
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934*
For the quarterly period ended March 31, 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: 0-23827

PC CONNECTION, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

02-0513618
(I.R.S. Employer Identification No.)

730 Milford Road
Merrimack, New Hampshire
(Address of principal executive offices)

03054
(Zip Code)

(603) 683-2000

(Registrant's telephone number, including area code)

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

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

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 the 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares outstanding of the issuer's common stock as of April 30, 2021 was 26,187,175.

PC CONNECTION, INC. AND SUBSIDIARIES
FORM 10-Q

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PART I. FINANCIAL INFORMATION
ITEM 1 FINANCIAL STATEMENTS

PC CONNECTION, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(amounts in thousands)

	<u>March 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 92,257	\$ 95,655
Accounts receivable, net	554,696	611,021
Inventories, net	140,534	140,867
Prepaid expenses and other current assets	15,364	11,437
Total current assets	802,851	858,980
Property and equipment, net	61,592	61,537
Right-of-use assets	11,857	12,821
Goodwill	73,602	73,602
Intangibles assets, net	6,783	7,088
Other assets	1,701	1,345
Total Assets	<u>\$ 958,386</u>	<u>\$ 1,015,373</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 206,542	\$ 266,846
Accrued payroll	18,171	17,828
Accrued expenses and other liabilities	50,231	57,586
Total current liabilities	274,944	342,260
Deferred income taxes	18,525	18,525
Noncurrent operating lease liabilities	8,792	9,631
Other liabilities	8,630	8,630
Total Liabilities	310,891	379,046
Stockholders' Equity:		
Common Stock	289	289
Additional paid-in capital	120,875	119,891
Retained earnings	572,268	562,084
Treasury stock, at cost	(45,937)	(45,937)
Total Stockholders' Equity	647,495	636,327
Total Liabilities and Stockholders' Equity	<u>\$ 958,386</u>	<u>\$ 1,015,373</u>

See notes to unaudited condensed consolidated financial statements.

PC CONNECTION, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(amounts in thousands, except per share data)

	Three Months Ended March 31,	
	2021	2020
Net sales	\$ 636,892	\$ 711,850
Cost of sales	536,372	598,732
Gross profit	100,520	113,118
Selling, general and administrative expenses	86,400	92,468
Income from operations	14,120	20,650
Other (expenses) income, net	(7)	92
Income before taxes	14,113	20,742
Income tax provision	(3,929)	(5,846)
Net income	<u>\$ 10,184</u>	<u>\$ 14,896</u>
Earnings per common share:		
Basic	<u>\$ 0.39</u>	<u>\$ 0.57</u>
Diluted	<u>\$ 0.39</u>	<u>\$ 0.56</u>
Shares used in computation of earnings per common share:		
Basic	<u>26,172</u>	<u>26,236</u>
Diluted	<u>26,360</u>	<u>26,421</u>

See notes to unaudited condensed consolidated financial statements.

PC CONNECTION, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
(amounts in thousands)

	Three months ended March 31, 2021						
	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Shares		Total
	Shares	Amount			Shares	Amount	
Balance - December 31, 2020	28,943	\$ 289	\$ 119,891	\$ 562,084	(2,773)	\$ (45,937)	\$ 636,327
Stock-based compensation expense	—	—	1,066	—	—	—	1,066
Restricted stock units vested	5	—	—	—	—	—	—
Shares withheld for taxes paid on stock awards	—	—	(82)	—	—	—	(82)
Net income	—	—	—	10,184	—	—	10,184
Balance - March 31, 2021	28,948	\$ 289	\$ 120,875	\$ 572,268	(2,773)	\$ (45,937)	\$ 647,495

	Three months ended March 31, 2020						
	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Shares		Total
	Shares	Amount			Shares	Amount	
Balance - December 31, 2019	28,870	\$ 288	\$ 118,045	\$ 514,694	(2,526)	\$ (35,715)	\$ 597,312
Stock-based compensation expense	—	—	624	—	—	—	624
Restricted stock units vested	4	1	—	—	—	—	1
Shares withheld for taxes paid on stock awards	—	—	(49)	—	—	—	(49)
Repurchase of common stock for treasury	—	—	—	—	(247)	(10,222)	(10,222)
Net income	—	—	—	14,896	—	—	14,896
Balance - March 31, 2020	28,874	\$ 289	\$ 118,620	\$ 529,590	(2,773)	\$ (45,937)	\$ 602,562

See notes to unaudited condensed consolidated financial statements.

PC CONNECTION, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(amounts in thousands)

	Three Months Ended	
	March 31,	
	2021	2020
Cash Flows provided by Operating Activities:		
Net income	\$ 10,184	\$ 14,896
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,165	3,147
Adjustments to credit losses reserve	(70)	2,833
Stock-based compensation expense	1,066	624
Changes in assets and liabilities:		
Accounts receivable	54,895	61,477
Inventories	333	(12,319)
Prepaid expenses, income tax receivables and other current assets	(3,927)	(3,300)
Other non-current assets	(356)	(98)
Accounts payable	(60,862)	(15,499)
Accrued expenses and other liabilities	1,534	(7,205)
Net cash provided by operating activities	<u>5,962</u>	<u>44,556</u>
Cash Flows used in Investing Activities:		
Purchases of equipment and capitalized software	(2,403)	(4,595)
Proceeds from life insurance	1,500	—
Net cash used in investing activities	<u>(903)</u>	<u>(4,595)</u>
Cash Flows (used in) provided by Financing Activities:		
Purchase of treasury shares	—	(10,222)
Dividend payments	(8,375)	(8,427)
Payment of payroll taxes on stock-based compensation through shares withheld	(82)	(49)
Net cash used in financing activities	<u>(8,457)</u>	<u>(18,698)</u>
(Decrease) increase in cash and cash equivalents	(3,398)	21,263
Cash and cash equivalents, beginning of year	95,655	90,060
Cash and cash equivalents, end of year	<u>\$ 92,257</u>	<u>\$ 111,323</u>
Non-cash Investing and Financing Activities:		
Accrued capital expenditures	<u>\$ 714</u>	<u>\$ 1,237</u>
Supplemental Cash Flow Information:		
Income taxes paid	<u>\$ 261</u>	<u>\$ 369</u>

See notes to unaudited condensed consolidated financial statements.

**PC CONNECTION, INC. AND SUBSIDIARIES
PART I—FINANCIAL INFORMATION**

Item 1—Financial Statements

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

Note 1—Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of PC Connection, Inc. and its subsidiaries (the “Company”) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission regarding interim financial reporting and in accordance with accounting principles generally accepted in the United States of America. Such principles were applied on a basis consistent with the accounting policies described in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020, filed with the Securities and Exchange Commission (the “SEC”). The accompanying condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements contained in the Company’s Annual Report on Form 10-K.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the results of operations for the interim periods reported and of the Company’s financial condition as of the date of the interim balance sheet. The Company considers events or transactions that occur after the balance sheet date but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. Subsequent events have been evaluated through the date of issuance of these financial statements. The operating results for the three months ended March 31, 2021 may not be indicative of the results expected for any succeeding quarter or the entire year ending December 31, 2021.

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, including uncertainty in the current economic environment due to the coronavirus pandemic (“COVID-19 pandemic”). Actual results could differ from those estimates and assumptions, including the impact of the COVID-19 pandemic.

Recently Issued Financial Accounting Standards

In March 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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.

Note 2—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 three months ended March 31, 2021 and 2020, along with the reportable segment for each category.

	Three Months Ended March 31, 2021			
	Business Solutions	Enterprise Solutions	Public Sector Solutions	Total
Notebooks/Mobility	\$ 94,435	\$ 82,191	\$ 56,974	\$ 233,600
Desktops	21,159	30,351	7,850	59,360
Software	27,162	22,505	7,209	56,876
Servers/Storage	20,573	17,156	6,647	44,376
Net/Com Products	18,404	19,826	10,361	48,591
Displays and Sound	19,774	23,405	13,993	57,172
Accessories	25,847	43,876	10,821	80,544
Other Hardware/Services	18,980	25,975	11,418	56,373
Total net sales	\$ 246,334	\$ 265,285	\$ 125,273	\$ 636,892

	Three Months Ended March 31, 2020			
	Business Solutions	Enterprise Solutions	Public Sector Solutions	Total
Notebooks/Mobility	\$ 91,613	\$ 79,316	\$ 28,966	\$ 199,895
Desktops	33,294	34,209	10,472	77,975
Software	36,398	26,182	7,295	69,875
Servers/Storage	25,830	16,234	11,746	53,810
Net/Com Products	21,012	24,946	9,810	55,768
Displays and Sound	23,946	23,568	11,443	58,957
Accessories	28,021	90,974	8,809	127,804
Other Hardware/Services	18,671	37,989	11,106	67,766
Total net sales	\$ 278,785	\$ 333,418	\$ 99,647	\$ 711,850

Contract Balances

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

	March 31, 2021	December 31, 2020
Contract liabilities, which are included in "Accrued expenses and other liabilities"	\$ 6,268	\$ 3,509

Changes in the contract liability balances during the three months ended March 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	5,259
Amounts recognized as revenue as performance obligations satisfied	(2,500)
Balances at March 31, 2021	\$ 6,268
	2020
Balances at December 31, 2019	\$ 5,942
Cash received in advance and not recognized as revenue	4,852
Amounts recognized as revenue as performance obligations satisfied	(8,262)
Balances at March 31, 2020	\$ 2,532

Note 3—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 non-vested stock units and stock options outstanding, if dilutive.

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

	Three Months Ended March 31,	
	2021	2020
Numerator:		
Net income	\$ 10,184	\$ 14,896
Denominator:		
Denominator for basic earnings per share	26,172	26,236
Dilutive effect of employee stock awards	188	185
Denominator for diluted earnings per share	26,360	26,421
Earnings per share:		
Basic	\$ 0.39	\$ 0.57
Diluted	\$ 0.39	\$ 0.56

For the three months ended March 31, 2021 and 2020, the Company had no outstanding non-vested stock units that were excluded from the computation of diluted earnings per share because including them would have had an anti-dilutive effect.

Note 4—Leases

The Company leases certain facilities from a related party, which is a company affiliated with us through common ownership. Included in the right-of-use asset (“ROU asset”) as of March 31, 2021 was \$3,179 and a corresponding lease liability of \$3,179 associated with related party leases.

