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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 June 30, 2000

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  
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(State or other jurisdiction  
of incorporation or organization)

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

730 MILFORD ROAD,  
MERRIMACK, NEW HAMPSHIRE  
-----

(Address of principal executive offices)

03054  
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(Zip Code)

Registrant's telephone number, including area code

(603) 423-2000  
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Indicate by check mark (X) 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

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APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of the issuer's Common Stock, \$.01 par value,  
as of July 27, 2000 was 24,141,894.

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PC CONNECTION, INC. AND SUBSIDIARIES  
FORM 10-Q

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INDEPENDENT ACCOUNTANTS' REPORT

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

We have reviewed the accompanying condensed consolidated balance sheet of PC Connection, Inc. and subsidiaries (the "Company") as of June 30, 2000, and the related condensed consolidated statements of income, changes in stockholders' equity and cash flows for the three-month and six-month periods then ended listed as Part 1, Item 1 in the Table of Contents included on Form 10-Q for the quarterly period ended June 30, 2000. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of PC Connection, Inc and subsidiaries as of December 31, 1999, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated January 26, 2000, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 1999 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

DELOITTE & TOUCHE LLP  
Boston, Massachusetts  
July 18, 2000

PC CONNECTION, INC. AND SUBSIDIARIES  
PART I - FINANCIAL INFORMATION  
ITEM 1 - FINANCIAL STATEMENTS  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(amounts in thousands)

|   | JUNE 30,<br>2000 | DECEMBER 31,<br>1999 |
|---|------------------|----------------------|
|   | (unaudited)      |                      |
| <b>ASSETS</b>   |                  |                      |
| Current Assets:   |                  |                      |
| Cash and cash equivalents                                   | \$ 19,217        | \$ 20,416            |
| Accounts receivable, net                                    | 134,019          | 99,405               |
| Inventories-merchandise                                     | 69,625           | 64,348               |
| Deferred income taxes                                       | 1,698            | 1,991                |
| Prepaid expenses and other current assets                   | 8,242            | 4,651                |
|   | -----            | -----                |
| <b>TOTAL CURRENT ASSETS</b>                                 | <b>232,801</b>   | <b>190,811</b>       |
| Property and equipment, net                                 | 26,325           | 23,126               |
| Goodwill  | 9,860            | 9,431                |
| Other assets  | 530              | 169                  |
|   | -----            | -----                |
| <b>TOTAL ASSETS</b>   | <b>\$269,516</b> | <b>\$223,537</b>     |
|   | =====            | =====                |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                 |                  |                      |
| Current Liabilities:  |                  |                      |
| Current maturities of capital lease obligation to affiliate | \$ 175           | \$ 137               |
| Notes payable, current maturities                           | 1,000            | 1,000                |
| Accounts payable  | 131,520          | 105,547              |
| Accrued expenses and other liabilities                      | 11,783           | 11,877               |
|   | -----            | -----                |
| <b>TOTAL CURRENT LIABILITIES</b>                            | <b>144,478</b>   | <b>118,561</b>       |
| Notes payable, less current maturities                      | 1,000            | 2,000                |
| Capital lease obligation to affiliate                       | 6,871            | 6,945                |
| Deferred taxes  | 1,157            | 1,579                |
| Other liabilities   | 171              | 229                  |
|   | -----            | -----                |
| <b>TOTAL LIABILITIES</b>                                    | <b>153,677</b>   | <b>129,314</b>       |
|   | -----            | -----                |
| Stockholders' Equity:                                       |                  |                      |
| Common stock  | 241              | 237                  |
| Additional paid-in capital                                  | 64,440           | 58,548               |
| Retained earnings   | 51,158           | 35,438               |
|   | -----            | -----                |
| <b>Total stockholders' equity</b>                           | <b>115,839</b>   | <b>94,223</b>        |
|   | -----            | -----                |
| <b>Total liabilities and stockholders' equity</b>           | <b>\$269,516</b> | <b>\$223,537</b>     |
|   | =====            | =====                |

See accompanying notes to condensed consolidated financial statements.

