Agreement or the Other Documents on or prior to the date hereof.

10. Costs and Expenses. The Borrower agrees to reimburse the Agent for all fees, costs and expenses, including the fees, costs and expenses of counsel or other advisors for advice, assistance, or other representation in connection with this Amendment.

11. Governing Law. The laws of the Commonwealth of Massachusetts shall govern all matters arising out of, in connection with or relating to this Agreement, including, without limitation, its validity, interpretation, construction, performance and enforcement (including, without limitation, any claims sounding in contract or tort law arising out of the subject matter hereof and any determinations with respect to post-judgment interest).

12. WAIVER OF JURY TRIAL. THE PARTIES HERETO, TO THE EXTENT PERMITTED BY LAW, WAIVE ALL RIGHT TO TRIAL BY JURY IN AN ACTION, SUIT,

OR PROCEEDING ARISING OUT OF, IN CONNECTION WITH OR RELATING TO, THIS AGREEMENT AND ANY OTHER TRANSACTION CONTEMPLATED HEREBY. THIS WAIVER APPLIES TO ANY ACTION, SUIT OR PROCEEDING WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE.

[Remainder of Page Intentionally Left Blank; Signature Pages Follow]

IN WITNESS WHEREOF, each of the undersigned has executed this Amendment as of the date set forth above.

BORROWER:

PC CONNECTION, INC.,
a Delaware corporation

By: /s/ Thomas C. Baker
Name: Thomas C. Baker
Title: Sr. VP, CFO & Treasurer

GUARANTORS:

GOVCONNECTION, INC.,
a Maryland corporation

By: /s/ Brian Hicks
Name: Brian Hicks
Title: Treasurer

PC CONNECTION SALES CORPORATION,
a Delaware corporation

By: /s/ Brian Hicks
Name: Brian Hicks
Title: Treasurer

MORE DIRECT, INC.,
a Florida corporation

By: /s/ Brian Hicks
Name: Brian Hicks
Title: Treasurer

(Signature Page to Third Amendment to Third Amended and Restated Credit and Security Agreement]

GLOBALSERVE, INC.,
a New York corporation

By: /s/ Brian Hicks
Name: Brian Hicks
Title: Treasurer

[Signature Page to Third Amendment to Third Amended and Restated Credit and Security Agreement]

AGENT:

CITIZENS BANK, N.A.

By: /s/ Marc J. Lubelczyk
Name: Marc J. Lubelczyk
Title: Senior Vice President

LENDER:

CITIZENS BANK, N.A.

By: /s/ Marc J. Lubelczyk
Name: Marc J. Lubelczyk
Title: Senior Vice President

[Signature Page to Third Amendment to Third Amended and Restated Credit and Security Agreement]

EXHIBIT 21.1

CORPORATE ORGANIZATIONAL STRUCTURE:

PC Connection, Inc., a Delaware corporation, is the parent company of the following wholly-owned subsidiaries:

1. PC Connection Sales Corporation, a Delaware corporation.

2. GovConnection, Inc., a Maryland corporation.

3. MoreDirect, Inc., a Florida corporation.

4. GlobalServe, Inc., a Delaware corporation.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-209915, 333-194458, 333-187061, 333-179797, 333-166645, 333-144065, 333-161172, 333-130389, 333-179796, 333-202642, 333-223688, 333-231824 and Registration Statement No 333-239475 on Form S-8 of our reports dated March 14, 2022, relating to the financial statements of PC Connection, Inc., and the effectiveness of PC Connection Inc.'s internal control over financial reporting appearing in the Annual Report on Form 10-K for the year ended December 31, 2021.

/s/ Deloitte & Touche LLP

Boston, Massachusetts
March 14, 2022

Exhibit 31.1

CERTIFICATIONS

I, Timothy J. McGrath, certify that:

1. I have reviewed this Annual Report on Form 10-K of PC Connection, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

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

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

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

Date: March 14, 2022

/S/ TIMOTHY J. MCGRATH

Timothy J. McGrath
President and Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, Thomas C. Baker, certify that:

1. I have reviewed this Annual Report on Form 10-K of PC Connection, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

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

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

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

Date: March 14, 2022

/S/ THOMAS C. BAKER

Thomas C. Baker
Senior Vice President, Chief Financial Officer, and Treasurer (Principal Financial and Accounting Officer)

Exhibit 32.1

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

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report on Form 10-K of PC Connection, Inc. (the “Company”) for the year ended December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Timothy J. McGrath, President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that to the best of his knowledge:

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

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

Date: March 14, 2022

/S/ TIMOTHY J. MCGRATH

Timothy J. McGrath
President and Chief Executive Officer (Principal Executive Officer)

Exhibit 32.2

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

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report on Form 10-K of PC Connection, Inc. (the “Company”) for the year ended December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Thomas C. Baker, Senior Vice President and Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that to the best of his knowledge:

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

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

Date: March 14, 2022

/S/ THOMAS C. BAKER

Thomas C. Baker
Senior Vice President, Chief Financial Officer, and Treasurer (Principal Financial and Accounting Officer)