As of March 31, 2021, there were no additional operating leases that have not yet commenced. Refer to the following table for quantitative information related to the Company’s leases for the three months ended March 31, 2021 and 2020:

	Three months ended March 31, 2021			Three months ended March 31, 2020		
	Related Parties	Others	Total	Related Parties	Others	Total
Lease Cost						
Capitalized operating lease cost	\$ 313	\$ 777	\$ 1,090	\$ 379	\$ 784	\$ 1,163
Short-term lease cost	107	23	130	41	2	43
Total lease cost	\$ 420	\$ 800	\$ 1,220	\$ 420	\$ 786	\$ 1,206
Other Information						
Cash paid for amounts included in the measurement of lease liabilities and capitalized operating leases:						
Operating cash flows	\$ 313	\$ 770	\$ 1,083	\$ 379	\$ 781	\$ 1,160
Weighted-average remaining lease term (in years):						
Capitalized operating leases	2.67	5.32	4.65	3.65	6.29	5.60
Weighted-average discount rate:						
Capitalized operating leases	3.92%	3.92%	3.92%	3.92%	3.92%	3.92%

As of March 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
2021, excluding the three months ended March 31, 2021	\$ 940	\$ 2,322	\$ 3,262
2022	1,253	2,111	3,364
2023	1,149	1,675	2,824
2024	—	1,699	1,699
2025	—	1,594	1,594
Thereafter	—	888	888
	<u>\$ 3,342</u>	<u>\$ 10,289</u>	<u>\$ 13,631</u>
Imputed interest			(1,027)
Lease liability balance at March 31, 2021			<u>\$ 12,604</u>

As of March 31, 2021, the ROU asset had a balance of \$11,857. The long-term lease liability was \$8,792 and the short-term lease liability, which is included in accrued expenses and other liabilities in the consolidated balance sheets, was \$3,812. As of March 31, 2020, the ROU asset had a balance of \$15,776. The long-term lease liability was \$12,551 and the short-term lease liability, which is included in accrued expenses and other liabilities in the consolidated balance sheets, was \$4,062.

Note 5—Segment Information

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 reportable 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 governmental 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.

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Segment information applicable to our reportable operating segments for the three months ended March 31, 2021 and 2020 is shown below:

	Three Months Ended	
	March 31, 2021	March 31, 2020
Net sales:		
Business Solutions	\$ 246,334	\$ 278,785
Enterprise Solutions	265,285	333,418
Public Sector Solutions	125,273	99,647
Total net sales	<u>\$ 636,892</u>	<u>\$ 711,850</u>
Operating income (loss):		
Business Solutions	\$ 8,420	\$ 11,301
Enterprise Solutions	12,543	16,722
Public Sector Solutions	(2,753)	(3,322)
Headquarters/Other	<u>(4,090)</u>	<u>(4,051)</u>
Total operating income	14,120	20,650
Other (expenses) income, net	(7)	92
Income before taxes	<u>\$ 14,113</u>	<u>\$ 20,742</u>
Selected operating expense:		
Depreciation and amortization:		
Business Solutions	\$ 159	\$ 159
Enterprise Solutions	716	681
Public Sector Solutions	14	15
Headquarters/Other	<u>2,276</u>	<u>2,292</u>
Total depreciation and amortization	<u>\$ 3,165</u>	<u>\$ 3,147</u>
Total assets:		
Business Solutions	\$ 362,694	\$ 319,909
Enterprise Solutions	568,221	536,672
Public Sector Solutions	94,103	52,285
Headquarters/Other	<u>(66,632)</u>	<u>4,326</u>
Total assets	<u>\$ 958,386</u>	<u>\$ 913,192</u>

The assets of our three operating segments presented above consist primarily of accounts receivable, net intercompany receivable, goodwill, and other intangibles. Assets reported under the Headquarters/Other group are managed by corporate headquarters, including cash, inventory, property and equipment, right-of-use assets, and intercompany balance, net. As of March 31, 2021 and 2020, total assets for the Headquarters/Other group are presented net of intercompany balance eliminations of \$48,026 and \$7,024, respectively. Our capital expenditures consist largely of IT hardware and software purchased to maintain or upgrade our management information systems. These information systems serve all of our segments, to varying degrees, and accordingly, our CODM does not evaluate capital expenditures on a segment-by-segment basis.

Note 6—Commitments and 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, adverse effect on our financial position, results of operations, and/or cash flows.

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, but such outcomes are not expected to have a material, adverse impact on our financial position, results of operations, and/or cash flows.

Note 7—Bank Borrowings

The Company has a \$50,000 credit facility collateralized by our account receivables that expires February 10, 2022. This facility can be increased, at our 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 the one-month LIBOR (0.11% at March 31, 2021), plus a spread based on our funded debt ratio, or in the absence of LIBOR, the prime rate (3.25% at March 31, 2021). 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 trailing twelve months Adjusted EBITDA (Earnings Before Interest Expense, Taxes, Depreciation, Amortization, and Special Charges). The maximum allowable funded debt ratio under the agreement is 2.0 to 1.0. Decreases in our consolidated trailing twelve months Adjusted EBITDA could limit our potential borrowing capacity under the credit facility. The Company had no outstanding bank borrowings at March 31, 2021 or 2020, and accordingly, the entire \$50,000 facility was available for borrowings under the credit facility. As of March 31, 2021, the Company was in compliance with all financial covenants contained in the agreement governing the credit facility.

PC CONNECTION, INC. AND SUBSIDIARIES
PART I—FINANCIAL INFORMATION
Item 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

Statements contained or incorporated by reference in this Quarterly Report on Form 10-Q that are not based on historical fact are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. These forward-looking statements regarding future events and our future results are based on current expectations, estimates, forecasts, and projections and the beliefs and assumptions of 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 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Quarterly Report on Form 10-Q and in Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020. Any forward-looking statement made by us in this Quarterly Report on Form 10-Q speaks only as of the date on which this Quarterly Report on Form 10-Q 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.

OVERVIEW

We are a leading solutions provider of a wide range of information technology, or IT, solutions. We help our customers design, enable, manage, and service their IT environments. We provide IT products, including computer systems, software and peripheral equipment, networking communications, and other products and accessories that we purchase from manufacturers, distributors, and other suppliers. We also offer services involving design, configuration, and implementation of IT solutions. These services are performed by our personnel and by third-party service providers. We operate through three sales segments: (a) the Business Solutions segment, which serves small- to medium-sized businesses, through our PC Connection Sales subsidiary, (b) the Enterprise Solutions segment, which serves large enterprise customers, through our MoreDirect subsidiary, and (c) the Public Sector segment, which serves federal, state, and local governmental and educational institutions, through our GovConnection subsidiary.

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 seek to recruit, retain, and increase the productivity of our sales personnel through training, mentoring, financial incentives based on performance, and updating and streamlining our information systems to make our operations more efficient.

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, 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, especially in the current economic environment, 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 have expanded, and expect to continue to expand, 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 and economic 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

In the year 2021, the COVID-19 pandemic continued to cause material disruptions to the business and operations of our customers. We have experienced, and may continue to experience, decreases in orders as a result of the COVID-19 pandemic and there can be no assurances that any decrease in sales resulting from the COVID-19 pandemic will be met by increased sales in the future.

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, we continue to monitor the effects on our customers, suppliers, and the economy as a whole and will 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:

	Three Months Ended	
	2021	2020
Net sales (in millions)	\$ 636.9	\$ 711.9
Gross margin	15.8 %	15.9 %
Selling, general and administrative expenses	13.6 %	13.0 %
Income from operations	2.2 %	2.9 %

Net sales of \$636.9 million for the first quarter of 2021 reflected a decrease of \$75.0 million compared to the first quarter of 2020, which was driven by lower net sales in our Enterprise Solutions and Business Solutions Segments. The decrease was partially offset by growth in our Public Sector Solutions segment. The decrease in net sales was primarily due to the supply chain constraints in the first quarter of 2021 and strong comparative results in the same quarter a year ago. Gross profit decreased year-over-year by \$12.6 million, primarily due to the increase of lower margin sales and the decline in total net sales. SG&A expenses decreased year-over-year by \$6.1 million, driven primarily by decreased personnel cost of \$4.6 million associated with reduced headcount and lower variable compensation, a decrease in bad debt expenses of \$2.9 million and a decrease in advertising expenses of \$1.3 million, which were partially offset by an increase in professional fees of \$2.1 million. Operating income in the first quarter of 2021 decreased year-over-year both in dollars and as a percentage of net sales by \$6.5 million and 68 basis points, respectively, primarily as a result of the decrease in net sales.

Net Sales Distribution

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

Sales Segment	Three Months Ended	
	2021	2020
Enterprise Solutions	41 %	47 %
Business Solutions	39	39
Public Sector Solutions	20	14
Total	<u>100 %</u>	<u>100 %</u>
Product Mix		
Notebooks/Mobility	37 %	28 %
Desktops	9	11
Software	9	10
Servers/Storage	7	8
Net/Com Product	8	8
Displays and sound	9	8
Accessories	13	18
Other Hardware/Services	8	9
Total	<u>100 %</u>	<u>100 %</u>

Gross Profit Margin

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

Sales Segment	Three Months Ended	
	2021	2020
Enterprise Solutions	14.1 %	13.9 %
Business Solutions	19.2	18.8
Public Sector Solutions	12.5	14.5
Total Company	15.8 %	15.9 %

Operating Expenses

The following table reflects our SG&A expenses for the periods indicated:

	Three Months Ended	
	2021	2020
Personnel costs	\$ 64.8	\$ 69.4
Advertising	3.4	4.6
Facilities operations	6.8	5.1
Professional fees	4.7	2.6
Credit card fees	1.4	1.7
Depreciation and amortization	3.2	3.1
Other	2.1	6.0
Total SG&A expense	\$ 86.4	\$ 92.5
As a percentage of net sales	13.6 %	13.0 %

Year-Over-Year Comparisons

In this section and elsewhere in this Quarterly Report on Form 10-Q we refer to changes in year-over-year results. Unless context otherwise requires, such references refer to changes between the three months ended March 31, 2021 and the three months ended March 31, 2020.

Three Months Ended March 31, 2021 Compared to Three Months Ended March 31, 2020

Changes in net sales and gross profit by segment are shown in the following table:

	Three Months Ended March 31,		2021		2020		% Change
	Amount	% of Net Sales	Amount	% of Net Sales	% Change		
Net Sales:							
Enterprise Solutions	\$ 265.3	41.4 %	\$ 333.4	46.8 %			(20.4)%
Business Solutions	246.3	38.8	278.8	39.2			(11.7)
Public Sector Solutions	125.3	19.8	99.7	14.0			25.7
Total	\$ 636.9	100.0 %	\$ 711.9	100.0 %			(10.5)%
Gross Profit:							
Enterprise Solutions	\$ 37.5	14.1 %	\$ 46.2	13.9 %			(18.8)%
Business Solutions	47.4	19.2	52.5	18.8			(9.7)
Public Sector Solutions	15.6	12.5	14.4	14.5			8.3
Total	\$ 100.5	15.8 %	\$ 113.1	15.9 %			(11.1)%

Net sales decreased in the first quarter of 2021 compared to the first quarter of 2020, as explained below:

- Net sales of \$265.3 million for the Enterprise Solutions segment reflect a decrease of \$68.1 million, or 20.4%, year-over-year. We experienced decreases in net sales across the majority of our product offerings primarily as a result of the supply chain constraints in the first quarter of 2021. The decrease in net sales was also due to the higher net sales in the first quarter of 2020 as a result of a shift to work-from-home strategy because of the outbreak of COVID-19 pandemic in the first quarter of 2020. We experienced decreases in net sales of accessory products, other hardware/services, net/com products, and desktops products of \$47.1 million, \$12.0 million, \$5.1 million, and \$3.9 million respectively.
- Net sales of \$246.3 million for the Business Solutions segment reflect a decrease of \$32.5 million, or 11.7%, year-over-year. The decrease was a result of the stronger net sales in the same period of prior year. The decrease in net sales was also driven by the supply chain constraints in the first quarter of 2021. We experienced a decrease in net sales of desktop products of \$12.1 million, software products of \$9.2 million, server/storage products of \$5.3 million, and display and sound products of \$4.2 million.