PC CONNECTION, INC. AND SUBSIDIARIES  
Part I - Financial Information  
ITEM 1 - FINANCIAL STATEMENTS  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(UNAUDITED)  
(amounts in thousands, except per share data)

|  | THREE MONTHS<br>ENDED<br>JUNE 30, |                 | SIX MONTHS<br>ENDED<br>JUNE 30, |                 |
|--|-----------------------------------|-----------------|---------------------------------|-----------------|
|  | 2000                              | 1999            | 2000                            | 1999            |
| Net sales                                    | \$358,241                         | \$231,833       | \$684,333                       | \$456,812       |
| Cost of sales                                | 313,296                           | 204,034         | 598,758                         | 401,947         |
| Gross profit                                 | 44,945                            | 27,799          | 85,575                          | 54,865          |
| Selling, general and administrative expenses | 30,903                            | 20,040          | 59,910                          | 39,803          |
| <b>INCOME FROM OPERATIONS</b>                | <b>14,042</b>                     | <b>7,759</b>    | <b>25,665</b>                   | <b>15,062</b>   |
| Interest expense                             | (334)                             | (276)           | (674)                           | (542)           |
| Other, net                                   | 165                               | 47              | 369                             | 141             |
| Income before taxes                          | 13,873                            | 7,530           | 25,360                          | 14,661          |
| Income taxes                                 | (5,272)                           | (2,862)         | (9,640)                         | (5,572)         |
| <b>NET INCOME</b>                            | <b>\$ 8,601</b>                   | <b>\$ 4,668</b> | <b>\$ 15,720</b>                | <b>\$ 9,089</b> |
| Earnings per common share:                   |                                   |                 |                                 |                 |
| Basic  | \$ 0.36                           | \$ 0.20         | \$ 0.66                         | \$ 0.39         |
| Diluted                                      | \$ 0.34                           | \$ 0.19         | \$ 0.62                         | \$ 0.38         |

See accompanying notes to condensed consolidated financial statements.

PC CONNECTION, INC. AND SUBSIDIARIES  
PART I - FINANCIAL INFORMATION  
ITEM 1 - FINANCIAL STATEMENTS  
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
(UNAUDITED)  
(amounts in thousands)

|   | COMMON STOCK |        | ADDITIONAL      | RETAINED  |           |
|---|--------------|--------|-----------------|-----------|-----------|
|   | SHARES       | AMOUNT | PAID IN CAPITAL | EARNINGS  | TOTAL     |
| Balance, December 31, 1999                                  | 23,653       | \$ 237 | \$ 58,548       | \$ 35,438 | \$ 94,223 |
| Exercise of stock options, including<br>income tax benefits | 397          | 4      | 5,362           | -         | 5,366     |
| Issuance of stock under employee stock<br>purchase plan     | 25           | -      | 479             | -         | 479       |
| Compensation under nonstatutory<br>stock option agreements  | -            | -      | 51              | -         | 51        |
| Net income  | -            | -      | -               | 15,720    | 15,720    |
| Balance, June 30, 2000                                      | 24,075       | \$ 241 | \$ 64,440       | \$ 51,158 | \$115,839 |

See accompanying notes to condensed consolidated financial statements.

PC CONNECTION, INC. AND SUBSIDIARIES  
PART I - FINANCIAL INFORMATION  
ITEM 1 - FINANCIAL STATEMENTS  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)  
(amounts in thousands)