- Net sales of \$125.3 million for the Public Sector Solutions segment reflect an increase of \$25.6 million, or 25.7%, compared with the same period a year ago. The increase was primarily driven by a large project rollout to the federal government and an increase of sales in K-12 customers. Net sales of notebooks/mobility products increased by \$28.0 million compared with the prior year, which was partially offset by the decrease of net sales in servers/storage products of \$5.1 million.

Gross profit for the first quarter of 2021 decreased year-over-year in dollars, but stayed relatively flat as a percentage of net sales (gross margin), as explained below:

- Gross profit for the Enterprise Solutions segment decreased primarily as a result of the 20.4% decrease in net sales year-over-year, fluctuations in customer, and hardware product mix. The change in customer and hardware product mix also explains the increase in gross margin of 20 basis points in the current quarter.
- Gross profit for the Business Solutions segment decreased year-over-year primarily due to a 11.7% decrease in net sales. Gross margin percentage increased by approximately 40 basis points, primarily due to an increase in cloud-based and security software sales, which are recognized on a net basis.
- Gross profit for the Public Sector Solutions segment increased as a result of a 25.7% increase in net sales. Gross margin percentage decreased by 200 basis points year-over-year due to a shift in product mix, which included increased sales of lower-margin products.

Selling, general and administrative expenses decreased in dollars but increased as a percentage of net sales in the first quarter of 2021 compared to the prior year quarter. SG&A expenses attributable to our three segments and the remaining unallocated Headquarters/Other group expenses are summarized in the table below:

	Three Months Ended March 31,		2020		% Change
	2021	% of Segment Net Sales	2020	% of Segment Net Sales	
	Amount		Amount		
Enterprise Solutions	\$ 25.0	9.4 %	\$ 29.5	8.8 %	(15.3) %
Business Solutions	38.9	15.8	41.2	14.8	(5.6)
Public Sector Solutions	18.4	14.7	17.7	17.8	4.0
Headquarters/Other, unallocated	4.1		4.1		—
					(6.6)
Total	<u>\$ 86.4</u>	13.6 %	<u>\$ 92.5</u>	13.0 %	%

- SG&A expenses for the Enterprise Solutions segment decreased in dollars but increased as a percentage of net sales. The year-over-year change in SG&A dollars was attributable to decreased personnel costs of \$3.5 million, driven primarily by a reduction in headcount and lower variable compensation expense associated with lower gross profit, along with lower product marketing and advertising expenses of \$0.8 million. SG&A expenses as a percentage of net sales were 9.4% for the Enterprise Solutions segment in the first quarter of 2021, which reflects an increase of 60 basis points. There were no individual significant drivers of this change year-over-year, but primarily it is a result of lower net sales compared with the same period a year ago.
- SG&A expenses for the Business Solutions segment decreased in dollars and increased as a percentage of net sales. The year-over-year change in SG&A dollars was driven primarily by lower bad debt expenses of \$2.3 million compared to the same period last year. This is as a result of higher bad debt expenses recorded in the prior year as a reaction to the COVID-19 pandemic. SG&A expenses as a percentage of net sales were 15.8% for the Business Solutions segment in the first quarter of 2021, which reflects an increase of 100 basis points and is a result of lower net sales in the quarter compared with the same period a year ago.
- SG&A expenses for the Public Sector Solutions segment increased in dollars but decreased as a percentage of net sales. The increase is primarily driven by an increase in the use of Headquarter services of \$0.9 million. SG&A expenses as a percentage of net sales was 14.7% for the Public Sector Solutions segment in the first quarter of 2021, which reflects a decrease of 310 basis points. This decrease year-over-year is primarily attributable to higher net sales in the quarter compared with the same period a year ago.

- SG&A expenses for the Headquarters/Other group were relatively flat in comparison to the same period of prior year. The Headquarters/Other group provides services to the three segments in areas such as finance, human resources, IT, marketing, and product management. Most of the operating costs associated with such corporate Headquarters services are charged to the segments based on their estimated usage of the underlying services. The amounts shown in the table above represent the remaining unallocated costs.

Income from operations for the first quarter of 2021 decreased to \$14.1 million, compared to \$20.7 million for the first quarter of 2020, primarily due to the decreases in net sales and gross profit. Income from operations as a percentage of net sales was 2.2% for the first quarter of 2021, compared to 2.9% of net sales for the prior year quarter, primarily driven by higher SG&A expenses as a percentage of net sales.

Our provision for income taxes in the three months ended March 31, 2021 was \$3.9 million, compared to \$5.8 million for the first quarter of 2020.

Net income for the first quarter of 2021 decreased to \$10.2 million, compared to \$14.9 million for the first quarter of 2020, primarily due to lower net sales and gross profit.

Liquidity and Capital Resources

Our primary sources of liquidity have historically been internally generated funds from operations and borrowings under our credit facility. We have used those funds to meet our capital requirements, which consist primarily of working capital for operational needs, capital expenditures for computer equipment and software used in our business, special dividend payments, repurchases of common stock for treasury, and as opportunities arise, acquisitions of businesses. Market conditions impact and help determine our strategic use of funds.

We believe that funds generated from operations, together with available credit under our credit facility, will be sufficient to finance our working capital, capital expenditures, and other requirements for at least the next twelve calendar months. 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 the next twelve months through a combination of cash on hand, cash generated from operations, and borrowings under our credit facility, as follows:

- *Cash on Hand.* At March 31, 2021, we had \$92.3 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 payables to generate a positive cash flow.
- *Credit Facility.* As of March 31, 2021, we had no borrowings under our \$50.0 million credit facility, which is available until February 10, 2022.

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, or our customers continue to be materially adversely affected by the COVID-19 pandemic, our cash flows from operations may be substantially affected.

Summary of Sources and Uses of Cash

The following table summarizes our sources and uses of cash over the periods indicated:

	Three Months Ended	
	2021	2020
Net cash provided by operating activities	\$ 6.0	\$ 44.6
Net cash used in investing activities	(0.9)	(4.6)
Net cash used in financing activities	(8.5)	(18.7)
(Decrease) increase in cash and cash equivalents	<u>\$ (3.4)</u>	<u>\$ 21.3</u>

Cash provided by operating activities was \$6.0 million in the three months ended March 31, 2021. Cash flow provided by operations in the three months ended March 31, 2021 resulted primarily from net income before depreciation and amortization and a decrease in accounts receivable, which decreased by \$54.9 million in the current year and was driven primarily by the timing of collections. These factors that contributed to the positive inflow of cash from operating activities were partially offset by decreases in accounts payable of \$60.9 million in the current year, primarily due to the timing of payments. Operating cash flow in the three months ended March 31, 2020 resulted primarily from net income before depreciation and amortization, a decrease in accounts receivable, and partially offset by increases in inventory and decreases in accounts payable and other accrued expenses.

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:

(in days)

	Three Months Ended	
	2021	2020
Days of sales outstanding (DSO) ⁽¹⁾	74	58
Days of supply in inventory (DIO) ⁽²⁾	24	21
Days of purchases outstanding (DPO) ⁽³⁾	<u>(35)</u>	<u>(33)</u>
Cash conversion cycle	<u>63</u>	<u>46</u>

(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 increased to 63 days at March 31, 2021, compared to 46 days at March 31, 2020. The increase is primarily due to the 16 day increase of DSO and the 3 day increase of DIO, and partially offset by the 2 days increase of DPO. The increase in DSO was primarily due to payment terms extended to our customers in the prior year.

Cash used in investing activities in the three months ended March 31, 2021 represented \$2.4 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. In the prior year, we made similar investments with \$4.6 million in purchases of property and equipment. Cash used for capital expenditures for the first quarter of 2021 was partially offset by \$1.5 million of cash proceeds from life insurance.

Cash used in financing activities in the three months ended March 31, 2021 consisted primarily of an \$8.4 million payment of a special \$0.32 per share dividend. In the prior year period, financing activities primarily represented an \$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 facility 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 condensed consolidated financial statements and the accompanying notes included in this Quarterly Report.

Credit facility. Our credit facility extends until February 2022 and is collateralized by our accounts receivable. Our borrowing capacity is up to \$50.0 million. Amounts outstanding under the facility bear interest at the one-month London Interbank Offered Rate, or LIBOR, plus a spread based on our funded debt ratio, or in the absence of LIBOR, the prime rate (3.25% at March 31, 2021). The one-month LIBOR rate at March 31, 2021 was 0.11%. 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.” At March 31, 2021, \$50.0 million was available for borrowing under the facility.

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

Factors Affecting Sources of Liquidity

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

Credit Facility. 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. Our credit facility does not include restrictions on future dividend payments. Any failure to comply with the covenants and other restrictions would constitute a default and could prevent us from borrowing funds under this credit facility. This credit facility contains two financial covenants:

- Our funded debt ratio (defined as the average outstanding advances under the line for the quarter, divided by our consolidated trailing twelve months Adjusted EBITDA—earnings before interest expense, taxes, depreciation, amortization, and special charges—for the trailing four quarters) must not be more than 2.0 to 1.0. Our outstanding borrowings under the credit facility during the three months ended March 31, 2021 were zero, and accordingly, the funded debt ratio did not limit potential borrowings as of March 31, 2021. Future decreases in our consolidated trailing twelve months Adjusted EBITDA, could limit our potential borrowings under the credit facility.
- Our minimum consolidated net worth (defined as our consolidated total assets less our consolidated total liabilities) must be at least \$346.7 million, plus 50% of consolidated net income for each quarter, beginning with the quarter ended December 31, 2016 (loss quarters not counted). Such amount was calculated as \$487.0 million at March 31, 2021, whereas our consolidated stockholders’ equity at that date was \$647.5 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.

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our critical accounting policies have not materially changed from those discussed in our Annual Report on Form 10-K for the year ended December 31, 2020.

RECENTLY ISSUED FINANCIAL ACCOUNTING STANDARDS

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

PC CONNECTION, INC. AND SUBSIDIARIES
PART I—FINANCIAL INFORMATION

Item 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a description of our market risks, see Item 7A. “Quantitative and Qualitative Disclosures About Market Risk” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020. No other material changes have occurred in our market risks since December 31, 2020.

PC CONNECTION, INC. AND SUBSIDIARIES
PART I—FINANCIAL INFORMATION
Item 4 - CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2021. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives as described above. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change 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 quarter ended March 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1 – Legal Proceedings

For information related to legal proceedings, see the discussion in Note 6 - Commitments and Contingencies to our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report, which information is incorporated by reference into this Part II, Item 1.

Item 1A – Risk Factors

In addition to other information set forth in this report, you should carefully consider the factors discussed in Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2020, which could materially affect our business, financial position, and results of operations. We did not identify any additional risks in the current period that are not included in our Annual Report. Risk factors which could cause actual results to differ materially from those suggested by forward-looking statements include but are not limited to those discussed or identified in this document, in our public filings with the SEC, and those incorporated by reference in Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2020.

Item 6 - Exhibits

<u>Exhibit Number</u>	<u>Description</u>
3.1	Amended and Restated Certificate of Incorporation of PC Connection, Inc., as amended (incorporated by reference from the exhibits filed with the company's registration statement (333-63272) on Form-4 filed under the security act of 1933)
3.2	Amended and Restated Bylaws of PC Connection, Inc. (incorporated by reference from exhibits filed with the Company's current report on Form 8-K, filed on January 9, 2008).
10.1 *	Incentive and Retention agreement, dated as of March 15, 2021, between the Registrant and Timothy McGrath.
10.2 *	Incentive and Retention agreement, dated March 15, 2021, between the Registrant and Thomas Baker.
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 and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 *	Certification of the Company's President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 *	Certification of the Company's Senior Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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.PRE**	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).

* Filed herewith.

** Submitted electronically herewith.

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

SIGNATURES

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

PC CONNECTION, INC.

Date: May 7, 2021

By: /s/ TIMOTHY J. MCGRATH

Timothy J. McGrath
President and Chief Executive Officer
(Duly Authorized Officer)

Date: May 7, 2021

By: /s/ THOMAS C. BAKER

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

INCENTIVE AND RETENTION AGREEMENT

PC Connection, Inc. (the “Company”) and Timothy McGrath (the “Executive”) are parties to an Employment Agreement, dated March 12, 2008 (the “Employment Agreement”), which includes certain terms related to Executive’s employment with the Company and certain severance payments and benefits to which Executive may be entitled in certain circumstances. The Board of Directors of the Company (the “Board”) has determined that appropriate steps should be taken to reinforce and encourage the continued attention and focus of members of the Company’s senior management team, including Executive, to their duties. As such, this Incentive and Retention Agreement (the “Agreement”) sets forth certain modifications to existing equity incentives held by Executive as well as certain modifications to the level of certain severance payments and benefits which Executive may be eligible for upon certain terminations of employment. The Employment Agreement remains in full force and effect and shall continue to govern the terms of Executive’s employment not covered by the terms of this Agreement.

1. Severance and Related Benefits Upon a Termination by the Company Without Cause; Vesting of Certain Equity Incentives; Termination of Sale Restrictions.

(a) **Severance Benefits in the Event of a Termination By the Company Without Cause.** If Executive’s employment is terminated by the Company without “Cause” (solely for purposes of this Section 1(a), as defined in the Employment Agreement), and provided Executive executes and allows to become effective (within 60 days following the termination or such shorter period as may be directed by the Company) a separation and release of claims agreement in a form to be provided by the Company on or about the date of termination (which will include, at a minimum, a release of all releasable claims, non-disparagement and cooperation obligations, and a reaffirmation of Executive’s continuing obligations under any existing restrictive covenant agreements) (a “Release Agreement”), the Company will provide Executive with the following severance payments and benefits in connection with such termination without Cause (subject to the terms of Appendix A hereto):

(i) The Company will pay Executive as severance an amount equivalent to twenty-four (24) months of Executive’s then-current base salary, less all applicable taxes and withholdings, which severance will be paid in installments in accordance with the Company’s regular payroll practices beginning in the Company’s first regular payroll cycle after the Release Agreement becomes effective; provided, however, that if the 60th day referenced above occurs in the calendar year following Executive’s termination date, then the severance payments shall begin no earlier than January 1 of such subsequent calendar year. The first installments of severance paid pursuant to this subsection shall include any amounts that otherwise would have been paid to Executive between Executive’s termination date and the date such first installment is paid, but for the pendency of the effectiveness of the Release Agreement and the timing rules set forth in the proviso to the preceding sentence. In the event that Executive obtains employment or undertakes consulting services during the twenty-four (24) month period following his termination date, the amount of severance payable hereunder will be reduced on a dollar-for-dollar basis by the amount of cash compensation Executive receives from such position. Executive agrees that, should Executive obtain such employment or undertake such consulting services prior to the date that is twenty-four (24) months following Executive’s termination date, Executive will inform the Company in writing within five (5) business days of obtaining such position.

(ii) Should Executive timely elect and be eligible to continue receiving group medical coverage pursuant to the “COBRA” law, and so long as the Company can provide such benefit without violating the nondiscrimination requirements of applicable law, the Company will continue to pay the share of the premium for such coverage that is paid by the Company for active and similarly-situated employees who receive the same type of coverage until the earlier of (x) the date that is twenty-four (24) months following Executive’s termination date, and (y) the date upon which Executive commences full-time employment (or employment that provides Executive with eligibility for healthcare benefits substantially comparable to those provided by the Company) with an entity other than the Company. All premium costs thereafter shall be paid by Executive on a monthly basis for as long as, and to the extent that, Executive remains eligible for COBRA continuation coverage. Executive agrees that, should Executive obtain alternative medical and/or dental insurance coverage prior to the date that is twenty-four (24) months following Executive’s termination date, Executive will so inform the Company in writing within five (5) business days of obtaining such coverage.

(iii) The Company will pay Executive a prorated portion of Executive’s annual target bonus equal to the number of days Executive is employed (assuming achievement of 100% of Executive’s target bonus) under the Amended and Restated Executive Bonus Plan, less all applicable taxes and withholdings, for the year in which Executive’s termination occurs, such amount payable in a lump sum on the date the first installment of severance is paid.

(b) **Vesting of Certain Equity Incentives.** Those vesting tranches of the Restricted Stock Unit award granted to Executive by the Company on February 13, 2018 (the “2018 RSU Award”) that are otherwise scheduled to vest and become free from forfeiture on or after January 1, 2028 (the “Later Vested Tranches”) shall vest and become free from forfeiture with respect to 50% of the

aggregate number of shares of Company stock that would vest and become free from forfeiture under such Later Vested Tranches on each of April 1, 2021 and July 1, 2021, in each case subject to Executive's continued employment with the Company through each such date (unless otherwise provided herein).

(c) **Termination of Sale Restrictions.** The restrictions contained in the Restricted Stock Unit award granted to Executive by the Company on November 12, 2012 (the "2012 RSU Award") and under the 2018 RSU Award limiting the number of shares of Company stock vesting under such 2012 RSU Award and 2018 RSU Award that may be sold by Executive in each calendar year are hereby terminated.

2. Vesting of Equity Upon a Change in Control and Severance and Other Benefits Upon a Termination of Executive's Employment without Cause or for Good Reason Following a Change in Control.

(a) **Change in Control Acceleration.** In the event of a Change in Control, 75% of the number of shares of Company stock subject to the unvested portion of each outstanding stock option and other equity award (together, the "Equity Awards") held by Executive shall become fully vested, exercisable and otherwise free from forfeiture immediately prior to the closing of such Change in Control, with the remaining unvested portion of such Equity Awards continuing to vest and becoming fully exercisable and free from forfeiture on the first anniversary of the closing of the Change in Control (the "First Anniversary Vest Date"), subject to Executive's continued employment with the Company through such date (unless otherwise provided herein). With respect to any Equity Awards granted in the form of restricted stock units ("RSUs"), upon the vesting of the RSUs on the First Anniversary Vest Date, the Executive shall be entitled, with respect to each share of Company stock subject to such RSUs, to receive the greater of (i) the consideration paid per share of Company stock on the closing date of the Change in Control by the acquiring or succeeding entity (the "Per Share Price"), whether paid in cash or stock of the acquiring or succeeding entity and (ii) to the extent the shares of Company stock are converted into stock of the acquiring or succeeding entity in connection with the Change in Control and the value of the stock into which the Company stock converts exceeds the Per Share Price on the First Anniversary Vest Date, then such higher amount, whether paid in cash or stock of the acquiring or succeeding entity (such greater amount, the "Assumed RSU Payment Amount").

(b) **Severance Benefits and Acceleration of Equity in the Event of a Termination By the Company Without Cause or By Executive For Good Reason in Connection with a Change In Control.** If Executive's employment is terminated by the Company without "Cause" (as defined in Section 3 hereof) or Executive terminates his employment for "Good Reason" (as defined in Section 3 hereof) and such termination takes place during the twelve (12) month period following a Change in Control, and provided Executive executes and allows to become effective (within 60 days following the termination or such shorter period as may be directed by the Company) a Release Agreement, in lieu of and not in addition to the amounts payable under Section 1(a) hereof, the Company will provide Executive with the following severance benefits (subject to the terms of Appendix A hereto):

(i) The Company will pay Executive as severance pay an amount equivalent to twenty-four (24) months of Executive's then-current base salary, less all applicable taxes and withholdings, which severance pay will be paid in installments in accordance with the Company's regular payroll practices beginning in the Company's first regular payroll cycle after the Release Agreement becomes effective; provided, however, that if the 60th day referenced above occurs in the calendar year following Executive's termination date, then the severance payments shall begin no earlier than January 1 of such subsequent calendar year. The first installments of severance paid pursuant to this subsection shall include any amounts that otherwise would have been paid to Executive between Executive's termination date and the date such first installment is paid, but for the pendency of the effectiveness of the Release Agreement and the timing rules set forth in the proviso to the preceding sentence. In the event that Executive obtains employment or undertakes consulting services during the twenty-four (24) month period following his termination date, the amount of severance payable hereunder will be reduced on a dollar-for-dollar basis by the amount of cash compensation Executive receives from such position. Executive agrees that, should Executive obtain such employment or undertake such consulting services prior to the date that is twenty-four (24) months following Executive's termination date, Executive will inform the Company in writing within five (5) business days of obtaining such position.

(ii) Should Executive timely elect and be eligible to continue receiving group medical coverage pursuant to the "COBRA" law, and so long as the Company can provide such benefit without violating the nondiscrimination requirements of applicable law, the Company will continue to pay the share of the premium for such coverage that is paid by the Company for active and similarly-situated employees who receive the same type of coverage until the earlier of (x) the date that is twenty-four (24) months following Executive's termination date, and (y) the date upon which Executive commences full-time employment (or employment that provides Executive with eligibility for healthcare benefits substantially comparable to those provided by the Company) with an entity other than the Company. All premium costs thereafter shall be paid by Executive on a monthly basis for as long as, and to the extent that, Executive remains eligible for COBRA continuation coverage. Executive agrees that, should Executive obtain alternative medical and/or dental insurance coverage prior to the date that is twenty-four (24) months following Executive's termination date, Executive will so inform the Company in writing within five (5) business days of obtaining such coverage.

(iii) The Company will pay Executive an amount equal to Executive's annual target bonus (assuming achievement of 100% of Executive's target bonus) under the Amended and Restated Executive Bonus Plan, less all applicable taxes and withholdings, for the year in which Executive's termination date occurs, such amount payable in a lump sum on the date the first installment of severance pay is paid.