|  | Six Months Ended June 30, |           |
|--|---------------------------|-----------|
|  | 2000                      | 1999      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                             |                           |           |
| Net income   | \$ 15,720                 | \$ 9,089  |
| Adjustments to reconcile net income to net cash provided by (used for)   |                           |           |
| operating activities:  |                           |           |
| Depreciation and amortization  | 3,036                     | 2,367     |
| Deferred income tax provision  | 2,579                     | 1,277     |
| Compensation under nonstatutory stock option agreements                  | 51                        | 66        |
| Provision for doubtful accounts  | 4,443                     | 2,896     |
| Loss on disposal of fixed assets   | 24                        | 24        |
| Changes in assets and liabilities:                                       |                           |           |
| Accounts receivable  | (38,557)                  | (12,767)  |
| Inventories  | (5,277)                   | 1,206     |
| Prepaid expenses and other current assets                                | (3,591)                   | 912       |
| Other non-current assets   | (361)                     | -         |
| Accounts payable   | 26,227                    | (7,283)   |
| Accrued expenses and other liabilities                                   | (25)                      | (108)     |
|  | 4,269                     | (2,321)   |
| Net cash provided by (used for) operating activities                     | 4,269                     | (2,321)   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                             |                           |           |
| Purchases of property and equipment                                      | (5,233)                   | (3,415)   |
| Proceeds from sale of property and equipment                             | 74                        | 3         |
| Payment for acquisitions, net of cash acquired                           | (2,158)                   | (3,198)   |
|  | (7,317)                   | (6,610)   |
| Net cash used for investing activities                                   | (7,317)                   | (6,610)   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                             |                           |           |
| Proceeds from short-term borrowings                                      | 167,961                   | 246,251   |
| Repayment of short-term borrowings                                       | (167,961)                 | (246,251) |
| Repayment of notes payable   | (1,000)                   | -         |
| Repayment of capital lease obligations                                   | (36)                      | (58)      |
| Issuance of stock upon exercise of nonstatutory stock options            | 2,406                     | 116       |
| Issuance of stock under Employee Stock Purchase Plan                     | 479                       | 198       |
|  | 1,849                     | 256       |
| Net cash provided by financing activities                                | 1,849                     | 256       |
| Decrease in cash and cash equivalents                                    | (1,199)                   | (8,675)   |
| Cash and cash equivalents, beginning of period                           | 20,416                    | 11,910    |
|  | \$ 19,217                 | \$ 3,235  |
| Cash and cash equivalents, end of period                                 | \$ 19,217                 | \$ 3,235  |
|  | =====                     | =====     |
| <b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>                               |                           |           |
| Interest paid  | \$ 293                    | \$ 273    |
| Income taxes paid  | 10,957                    | 2,414     |
| <b>NON-CASH:</b>   |                           |           |
| Issuance of notes payable in connection with acquisition of a subsidiary | \$ -                      | \$ 3,000  |

See accompanying notes to condensed consolidated financial statements.

PC CONNECTION, INC. AND SUBSIDIARIES  
PART I - FINANCIAL INFORMATION  
ITEM 1 - FINANCIAL STATEMENTS  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

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NOTE 1-BASIS OF PRESENTATION  
-----

The accompanying condensed consolidated financial statements of PC Connection, Inc. and Subsidiaries ("PCC" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America. Such principles were applied on a basis consistent with those of the financial statements contained in the Company's Annual Report on Form 10-K/A for the year ended December 31, 1999 (the "10-K/A Report") filed with the Securities and Exchange Commission ("SEC"). The accompanying condensed consolidated financial statements should be read in conjunction with the financial statements contained in the Company's Annual Report on Form 10K/A. 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. The operating results for the three and six months ended June 30, 2000 may not be indicative of the results expected for any succeeding quarter or the entire year ending December 31, 2000.

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

In April 2000, the Company's Board of Directors approved a three-for-two stock split of its outstanding shares of Common Stock to be effected in the form of a 50% stock dividend. The dividend was distributed on May 23, 2000 to the Company's stockholders of record as of the close of business on May 12, 2000. All per share and related amounts contained in these financial statements and notes have been adjusted retroactively to reflect the stock split.

REVENUE RECOGNITION

Revenue on product sales is recognized at the point in time when persuasive evidence of an arrangement exists, the price is fixed and final, delivery has occurred and there is a reasonable assurance of collection of the sales proceeds. The Company generally obtains oral or written purchase authorizations from its customers for a specified amount of product at a specified price and considers delivery to have occurred at the point of shipment. The Company provides its customers with a limited thirty day right of return only for defective merchandise. Revenue is recognized at shipment and a reserve for sales returns is recorded. The Company has demonstrated the ability to make reasonable and reliable estimates of product returns in accordance with SFAS No. 48 based on significant historical experience.