(iv) All outstanding and unvested Equity Awards in each case that vest solely based on continued service that are then held by Executive shall become fully vested, exercisable and otherwise free from forfeiture and (A) with respect to any stock options then held by Executive, those options shall remain exercisable for the period of time set forth in the applicable grant agreement and (B) with respect to any Equity Awards granted in the form of restricted stock units, Executive shall be entitled to the Assumed RSU Payment Amount, with the amount calculated in prong (ii) of the definition of Assumed RSU Payment Amount determined as of Executive's termination date.

3. **Definitions.** For purposes of this Agreement:

(a) "**Cause**" means any of: (a) Executive's conviction of, or plea of guilty or nolo contendere to, any crime involving dishonesty or moral turpitude or any felony; (b) a good faith finding by the Company that Executive has (i) engaged in dishonesty, willful misconduct or gross negligence, (ii) committed an act that materially injures or would reasonably be expected to materially injure the reputation, business or business relationships of the Company, (iii) materially breached the terms of any agreement between Executive and the Company, including without limitation the Employment Agreement or any restrictive covenant or confidentiality agreement with the Company; or (iv) failed or refused to comply in any material respect with the Company's material policies or procedures.

(b) "**Good Reason**" means the occurrence, without Executive's prior written consent, of any of the following events: (a) a material reduction in Executive's authority, duties, or responsibilities, provided that neither a change in title, nor a reduction in Executive's authority, duties or responsibilities solely as a result of the Company becoming a subsidiary of the acquiring or succeeding entity shall constitute Good Reason; (b) the relocation of the principal place at which Executive provides services to the Company by at least 65 miles and to a location such that Executive's daily commuting distance is increased; (c) a material reduction of Executive's base salary (except for across the board pay cuts of all management level employees of the Company); or (d) a material breach by the Company of its obligations under the Employment Agreement. No resignation will be treated as a resignation for Good Reason unless (A) Executive has given written notice to the Company of Executive's intention to terminate his employment for Good Reason, describing the grounds for such action, no later than 90 days after the first occurrence of such circumstances, (B) Executive has provided the Company with at least 30 days in which to cure the circumstances, and (C) if the Company is not successful in curing the circumstances, Executive ends his employment within 30 days following the cure period in (ii). Notwithstanding the foregoing, with respect to prong (ii) of this definition, a requirement that Executive be present and perform services for no more than three (3) days per week at a location 65 or more miles from his current location for a transition period following the Change in Control not to exceed twelve (12) months (the "**Transition Period**"), with any and all expenses of Executive related to such temporary work location (including weekly round trip airfare, lodging in at least a 4-star hotel (or other mutually agreeable lodging), meals and other expenses) paid for (on a grossed-up basis) by an acquiring or succeeding entity, shall not constitute Good Reason unless the proposed work location does not comply with Centers for Disease Control Covid-19 workplace safety guidelines. For the avoidance of doubt, Executive shall be entitled to work from his current work location, or remotely, for the other two (2) days per week during the Transition Period.

(c) "**Change in Control**" means any of the following events provided that such event also constitutes a "change in control event" within the meaning of Treasury Regulation Section 1.409A-3(i)(5):

(i) the acquisition by an individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "**Person**") of beneficial ownership of any capital stock of the Company if, after such acquisition, such Person beneficially owns (within the meaning of Rule 13d-3 under the Exchange Act) 50% or more of either (x) the then-outstanding shares of common stock of the Company (the "**Outstanding Company Common Stock**") or (y) the combined voting power of the then-outstanding securities of the Company entitled to vote generally in the election of directors (the "**Outstanding Company Voting Securities**"); *provided, however*, that for purposes of this subsection (i), the following acquisitions shall not constitute a Change in Control Event: (1) any acquisition of additional shares of common stock or other securities by Patricia Gallup (or any entity controlled by her or any trust or similar estate planning entity for the benefit of her spouse and/or issue, her and her spouse's siblings and/or issue) or the 1998 PC Connection Voting Trust (collectively, the "**Exempt Entities**"), (2) any acquisition directly from the Company (excluding an acquisition pursuant to the exercise, conversion or exchange of any security exercisable for, convertible into or exchangeable for common stock or voting securities of the Company, unless the Person exercising, converting or exchanging such security acquired such security directly from the Company or an underwriter or agent of the Company), (3) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (4) any acquisition by any corporation pursuant to a Business Combination (as defined below) which complies with clauses (x) and (y) of subsection (iii) of this definition; or

(ii) a change in the composition of the Board that results in the Continuing Directors (as defined below) no longer

constituting a majority of the Board (or, if applicable, the Board of Directors of a successor corporation to the Company), where the term "Continuing Director" means at any date a member of the Board (x) who was a member of the Board on the effective date of this Agreement or (y) who was nominated or elected subsequent to such date by at least a majority of the directors who were Continuing Directors at the time of such nomination or election or whose election to the Board was recommended or endorsed by at least a majority of the directors who were Continuing Directors at the time of such nomination or election; *provided, however*, that there shall be excluded from this clause (y) any individual whose initial assumption of office occurred as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents, by or on behalf of a person other than the Board; or

(iii) the consummation of a merger, consolidation, reorganization, recapitalization or share exchange involving the Company or a sale or other disposition of all or substantially all of the assets of the Company (a "Business Combination"), unless, immediately following such Business Combination, each of the following two conditions is satisfied: (x) all or substantially all of the individuals and entities who were the beneficial owners of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of the then-outstanding shares of common stock and the combined voting power of the then-outstanding securities entitled to vote generally in the election of directors, respectively, of the resulting or acquiring corporation in such Business Combination (which shall include, without limitation, a corporation which as a result of such transaction owns the Company or substantially all of the Company's assets either directly or through one or more subsidiaries) (such resulting or acquiring corporation is referred to herein as the "Acquiring Corporation") in substantially the same proportions as their ownership of the Outstanding Company Common Stock and Outstanding Company Voting Securities, respectively, immediately prior to such Business Combination and (y) no Person (excluding any Exempt Entities or employee benefit plan (or related trust) maintained or sponsored by the Company or by the Acquiring Corporation) beneficially owns, directly or indirectly, 50% or more of the then-outstanding shares of common stock of the Acquiring Corporation, or of the combined voting power of the then-outstanding securities of such corporation entitled to vote generally in the election of directors (except to the extent that such ownership existed prior to the Business Combination); or

(iv) the liquidation or dissolution of the Company.

4. **Section 280G.**

(a) Notwithstanding any other provision of this Agreement, except as set forth in Section 4(b), in the event that the Company undergoes a "Change in Ownership or Control" (as defined below), the Company shall not be obligated to provide Executive a portion of any "Contingent Compensation Payments" (as defined below) that Executive would otherwise be entitled to receive to the extent necessary to eliminate any "excess parachute payments" (as defined in Code Section 280G(b)(1)) for Executive. For purposes of this Section 4, the Contingent Compensation Payments so eliminated shall be referred to as the "Eliminated Payments" and the aggregate amount (determined in accordance with Treasury Regulation Section 1.280G-1, Q/A-30 or any successor provision) of the Contingent Compensation Payments so eliminated shall be referred to as the "Eliminated Amount."

(b) Notwithstanding the provisions of Section 4(a), no such reduction in Contingent Compensation Payments shall be made if the Eliminated Amount (computed without regard to this sentence) exceeds 100% of the aggregate present value (determined in accordance with Treasury Regulation Section 1.280G-1, Q/A-31 and Q/A-32 or any successor provisions) of the amount of any additional taxes that would be incurred by Executive if the Eliminated Payments (determined without regard to this sentence) were paid to Executive (including, state and federal income taxes on the Eliminated Payments, the excise tax imposed by Section 4999 of the Code payable with respect to all of the Contingent Compensation Payments in excess of Executive's "base amount" (as defined in Section 280G(b)(3) of the Code), and any withholding taxes). The override of such reduction in Contingent Compensation Payments pursuant to this Section 4(b) shall be referred to as a "Section 4(b) Override". For purposes of this paragraph, if any federal or state income taxes would be attributable to the receipt of any Eliminated Payment, the amount of such taxes shall be computed by multiplying the amount of the Eliminated Payment by the maximum combined federal and state income tax rate provided by law.

(c) For purposes of this Section 4 the following terms shall have the following respective meanings:

(i) "Change in Ownership or Control" shall mean a change in the ownership or effective control of the Company or in the ownership of a substantial portion of the assets of the Company determined in accordance with Section 280G(b)(2) of the Code.

(ii) "Contingent Compensation Payment" shall mean any payment (or benefit) in the nature of compensation that is made or made available (under this Agreement or otherwise) to a "disqualified individual" (as defined in Section 280G(c) of the Code) and that is contingent (within the meaning of Section 280G(b)(2)(A)(i) of the Code) on a Change in Ownership or Control of the Company.

(d) Any payments or other benefits otherwise due to Executive following a Change in Ownership or Control that could reasonably be characterized (as determined by the Company) as Contingent Compensation Payments (the "Potential Payments") shall not

be made until the dates provided for in this Section 4(d). Within 30 days after each date on which Executive first becomes entitled to receive (whether or not then due) a Contingent Compensation Payment relating to such Change in Ownership or Control, the Company shall determine and notify Executive (with reasonable detail regarding the basis for its determinations) (i) which Potential Payments constitute Contingent Compensation Payments, (ii) the Eliminated Amount and (iii) whether the Section 4(b) Override is applicable. Within 30 days after delivery of such notice to Executive, Executive shall deliver a response to the Company (the "**Executive Response**") stating either (A) that Executive agrees with the Company's determination pursuant to the preceding sentence, or (B) that Executive disagrees with such determination, in which case Executive shall set forth (i) which Potential Payments should be characterized as Contingent Compensation Payments, (ii) the Eliminated Amount, and (iii) whether the Section 4(b) Override is applicable. In the event that Executive fails to deliver an Executive Response on or before the required date, the Company's initial determination shall be final. If and to the extent that any Contingent Compensation Payments are required to be treated as Eliminated Payments pursuant to this Section 4, then the payments shall be reduced or eliminated, as determined by the Company, in the following order: (i) any cash payments, (ii) any taxable benefits, (iii) any nontaxable benefits, and (iv) any vesting of equity awards in each case in reverse order beginning with payments or benefits that are to be paid the farthest in time from the date that triggers the applicability of the excise tax, to the extent necessary to maximize the Eliminated Payments. If Executive states in the Executive Response that Executive agrees with the Company's determination, the Company shall make the Potential Payments to Executive within three business days following delivery to the Company of the Executive Response (except for any Potential Payments which are not due to be made until after such date, which Potential Payments shall be made on the date on which they are due). If Executive states in the Executive Response that Executive disagrees with the Company's determination, then, for a period of 60 days following delivery of the Executive Response, Executive and the Company shall use good faith efforts to resolve such dispute. If such dispute is not resolved within such 60-day period, such dispute shall be settled exclusively by arbitration in the State of New Hampshire, in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction. The Company shall, within three business days following delivery to the Company of the Executive Response, make to Executive those Potential Payments as to which there is no dispute between the Company and Executive regarding whether they should be made (except for any such Potential Payments which are not due to be made until after such date, which Potential Payments shall be made on the date on which they are due). The balance of the Potential Payments shall be made within three business days following the resolution of such dispute. Subject to the limitations contained in Section 4(a) and 4(b) hereof, the amount of any payments to be made to Executive following the resolution of such dispute shall be increased by the amount of the accrued interest thereon computed at the prime rate announced from time to time by The Wall Street Journal, compounded monthly from the date that such payments originally were due.

(e) The provisions of this Section 4 are intended to apply to any and all payments or benefits available to Executive under this Agreement or any other agreement or plan of the Company under which Executive may receive Contingent Compensation Payments.

5. **At-Will Employment.** This Agreement shall not be construed as an agreement, either expressed or implied, to employ Executive for any stated term, and shall in no way alter the Company's policy of employment at will, under which both Executive and the Company remain free to terminate the employment relationship, with or without cause, at any time, with or without notice. Similarly, nothing in this Agreement shall be construed as an agreement, either express or implied, to pay Executive any compensation or grant Executive any benefit beyond the end of Executive's employment with the Company, except to the extent explicitly set forth in Sections 1 and 2 hereof.

6. **Interaction with Other Agreements/Governing Law.** This Agreement constitutes an agreement between Executive and the Company with respect to the terms of Executive's equity awards and Executive's entitlement to severance pay and benefits, shall be read and interpreted in conjunction with the Employment Agreement and the outstanding equity award agreements and the plans under which such awards were granted, and, to the extent inconsistent with any other such agreements, this Agreement supersedes the inconsistent provisions of such other agreements between the parties concerning such subject matter. For the avoidance of doubt, in the event that Executive may be entitled to severance payments or benefits under the Employment Agreement (or another agreement) and this Agreement, the terms of this Agreement shall govern and Executive may receive payments and benefits under this Agreement only and not both. This Agreement shall be governed by and construed in accordance with the laws of the State of New Hampshire (without reference to the conflict of laws provisions thereof). Any action, suit or other legal proceeding arising under or relating to any provision of this Agreement shall be commenced only in a court of the State of New Hampshire (or, if appropriate, a federal court located within the State of New Hampshire), and the Company and Executive each consents to the jurisdiction of such a court.

[Remainder of page intentionally left blank]

AGREED AND ACCEPTED:

I acknowledge and agree that I have read and understand the foregoing Agreement and that I have freely and voluntarily entered into the terms of this Agreement.

/s/ Timothy McGrath
Timothy McGrath

March 15, 2021
Date

/s/ Patricia Gallup
PC Connection, Inc.
By: Patricia Gallup
Title: Chair of the Board of Directors

March 15, 2021
Date

APPENDIX A

Payments Subject to Section 409A

1. Subject to this Appendix A, any severance payments that may be due under the Agreement to which it is attached shall begin only upon the date of Executive's "separation from service" (determined as set forth below) which occurs on or after the termination of Executive's employment. The following rules shall apply with respect to distribution of the severance payments, if any, to be provided to Executive under the Agreement, as applicable:
 - (a) It is intended that each installment of the severance payments under the Agreement shall be treated as a separate "payment" for purposes of Section 409A of the Internal Revenue Code and the guidance issued thereunder ("Section 409A"). Neither the Company nor Executive shall have the right to accelerate or defer the delivery of any such payments except to the extent specifically permitted or required by Section 409A.
 - (b) If, as of the date of Executive's "separation from service" from the Company, Executive is not a "specified employee" (within the meaning of Section 409A), then each installment of the severance payments shall be made on the dates and terms set forth in the Agreement.
 - (c) If, as of the date of Executive's "separation from service" from the Company, Executive is a "specified employee" (within the meaning of Section 409A), then:
 - (i) Each installment of the severance payments due under the Agreement that, in accordance with the dates and terms set forth herein, will in all circumstances, regardless of when Executive's separation from service occurs, be paid within the short-term deferral period (as defined under Section 409A) shall be treated as a short-term deferral within the meaning of Treasury Regulation Section 1.409A-1(b)(4) to the maximum extent permissible under Section 409A and shall be paid on the dates and terms set forth in the Agreement; and
 - (ii) Each installment of the severance payments due under the Agreement that is not described in this Appendix A, Section 1(c)(i) and that would, absent this subsection, be paid within the six-month period following Executive's "separation from service" from the Company shall not be paid until the date that is six months and one day after such separation from service (or, if earlier, Executive's death) (the "New Payment Date"), with any such installments that are required to be delayed being accumulated during the six-month period and paid in a lump sum on the New Payment Date and any subsequent installments, if any, being paid in accordance with the dates and terms set forth herein; provided, however, that the preceding provisions of this sentence shall not apply to any installment of payments if and to the maximum extent that such installment is deemed to be paid under a separation pay plan that does not provide for a deferral of compensation by reason of the application of Treasury Regulation 1.409A-1(b)(9)(iii) (relating to separation pay upon an involuntary separation from service). Any installments that qualify for the exception under Treasury Regulation Section 1.409A-1(b)(9)(iii) must be paid no later than the last day of Executive's second taxable year following the taxable year in which the separation from service occurs.
 2. The determination of whether and when Executive's separation from service from the Company has occurred shall be made in a manner consistent with, and based on the presumptions set forth in, Treasury Regulation Section 1.409A-1(h). Solely for purposes of this Appendix A, Section 2, "Company" shall include all persons with whom the Company would be considered a single employer under Section 414(b) and 414(c) of the Internal Revenue Code.
 3. All reimbursements and in-kind benefits provided under the Agreement shall be made or provided in accordance with the requirements of Section 409A to the extent that such reimbursements or in-kind benefits are subject to Section 409A, including, where applicable, the requirements that (i) any reimbursement is for expenses incurred during Executive's lifetime (or during a shorter period of time specified in the Agreement), (ii) the amount of expenses eligible for reimbursement during a calendar year may not affect the expenses eligible for reimbursement in any other calendar year, (iii) the reimbursement of an eligible expense will be made on or before the last day of the calendar year following the year in which the expense is incurred and (iv) the right to reimbursement is not subject to set off or liquidation or exchange for any other benefit.
 4. The Company makes no representation or warranty and shall have no liability to Executive or to any other person if any of the provisions of the Agreement (including this Appendix A) are determined to constitute deferred compensation subject to Section 409A but that do not satisfy an exemption from, or the conditions of, that section.
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INCENTIVE AND RETENTION AGREEMENT

PC Connection, Inc. (the “Company”) and Thomas Baker (the “Executive”) are parties to an Offer Letter, dated March 1, 2019 (the “Offer Letter”), which includes certain terms related to Executive’s employment with the Company and certain severance payments and benefits to which Executive may be entitled in certain circumstances. The Board of Directors of the Company (the “Board”) has determined that appropriate steps should be taken to reinforce and encourage the continued attention and focus of members of the Company’s senior management team, including Executive, to their duties. As such, this Incentive and Retention Agreement (the “Agreement”) sets forth certain modifications to existing equity incentives held by Executive as well as certain modifications to the level of certain severance payments and benefits which Executive may be eligible for upon certain terminations of employment. The Offer Letter remains in full force and effect and shall continue to govern the terms of Executive’s employment not covered by the terms of this Agreement.

1. **Severance and Related Benefits Upon a Termination By the Company Without Cause.** If Executive’s employment is terminated by the Company without Cause (as defined below) and provided Executive executes and allows to become effective (within 60 days following the termination or such shorter period as may be directed by the Company) a separation and release of claims agreement in a form to be provided by the Company on or about the date of termination (which will include, at a minimum, a release of all releasable claims, non-disparagement and cooperation obligations, and a reaffirmation of Executive’s continuing obligations under any existing restrictive covenant agreements) (a “Release Agreement”), the Company will provide Executive with the following severance payments and benefits in connection with such termination without Cause (subject to the terms of Appendix A hereto):

(a) The Company will pay Executive as severance an amount equivalent to twenty-four (24) months of Executive’s then-current base salary, less all applicable taxes and withholdings, which severance will be paid in installments in accordance with the Company’s regular payroll practices beginning in the Company’s first regular payroll cycle after the Release Agreement becomes effective; provided, however, that if the 60th day referenced above occurs in the calendar year following Executive’s termination date, then the severance payments shall begin no earlier than January 1 of such subsequent calendar year. The first installments of severance paid pursuant to this subsection shall include any amounts that otherwise would have been paid to Executive between Executive’s termination date and the date such first installment is paid, but for the pendency of the effectiveness of the Release Agreement and the timing rules set forth in the proviso to the preceding sentence. In the event that Executive obtains employment or undertakes consulting services during the twenty-four (24) month period following his termination date, the amount of severance payable hereunder will be reduced on a dollar-for-dollar basis by the amount of cash compensation Executive receives from such position. Executive agrees that, should Executive obtain such employment or undertake such consulting services prior to the date that is twenty-four (24) months following Executive’s termination date, Executive will inform the Company in writing within five (5) business days of obtaining such position.

(b) Should Executive timely elect and be eligible to continue receiving group medical coverage pursuant to the “COBRA” law, and so long as the Company can provide such benefit without violating the nondiscrimination requirements of applicable law, the Company will continue to pay the share of the premium for such coverage that is paid by the Company for active and similarly-situated employees who receive the same type of coverage until the earlier of (x) the date that is twenty-four (24) months following Executive’s termination date, and (y) the date upon which Executive commences full-time employment (or employment that provides Executive with eligibility for healthcare benefits substantially comparable to those provided by the Company) with an entity other than the Company. All premium costs thereafter shall be paid by Executive on a monthly basis for as long as, and to the extent that, Executive remains eligible for COBRA continuation coverage. Executive agrees that, should Executive obtain alternative medical and/or dental insurance coverage prior to the date that is twenty-four (24) months following Executive’s termination date, Executive will so inform the Company in writing within five (5) business days of obtaining such coverage.

(c) The Company will pay Executive a prorated portion of Executive’s annual target bonus equal to the number of days Executive is employed (assuming achievement of 100% of Executive’s target bonus) under the Amended and Restated Executive Bonus Plan, less all applicable taxes and withholdings, for the year in which Executive’s termination occurs, such amount payable in a lump sum on the date the first installment of severance is paid.

2. Vesting of Equity Upon a Change in Control and Severance and Other Benefits Upon a Termination of Executive's Employment without Cause or for Good Reason Following a Change in Control.