INVENTORIES--MERCHANDISE

Inventories (all finished goods) consisting of software packages, computer systems and peripheral equipment, are stated at cost (determined under the first-in, first-out method) or market, whichever is lower. Provisions are made currently for obsolete, slow moving and nonsalable inventory.

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NOTE 2-EARNINGS PER SHARE  
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Basic earnings per common share is computed using the weighted average number of shares outstanding. Diluted earnings per common share is computed using the weighted average number of shares outstanding adjusted for the incremental shares attributed to outstanding options to purchase common stock.



PC CONNECTION, INC. AND SUBSIDIARIES  
PART I - FINANCIAL INFORMATION  
ITEM 1 - FINANCIAL STATEMENTS  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
(UNAUDITED)

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NOTE 2-EARNINGS PER SHARE - CONT'D.  
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The following table sets forth the computation of basic and diluted earnings per share:

| JUNE 30, (AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA) | THREE MONTHS Ended |          | SIX MONTHS Ended |          |
|--|--------------------|----------|------------------|----------|
|  | 2000               | 1999     | 2000             | 1999     |
| -----  |                    |          |                  |          |
| Numerator:   |                    |          |                  |          |
| Net income   | \$ 8,601           | \$ 4,668 | \$15,720         | \$ 9,089 |
|  | =====              | =====    | =====            | =====    |
| Denominator:   |                    |          |                  |          |
| Denominator for basic earnings per share:              |                    |          |                  |          |
| Weighted average shares                                | 23,926             | 23,441   | 23,801           | 23,438   |
| Dilutive effect of unexercised employee stock options: | 1,630              | 645      | 1,505            | 663      |
|  | -----              | -----    | -----            | -----    |
| Denominator for diluted earnings per share             | 25,556             | 24,086   | 25,306           | 24,101   |
|  | =====              | =====    | =====            | =====    |
| Earnings per share:                                    |                    |          |                  |          |
| Basic  | \$ .36             | \$ .20   | \$ .66           | \$ .39   |
|  | =====              | =====    | =====            | =====    |
| Diluted  | \$ .34             | \$ .19   | \$ .62           | \$ .38   |
|  | =====              | =====    | =====            | =====    |

The following unexercised stock options were excluded from the computation of diluted earnings per share for the three and six months ended June 30, 2000 and 1999 because the effect of the options on the calculation would have been anti-dilutive:

| JUNE 30, (AMOUNTS IN THOUSANDS) | THREE MONTHS ENDED |       | SIX MONTHS ENDED |       |
|---------------------------------|--------------------|-------|------------------|-------|
|                                 | 2000               | 1999  | 2000             | 1999  |
| -----                           |                    |       |                  |       |
| Anti-dilutive stock options     | 362                | 1,353 | 4,273            | 1,317 |
|                                 | ===                | ===== | =====            | ===== |

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NOTE 3-REPORTING COMPREHENSIVE INCOME  
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Statement of Financial Accounting Standards ('SFAS") No. 130 "Reporting Comprehensive Income," requires the reporting of comprehensive income in addition to net income. Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of certain financial information that historically has not been recognized in the calculation of net income. Based on the current financial structure and operations of the Company, the Company had no other components to be included in comprehensive income. Therefore, comprehensive income is the same as net income reported for the three and six months ended June 30, 2000 and 1999.

PC CONNECTION, INC. AND SUBSIDIARIES  
PART I - FINANCIAL INFORMATION  
ITEM 1 - FINANCIAL STATEMENTS  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
(UNAUDITED)

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NOTE 4-RECENT AND ANTICIPATED ACCOUNTING PRONOUNCEMENTS  
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In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," adjusted to be effective for fiscal years beginning after June 15, 2000. The new standard requires that all companies record derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. Management is currently assessing the impact of SFAS No. 133 on the financial statements of the Company. The Company will adopt this accounting standard on January 1, 2001, as required.

In December, 1999 the Securities and Exchange Commission ("SEC") released Staff Accounting Bulletin ("SAB") No. 101 "Revenue Recognition in Financial Statements." This SAB clarifies certain elements of revenue recognition. Since December, the SEC has issued several amendments that have effectively postponed the implementation date until the fourth quarter of fiscal 2000. The implementation date was postponed so that a Frequently Asked Questions document could be prepared and distributed. Management currently believes that the implementation of the SAB will not have a material impact on the Company's financial statements.

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NOTE 5-ACQUISITION  
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On January 4, 2000 the Company acquired the Merisel Americas Inc., call center in Marlborough, Massachusetts for approximately \$2.2 million including acquisition costs. The Company acquired the assembled work force of Merisel, as well as its fixed assets; it also assumed its lease liabilities. The excess of the purchase price over the fair value of the assets acquired totaled approximately \$1.3 million. Such excess will be amortized over a period of 15 years. Operating results of PC Connection would not have been materially different from those reported for the six months ended June 30, 1999 had the acquisition occurred on January 1, 1999.

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NOTE 6-SEGMENT AND RELATED DISCLOSURES  
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SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," requires that public companies report profits and losses and certain other information on its "reportable operating segments" in its annual and interim financial statements.

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

PC CONNECTION, INC. AND SUBSIDIARIES  
PART I - FINANCIAL INFORMATION  
ITEM 1 - FINANCIAL STATEMENTS  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
(UNAUDITED)

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NOTE 6-SEGMENT AND RELATED DISCLOSURES - CONT'D.  
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Net sales by platform, sales channel and product mix are presented below:

| JUNE 30, (amounts in thousands) | THREE MONTHS ENDED |           | SIX MONTHS ENDED |           |
|---------------------------------|--------------------|-----------|------------------|-----------|
|                                 | 2000               | 1999      | 2000             | 1999      |
| <b>Platform</b>                 |                    |           |                  |           |
| PC and Multi Platform           | \$319,348          | \$194,166 | \$605,276        | \$376,624 |
| Mac                             | 38,893             | 37,667    | 79,057           | 80,188    |
| Total                           | \$358,241          | \$231,833 | \$684,333        | \$456,812 |
| <b>Sales Channel</b>            |                    |           |                  |           |
| Corporate Outbound              | \$274,488          | \$147,331 | \$511,039        | \$276,008 |
| Inbound Telesales               | 57,630             | 72,274    | 123,093          | 156,541   |
| On-Line Internet                | 26,123             | 12,228    | 50,201           | 24,263    |
| Total                           | \$358,241          | \$231,833 | \$684,333        | \$456,812 |
| <b>Product Mix</b>              |                    |           |                  |           |
| Computer Systems and Memory     | \$186,015          | \$111,102 | \$356,485        | \$217,453 |
| Peripherals                     | 100,112            | 74,891    | 195,495          | 150,537   |
| Software                        | 40,144             | 30,637    | 76,560           | 59,262    |
| Networking and Communications   | 31,970             | 15,203    | 55,793           | 29,560    |
| Total                           | \$358,241          | \$231,833 | \$684,333        | \$456,812 |

Substantially, all of the Company's net sales for the quarters ended June 30, 2000 and 1999 were made to customers located in the United States. Shipments to customers located in foreign countries aggregated less than 2% in those respective quarters. All of the Company's assets at June 30, 2000 and December 31, 1999 were located in the United States. The Company's primary target customers are small- to medium-size businesses ("SMBs") comprised of 20 to 1,000 employees, although its customers also include individual consumers, larger companies, federal, state and local governmental agencies and educational institutions. Except for the federal government, no single customer accounted for more than 3% of total net sales in the six months ended June 30, 2000 and 1999. Sales to the federal government accounted for \$53.7 million, or 7.8% of total net sales for the six months ended June 30, 2000 and \$8.8 million or 1.9% of total net sales for the six months ended June 30, 1999.