(a) **Change in Control Acceleration.** In the event of a Change in Control, 75% of the number of shares of Company stock subject to the unvested portion of each outstanding stock option and other equity award (together, the "Equity Awards") held by Executive shall become fully vested, exercisable and otherwise free from forfeiture immediately prior to the closing of such Change in Control, with the remaining unvested portion of such Equity Awards continuing to vest and becoming fully exercisable and free from forfeiture on the first anniversary of the closing of the Change in Control (the "First Anniversary Vest Date"), subject to Executive's continued employment with the Company through such date (unless otherwise provided herein). With respect to any Equity Awards granted in the form of restricted stock units ("RSUs"), upon the vesting of the RSUs on the First Anniversary Vest Date, the Executive shall be entitled, with respect to each share of Company stock subject to such RSUs, to receive the greater of (i) the consideration paid per share of Company stock on the closing date of the Change in Control by the acquiring or succeeding entity (the "Per Share Price"), whether paid in cash or stock of the acquiring or succeeding entity and (ii) to the extent the shares of Company stock are converted into stock of the acquiring or succeeding entity in connection with the Change in Control and the value of the stock into which the Company stock converts exceeds the Per Share Price on the First Anniversary Vest Date, then such higher amount, whether paid in cash or stock of the acquiring or succeeding entity (such greater amount, the "Assumed RSU Payment Amount").

(b) Severance Benefits and Acceleration of Equity in the Event of a Termination By the Company Without Cause or By Executive For Good Reason in Connection with a Change In Control. If Executive's employment is terminated by the Company without "Cause" (as defined in Section 3 hereof) or Executive terminates his employment for "Good Reason" (as defined in Section 3 hereof) and such termination takes place during the twelve (12) month period following a Change in Control, and provided Executive executes and allows to become effective (within 60 days following the termination or such shorter period as may be directed by the Company) a Release Agreement, in lieu of and not in addition to the amounts payable under Section 1(a) hereof, the Company will provide Executive with the following severance benefits (subject to the terms of Appendix A hereto):

(i) The Company will pay Executive as severance pay an amount equivalent to twenty-four (24) months of Executive's then-current base salary, less all applicable taxes and withholdings, which severance pay will be paid in installments in accordance with the Company's regular payroll practices beginning in the Company's first regular payroll cycle after the Release Agreement becomes effective; provided, however, that if the 60th day referenced above occurs in the calendar year following Executive's termination date, then the severance payments shall begin no earlier than January 1 of such subsequent calendar year. The first installments of severance paid pursuant to this subsection shall include any amounts that otherwise would have been paid to Executive between Executive's termination date and the date such first installment is paid, but for the pendency of the effectiveness of the Release Agreement and the timing rules set forth in the proviso to the preceding sentence. In the event that Executive obtains employment or undertakes consulting services during the twenty-four (24) month period following his termination date, the amount of severance payable hereunder will be reduced on a dollar-for-dollar basis by the amount of cash compensation Executive receives from such position. Executive agrees that, should Executive obtain such employment or undertake such consulting services prior to the date that is twenty-four (24) months following Executive's termination date, Executive will inform the Company in writing within five (5) business days of obtaining such position.

(ii) Should Executive timely elect and be eligible to continue receiving group medical coverage pursuant to the "COBRA" law, and so long as the Company can provide such benefit without violating the nondiscrimination requirements of applicable law, the Company will continue to pay the share of the premium for such coverage that is paid by the Company for active and similarly-situated employees who receive the same type of coverage until the earlier of (x) the date that is twenty-four (24) months following Executive's termination date, and (y) the date upon which Executive commences full-time employment (or employment that provides Executive with eligibility for healthcare benefits substantially comparable to those provided by the Company) with an entity other than the Company. All premium costs thereafter shall be paid by Executive on a monthly basis for as long as, and to the extent that, Executive remains eligible for COBRA continuation coverage. Executive agrees that, should Executive obtain alternative medical and/or dental insurance coverage prior to the date that is twenty-four (24) months following Executive's termination date, Executive will so inform the Company in writing within five (5) business days of obtaining such coverage.

(iii) The Company will pay Executive an amount equal to Executive's annual target bonus (assuming achievement of 100% of Executive's target bonus) under the Amended and Restated Executive Bonus Plan, less all applicable taxes and withholdings, for the year in which Executive's termination date occurs, such amount payable in a lump sum on the date the first installment of severance pay is paid.

(iv) All outstanding and unvested Equity Awards in each case that vest solely based on continued service that are then held by Executive shall become fully vested, exercisable and otherwise free from forfeiture and (A) with respect to any stock options then held by Executive, those options shall remain exercisable for the period of time set forth in the applicable grant agreement and (B) with respect to any Equity Awards granted in the form of restricted stock units, Executive shall be entitled to the Assumed RSU Payment Amount, with the amount calculated in prong (ii) of the definition of Assumed RSU Payment Amount determined as of Executive's termination date.

3. **Definitions.** For purposes of this Agreement:

(a) "**Cause**" means any of: (a) Executive's conviction of, or plea of guilty or nolo contendere to, any crime involving dishonesty or moral turpitude or any felony; (b) a good faith finding by the Company that Executive has (i) engaged in dishonesty, willful misconduct or gross negligence, (ii) committed an act that materially injures or would reasonably be expected to materially injure the reputation, business or business relationships of the Company, (iii) materially breached the terms of any agreement between Executive and the Company, including without limitation the Offer Letter or any restrictive covenant or confidentiality agreement with the Company; or (iv) failed or refused to comply in any material respect with the Company's material policies or procedures.

(b) "**Good Reason**" means the occurrence, without Executive's prior written consent, of any of the following events: (a) a material reduction in Executive's authority, duties, or responsibilities, provided that neither a change in title, nor a reduction in Executive's authority, duties or responsibilities solely as a result of the Company becoming a subsidiary of the acquiring or succeeding entity shall constitute Good Reason; (b) the relocation of the principal place at which Executive provides services to the Company by at least 65 miles and to a location such that Executive's daily commuting distance is increased; (c) a material reduction of Executive's base salary (except for across the board pay cuts of all management level employees of the Company); or (d) a material breach by the Company of its obligations under the Employment Agreement. No resignation will be treated as a resignation for Good Reason unless (A) Executive has given written notice to the Company of Executive's intention to terminate his employment for Good Reason, describing the grounds for such action, no later than 90 days after the first occurrence of such circumstances, (B) Executive has provided the Company with at least 30 days in which to cure the circumstances, and (C) if the Company is not successful in curing the circumstances, Executive ends his employment within 30 days following the cure period in (ii). Notwithstanding the foregoing, with respect to prong (ii) of this definition, a requirement that Executive be present and perform services for no more than three (3) days per week at a location 65 or more miles from his current location for a transition period following the Change in Control not to exceed twelve (12) months (the "**Transition Period**"), with any and all expenses of Executive related to such temporary work location (including weekly round trip airfare, lodging in at least a 4-star hotel (or other mutually agreeable lodging), meals and other expenses) paid for (on a grossed-up basis) by an acquiring or succeeding entity, shall not constitute Good Reason unless the proposed work location does not comply with Centers for Disease Control Covid-19 workplace safety guidelines. For the avoidance of doubt, Executive shall be entitled to work from his current work location, or remotely, for the other two (2) days per week during the Transition Period.

(c) "**Change in Control**" means any of the following events provided that such event also constitutes a "change in control event" within the meaning of Treasury Regulation Section 1.409A-3(i)(5):

(i) the acquisition by an individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "**Person**") of beneficial ownership of any capital stock of the Company if, after such acquisition, such Person beneficially owns (within the meaning of Rule 13d-3 under the Exchange Act) 50% or more of either (x) the then-outstanding shares of common stock of the Company (the "**Outstanding Company Common Stock**") or (y) the combined voting power of the then-outstanding securities of the Company entitled to vote generally in the election of directors (the "**Outstanding Company Voting Securities**"); *provided, however*, that for purposes of this subsection (i), the following acquisitions shall not constitute a Change in Control Event: (1) any acquisition of additional shares of common stock or other securities by Patricia Gallup (or any entity controlled by her or any trust or similar estate planning entity for the benefit of her spouse and/or issue, her and her spouse's siblings and/or issue) or the 1998 PC

Connection Voting Trust (collectively, the “Exempt Entities”), (2) any acquisition directly from the Company (excluding an acquisition pursuant to the exercise, conversion or exchange of any security exercisable for, convertible into or exchangeable for common stock or voting securities of the Company, unless the Person exercising, converting or exchanging such security acquired such security directly from the Company or an underwriter or agent of the Company), (3) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (4) any acquisition by any corporation pursuant to a Business Combination (as defined below) which complies with clauses (x) and (y) of subsection (iii) of this definition; or

(ii) a change in the composition of the Board that results in the Continuing Directors (as defined below) no longer constituting a majority of the Board (or, if applicable, the Board of Directors of a successor corporation to the Company), where the term “Continuing Director” means at any date a member of the Board (x) who was a member of the Board on the effective date of this Agreement or (y) who was nominated or elected subsequent to such date by at least a majority of the directors who were Continuing Directors at the time of such nomination or election or whose election to the Board was recommended or endorsed by at least a majority of the directors who were Continuing Directors at the time of such nomination or election; *provided, however*, that there shall be excluded from this clause (y) any individual whose initial assumption of office occurred as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents, by or on behalf of a person other than the Board; or

(iii) the consummation of a merger, consolidation, reorganization, recapitalization or share exchange involving the Company or a sale or other disposition of all or substantially all of the assets of the Company (a “Business Combination”), unless, immediately following such Business Combination, each of the following two conditions is satisfied: (x) all or substantially all of the individuals and entities who were the beneficial owners of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of the then-outstanding shares of common stock and the combined voting power of the then-outstanding securities entitled to vote generally in the election of directors, respectively, of the resulting or acquiring corporation in such Business Combination (which shall include, without limitation, a corporation which as a result of such transaction owns the Company or substantially all of the Company’s assets either directly or through one or more subsidiaries) (such resulting or acquiring corporation is referred to herein as the “Acquiring Corporation”) in substantially the same proportions as their ownership of the Outstanding Company Common Stock and Outstanding Company Voting Securities, respectively, immediately prior to such Business Combination and (y) no Person (excluding any Exempt Entities or employee benefit plan (or related trust) maintained or sponsored by the Company or by the Acquiring Corporation) beneficially owns, directly or indirectly, 50% or more of the then-outstanding shares of common stock of the Acquiring Corporation, or of the combined voting power of the then-outstanding securities of such corporation entitled to vote generally in the election of directors (except to the extent that such ownership existed prior to the Business Combination); or

(iv) the liquidation or dissolution of the Company.

4. Section 280G.

(a) Notwithstanding any other provision of this Agreement, except as set forth in Section 4(b), in the event that the Company undergoes a “Change in Ownership or Control” (as defined below), the Company shall not be obligated to provide Executive a portion of any “Contingent Compensation Payments” (as defined below) that Executive would otherwise be entitled to receive to the extent necessary to eliminate any “excess parachute payments” (as defined in Code Section 280G(b)(1)) for Executive. For purposes of this Section 4, the Contingent Compensation Payments so eliminated shall be referred to as the “Eliminated Payments” and the aggregate amount (determined in accordance with Treasury Regulation Section 1.280G-1, Q/A-30 or any successor provision) of the Contingent Compensation Payments so eliminated shall be referred to as the “Eliminated Amount.”