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

-----  
OVERVIEW  
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The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements based on management's current expectations, estimates and projections about the Company's industry, management's beliefs and certain assumptions made by management. All statements, trends, analyses and other information contained in this report relative to trends in net sales, gross margin and anticipated expense levels, as well as other statements, including words such as "anticipate," "believe," "plan," "estimate," "expect," and "intend" and other similar expressions, constitute forward-looking statements. These forward-looking statements involve risks and uncertainties, and actual results may differ materially from those anticipated or expressed in such statements. Potential risks and uncertainties include, among others, those set forth in Item 7 under the caption "Factors That May Affect Future Results and Financial Condition" in the Company's Annual Report on Form 10-K and its amendments for the year ended December 31, 1999 filed with the SEC, which are incorporated by reference herein. Particular attention should be paid to the cautionary statements involving the industry's rapid technological change and exposure to inventory obsolescence, availability and allocation of goods, reliance on vendor support and relationships, competitive risks, pricing risks, and economic risks. Except as required by law, the Company undertakes no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise. Readers, however, should carefully review the factors set forth in other reports or documents that the Company files from time to time with the SEC.

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

The Company offers both PC compatible products and Mac personal computer compatible products. Reliance on Mac product sales has decreased over the last three years, from 23.0% of net sales for the year ended December 31, 1996 to 11.6% of net sales for the six months ended June 30, 2000. The Company believes that such sales will continue to decrease as a percentage of net sales and may decline in dollar volume in future periods.

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

-----  
RESULTS OF OPERATIONS  
-----

THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2000 COMPARED WITH THE THREE MONTHS  
AND SIX MONTHS ENDED JUNE 30, 1999

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

| JUNE 30,                                       | THREE MONTHS ENDED |         | SIX MONTHS ENDED |         |
|--|--------------------|---------|------------------|---------|
|  | 2000               | 1999    | 2000             | 1999    |
| Net sales (in millions).....                   | \$358.2            | \$231.8 | \$684.3          | \$456.8 |
| Net sales.....                                 | 100.0%             | 100.0%  | 100.0%           | 100.0%  |
| Gross profit.....                              | 12.6               | 12.0    | 12.5             | 12.0    |
| Selling, general and administrative expenses.. | 8.6                | 8.6     | 8.8              | 8.7     |
| Income from operations.....                    | 3.9                | 3.4     | 3.8              | 3.3     |
| Interest expense.....                          | 0.1                | 0.1     | 0.1              | 0.1     |
| Income before income taxes.....                | 3.9                | 3.2     | 3.7              | 3.2     |
| Income taxes.....                              | 1.5                | 1.2     | 1.4              | 1.2     |
| Net income.....                                | 2.4                | 2.0     | 2.3              | 2.0     |

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

| JUNE 30,                        | THREE MONTHS ENDED |      | SIX MONTHS ENDED |      |
|---------------------------------|--------------------|------|------------------|------|
|                                 | 2000               | 1999 | 2000             | 1999 |
| <b>Platform</b>                 |                    |      |                  |      |
| PC and Multi-Platform.....      | 89%                | 84%  | 88%              | 82%  |
| Mac.....                        | 11                 | 16   | 12               | 18   |
| Total.....                      | 100%               | 100% | 100%             | 100% |
| <b>Sales Channel</b>            |                    |      |                  |      |
| Corporate Outbound.....         | 77%                | 64%  | 75%              | 61%  |
| Inbound Telesales.....          | 16                 | 31   | 18               | 34   |
| On-Line Internet.....           | 7                  | 5    | 7                | 5    |
| Total.....                      | 100%               | 100% | 100%             | 100% |
| <b>Product Mix</b>              |                    |      |                  |      |
| Computer Systems and Memory.... | 52%                | 48%  | 52%              | 48%  |
| Peripherals.....                | 28                 | 32   | 29               | 33   |
| Software.....                   | 11                 | 13   | 11               | 13   |
| Networking and Communications.. | 9                  | 7    | 8                | 6    |
| Total.....                      | 100%               | 100% | 100%             | 100% |

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

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RESULTS OF OPERATIONS - GENERAL - CONT'D.  
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NET SALES increased \$126.4 million, or 54.5%, to \$358.2 million for the quarter ended June 30, 2000 from \$231.8 million for the comparable period in 1999. Net sales for the six months ended June 30, 2000 increased \$227.5 million, or 49.8%, to \$684.3 million from \$456.8 million for the comparable period in 1999. Growth in net sales was primarily attributable to the continued expansion and increased productivity of the Company's outbound telemarketing group, continued growth in average order size, and growth in the Company's Internet sales. Outbound sales increased \$127.2 million, or 86.3%, to \$274.5 million in the three months ended June 30, 2000 from \$147.3 million in the three months ended June 30, 1999. Outbound sales increased \$235.0 million, or 85.1%, to \$511.0 million for the six months ended June 30, 2000 from \$276.0 in the comparable period in 1999. Inbound sales for the quarter decreased \$14.6 million, or 20.2%, to \$57.6 million in the quarter ended June 30, 2000 from \$72.2 in the comparable period in 1999; and decreased \$33.4 million, or 21.3% to \$123.1 million for the six months ended June 30, 2000 from \$156.5 million in the comparable period in 1999. On-line Internet sales increased \$13.9 million, or 113.9%, to \$26.1 million in the three months ended June 30, 2000 from \$12.2 million in the comparable period in 1999.

All of the Company's product categories experienced strong growth in the quarter ended June 30, 2000 over the comparable period in 1999, with sales of networking and communication products representing the Company's fastest growing product category with 110.3% growth in net sales over the second quarter of 1999. Management believes that this category will continue to grow substantially as its customers further upgrade their network and communications infrastructure. Sales of computer systems continue to be the largest product category. Computer system/memory sales increased to 51.9% and 52.0% of net sales for the three months and six months ended June 30, 2000, respectively, from 47.9% and 47.6% for the respective comparable periods in 1999.

Sales of computer systems result in a relatively high dollar sales order, as reflected in the increase in the Company's average order size from \$741 in the quarter ended June 30, 1999 to \$1,183 in the quarter ended June 30, 2000. Computer system sales generally provide the largest gross profit dollar contribution per order of all of the Company's products, although they usually yield the lowest gross margin percentage.

GROSS PROFIT increased \$17.1 million, or 61.5%, to \$44.9 million for the quarter ended June 30, 2000 from \$27.8 million for the comparable period in 1999. Gross profit for the six months ended June 30, 2000 increased \$30.7 million, or 55.9%, to \$85.6 million from \$54.9 million for the comparable period in 1999. Gross profit margin as a percentage of net sales increased to 12.6% in the second quarter of 2000 from 12.0% for the comparable period in 1999. Gross profit margin as a percentage of net sales increased to 12.5% in the first six months of 2000 from 12.0% for the comparable period in 1999. The margin improvement resulted from a continuing focus on solutions sales to business, government and educational customers, stable average selling prices, and the impact of various profitability improvement programs. The Company's profit margins are also influenced by, among other things, industry pricing and the relative mix of inbound, outbound, and on-line Internet Sales. Generally, pricing in the computer and related products market is very aggressive and the Company intends to maintain prices at competitive levels. Since outbound sales are typically to corporate accounts that purchase at volume discounts, the gross margin on such sales is generally lower than inbound sales. The gross profit dollar contribution per outbound sale order is generally higher as average sizes of orders to corporate accounts are usually larger. As stated in previous reports, the Company expects that its gross margin, as a percentage of sales, may vary by quarter based upon vendor support programs, product mix, pricing strategies, market conditions and other factors.

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

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RESULTS OF OPERATIONS - GENERAL - CONT'D.  
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SELLING, GENERAL AND ADMINISTRATIVE EXPENSES increased \$10.9 million, or 54.5%, to \$30.9 million for the quarter ended June 30, 2000 from \$20.0 million for the comparable quarter in 1999. Such expenses for the six months ended June 30, 2000 increased by \$20.1 million, or 50.5%, to \$59.9 million from \$39.8 million in the six months ended June 30, 1999. The increase in expenses was primarily attributable to increases in volume-sensitive costs such as sales personnel, facility costs, provision for doubtful accounts, depreciation, and costs associated with the January 2000 acquisition of Merisel's Marlborough, MA call center. Such costs remained a consistent percentage of net sales over the comparable periods presented here.