(b) Notwithstanding the provisions of Section 4(a), no such reduction in Contingent Compensation Payments shall be made if the Eliminated Amount (computed without regard to this sentence) exceeds 100% of the aggregate present value (determined in accordance with Treasury Regulation Section 1.280G-1, Q/A-31 and Q/A-32 or any successor provisions) of the amount of any additional taxes that would be incurred by Executive if the Eliminated Payments (determined without regard to this sentence) were paid to Executive (including, state and federal income taxes on the Eliminated Payments, the excise tax imposed by Section 4999 of the Code payable with respect to all of the Contingent

Compensation Payments in excess of Executive's "base amount" (as defined in Section 280G(b)(3) of the Code), and any withholding taxes). The override of such reduction in Contingent Compensation Payments pursuant to this Section 4(b) shall be referred to as a "Section 4(b) Override". For purposes of this paragraph, if any federal or state income taxes would be attributable to the receipt of any Eliminated Payment, the amount of such taxes shall be computed by multiplying the amount of the Eliminated Payment by the maximum combined federal and state income tax rate provided by law.

(c) For purposes of this Section 4 the following terms shall have the following respective meanings:

(i) "Change in Ownership or Control" shall mean a change in the ownership or effective control of the Company or in the ownership of a substantial portion of the assets of the Company determined in accordance with Section 280G(b)(2) of the Code.

(ii) "Contingent Compensation Payment" shall mean any payment (or benefit) in the nature of compensation that is made or made available (under this Agreement or otherwise) to a "disqualified individual" (as defined in Section 280G(c) of the Code) and that is contingent (within the meaning of Section 280G(b)(2)(A)(i) of the Code) on a Change in Ownership or Control of the Company.

(d) Any payments or other benefits otherwise due to Executive following a Change in Ownership or Control that could reasonably be characterized (as determined by the Company) as Contingent Compensation Payments (the "Potential Payments") shall not be made until the dates provided for in this Section 4(d). Within 30 days after each date on which Executive first becomes entitled to receive (whether or not then due) a Contingent Compensation Payment relating to such Change in Ownership or Control, the Company shall determine and notify Executive (with reasonable detail regarding the basis for its determinations) (i) which Potential Payments constitute Contingent Compensation Payments, (ii) the Eliminated Amount and (iii) whether the Section 4(b) Override is applicable. Within 30 days after delivery of such notice to Executive, Executive shall deliver a response to the Company (the "Executive Response") stating either (A) that Executive agrees with the Company's determination pursuant to the preceding sentence, or (B) that Executive disagrees with such determination, in which case Executive shall set forth (i) which Potential Payments should be characterized as Contingent Compensation Payments, (ii) the Eliminated Amount, and (iii) whether the Section 4(b) Override is applicable. In the event that Executive fails to deliver an Executive Response on or before the required date, the Company's initial determination shall be final. If and to the extent that any Contingent Compensation Payments are required to be treated as Eliminated Payments pursuant to this Section 4, then the payments shall be reduced or eliminated, as determined by the Company, in the following order: (i) any cash payments, (ii) any taxable benefits, (iii) any nontaxable benefits, and (iv) any vesting of equity awards in each case in reverse order beginning with payments or benefits that are to be paid the farthest in time from the date that triggers the applicability of the excise tax, to the extent necessary to maximize the Eliminated Payments. If Executive states in the Executive Response that Executive agrees with the Company's determination, the Company shall make the Potential Payments to Executive within three business days following delivery to the Company of the Executive Response (except for any Potential Payments which are not due to be made until after such date, which Potential Payments shall be made on the date on which they are due). If Executive states in the Executive Response that Executive disagrees with the Company's determination, then, for a period of 60 days following delivery of the Executive Response, Executive and the Company shall use good faith efforts to resolve such dispute. If such dispute is not resolved within such 60-day period, such dispute shall be settled exclusively by arbitration in the State of New Hampshire, in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction. The Company shall, within three business days following delivery to the Company of the Executive Response, make to Executive those Potential Payments as to which there is no dispute between the Company and Executive regarding whether they should be made (except for any such Potential Payments which are not due to be made until after such date, which Potential Payments shall be made on the date on which they are due). The balance of the Potential Payments shall be made within three business days following the resolution of such dispute. Subject to the limitations contained in Section 4(a) and 4(b) hereof, the amount of any payments to be made to Executive following the resolution of such dispute shall be increased by the amount of the accrued interest thereon computed at the prime rate announced from time to time by The Wall Street Journal, compounded monthly from the date that such payments originally were due.

(e) The provisions of this Section 4 are intended to apply to any and all payments or benefits available to Executive under this Agreement or any other agreement or plan of the Company under which Executive may receive Contingent Compensation Payments.

5. **At-Will Employment.** This Agreement shall not be construed as an agreement, either expressed or implied, to employ Executive for any stated term, and shall in no way alter the Company's policy of employment at will, under which both Executive and the Company remain free to terminate the employment relationship, with or without cause, at any time, with or without notice. Similarly, nothing in this Agreement shall be construed as an agreement, either express or implied, to pay Executive any compensation or grant Executive any benefit beyond the end of Executive's employment with the Company, except to the extent explicitly set forth in Sections 1 and 2 hereof.

6. **Interaction with Other Agreements/Governing Law.** This Agreement constitutes an agreement between Executive and the Company with respect to the terms of Executive's equity awards and Executive's entitlement to severance pay and benefits, shall be read and interpreted in conjunction with the Offer Letter and the outstanding equity award agreements and the plans under which such awards were granted, and, to the extent inconsistent with any other such agreements, this Agreement supersedes the inconsistent provisions of such other agreements between the parties concerning such subject matter. For the avoidance of doubt, in the event that Executive may be entitled to severance payments or benefits under the Offer Letter (or another agreement) and this Agreement, the terms of this Agreement shall govern and Executive may receive payments and benefits under this Agreement only and not both. This Agreement shall be governed by and construed in accordance with the laws of the State of New Hampshire (without reference to the conflict of laws provisions thereof). Any action, suit or other legal proceeding arising under or relating to any provision of this Agreement shall be commenced only in a court of the State of New Hampshire (or, if appropriate, a federal court located within the State of New Hampshire), and the Company and Executive each consents to the jurisdiction of such a court.

[Remainder of page intentionally left blank]

AGREED AND ACCEPTED:

I acknowledge and agree that I have read and understand the foregoing Agreement and that I have freely and voluntarily entered into the terms of this Agreement.

/s/ Thomas Baker
Thomas Baker

March 15, 2021
Date

/s/ Patricia Gallup
PC Connection, Inc.
By: Patricia Gallup
Title: Chair of the Board of Directors

March 15, 2021
Date

APPENDIX A

Payments Subject to Section 409A

1. Subject to this Appendix A, any severance payments that may be due under the Agreement to which it is attached shall begin only upon the date of Executive's "separation from service" (determined as set forth below) which occurs on or after the termination of Executive's employment. The following rules shall apply with respect to distribution of the severance payments, if any, to be provided to Executive under the Agreement, as applicable:

(a) It is intended that each installment of the severance payments under the Agreement shall be treated as a separate "payment" for purposes of Section 409A of the Internal Revenue Code and the guidance issued thereunder ("Section 409A"). Neither the Company nor Executive shall have the right to accelerate or defer the delivery of any such payments except to the extent specifically permitted or required by Section 409A.

(b) If, as of the date of Executive's "separation from service" from the Company, Executive is not a "specified employee" (within the meaning of Section 409A), then each installment of the severance payments shall be made on the dates and terms set forth in the Agreement.

(c) If, as of the date of Executive's "separation from service" from the Company, Executive is a "specified employee" (within the meaning of Section 409A), then:

(i) Each installment of the severance payments due under the Agreement that, in accordance with the dates and terms set forth herein, will in all circumstances, regardless of when Executive's separation from service occurs, be paid within the short-term deferral period (as defined under Section 409A) shall be treated as a short-term deferral within the meaning of Treasury Regulation Section 1.409A-1(b)(4) to the maximum extent permissible under Section 409A and shall be paid on the dates and terms set forth in the Agreement; and

(ii) Each installment of the severance payments due under the Agreement that is not described in this Appendix A, Section 1(c)(i) and that would, absent this subsection, be paid within the six-month period following Executive's "separation from service" from the Company shall not be paid until the date that is six months and one day after such separation from service (or, if earlier, Executive's death) (the "New Payment Date"), with any such installments that are required to be delayed being accumulated during the six-month period and paid in a lump sum on the New Payment Date and any subsequent installments, if any, being paid in accordance with the dates and terms set forth herein; provided, however, that the preceding provisions of this sentence shall not apply to any installment of payments if and to the maximum extent that such installment is deemed to be paid under a separation pay plan that does not provide for a deferral of compensation by reason of the application of Treasury Regulation 1.409A-1(b)(9)(iii) (relating to separation pay upon an involuntary separation from service). Any installments that qualify for the exception under Treasury Regulation Section 1.409A-1(b)(9)(iii) must be paid no later than the last day of Executive's second taxable year following the taxable year in which the separation from service occurs.

2. The determination of whether and when Executive's separation from service from the Company has occurred shall be made in a manner consistent with, and based on the presumptions set forth in, Treasury Regulation Section 1.409A-1(h). Solely for purposes of this Appendix A, Section 2, "Company" shall include all persons with whom the Company would be considered a single employer under Section 414(b) and 414(c) of the Internal Revenue Code.

3. All reimbursements and in-kind benefits provided under the Agreement shall be made or provided in accordance with the requirements of Section 409A to the extent that such reimbursements or in-kind benefits are subject to Section 409A, including, where applicable, the requirements that (i) any reimbursement is for expenses incurred during Executive's lifetime (or during a shorter period of time specified in the Agreement), (ii) the amount of expenses eligible for reimbursement during a calendar year may not affect the expenses eligible for reimbursement in any other calendar year, (iii) the reimbursement of an eligible expense will be made on or before the last day of the calendar year following the year in which the expense is incurred and (iv) the right to reimbursement is not subject to set off or liquidation or exchange for any other benefit.

4. The Company makes no representation or warranty and shall have no liability to Executive or to any other person if any of the provisions of the Agreement (including this Appendix A) are determined to constitute deferred compensation subject to Section 409A but that do not satisfy an exemption from, or the conditions of, that section.

CERTIFICATION

I, Timothy J. McGrath, certify that:

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

Date: May 7, 2021

/s/ TIMOTHY J. MCGRATH

Timothy J. McGrath
President and Chief Executive Officer

CERTIFICATION

I, Thomas C. Baker, certify that:

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

Date: May 7, 2021

/s/ THOMAS C. BAKER

Thomas C. Baker
Senior Vice President, Chief Financial Officer and Treasurer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of PC Connection, Inc. (the "Company") for the period ended March 31, 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:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2021

/s/ TIMOTHY J. MCGRATH

Timothy J. McGrath
President and Chief Executive Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of PC Connection, Inc. (the "Company") for the period ended March 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Thomas C. Baker, Senior Vice President, Chief Financial Officer and Treasurer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2021

/s/ THOMAS C. BAKER

Thomas C. Baker
Senior Vice President, Chief Financial Officer and Treasurer