INCOME FROM OPERATIONS increased \$6.2 million, or 79.5%, to \$14.0 million for the quarter ended June 30, 2000, from \$7.8 million for the comparable period in 1999. Income from operations as a percentage of sales increased from 3.4% in the three months ended June 30, 1999 to 3.9% for the comparable period in 2000 for the reasons discussed above. Similarly, income from operations for the six months ended June 30, 2000 increased \$10.6 million, or 70.2%, to \$25.7 million from \$15.1 million for the comparable period in 1999. Income from operations as a percentage of sales increased from 3.3% for the six months ended June 30, 1999 to 3.8% for the comparable period in 2000, primarily due to gross margin improvement and as the result of the leveraging of selling, general and administrative expenses over a larger sales base.

INTEREST EXPENSE increased \$58,000, or 21.0%, to \$334,000 for the quarter ended June 30, 2000 from \$276,000, for the comparable quarter in 1999. Similarly, interest expense for the six months ended June 30, 2000, increased \$132,000, or 24.4%, to \$674,000 from \$542,000 for the comparable period in 1999. This increase in interest expense was primarily due to debt associated with the June 1999 acquisition of Comteq Federal, Inc. Such debt was not outstanding during the majority of the first six-months of fiscal 1999.

INCOME TAXES for the quarter ended June 30, 2000 were \$5.3 million compared to \$2.9 million for the comparable quarter in 1999. Income taxes for the six months ended June 30, 1999 were \$9.6 million, compared to \$5.6 million for the comparable period in 1999. The effective tax rate was 38% for all periods.

OTHER, NET, which is essentially comprised of interest income increased \$118,000, or 251.1%, to \$165,000 in the quarter ended June 30, 2000 from \$47,000, for the comparable period in 1999. Similarly, other, net for the six months ended June 30, 2000 increased \$228,000, or 161.7%, to \$369,000 from \$141,000 in the comparable 1999 period. This increase was due primarily to higher interest income from investments.

NET INCOME for the quarter ended June 30, 2000 increased \$3.9 million, or 82.9%, to \$8.6 million from \$4.7 million for the comparable quarter in 1999, principally as a result of the increases in operating income as described above. Net income increased \$6.6 million, or 72.5%, to \$15.7 million for the six months ended June 30, 2000 from \$9.1 million for the comparable period in 1999.

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

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

At June 30, 2000, the Company had cash and cash equivalents of \$19.2 million and working capital of \$88.3 million. At December 31, 1999, the Company had cash and cash equivalents of \$20.4 million and working capital of \$72.3 million.

The Company has an unsecured credit agreement with a bank providing for short-term borrowings up to \$50.0 million, which bears interest at various rates ranging from the prime rate (9.50% at June 30, 2000) to prime less 1%, depending on the ratio of senior debt to EBITDA (earnings before interest, taxes, depreciation and amortization). The credit agreement includes various customary financial and operating covenants, including restrictions on the payment of dividends, none of which the Company believes significantly restricts its operations. No borrowings were outstanding at June 30, 2000.

Net cash provided by operating activities was \$4.3 million for the six months ended June 30, 2000, as compared to \$2.3 million used for operating expenses in the comparable period in 1999. The primary factors historically affecting cash flows from operations are the Company's net income and changes in the levels of accounts receivable, inventories and accounts payable. Historically accounts receivable has increased primarily due to an increase in open account purchases by commercial customers resulting from the Company's continued efforts to increase its sales to such customers.

Capital expenditures were \$5.2 million in the six months ended June 30, 2000 as compared to \$3.4 million in the comparable period in 1999. The majority of the capital expenditures for the respective 2000 and 1999 periods relate to computer hardware and software for the Company's information systems. Total capital expenditures for the year ended December 31, 2000 are estimated to be \$16.6 million.

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

In December, 1999 the Securities and Exchange Commission ("SEC") released Staff Accounting Bulletin ("SAB") No. 101 "Revenue Recognition in Financial Statements." This SAB clarifies certain elements of revenue recognition. Since December, the SEC has issued several amendments that have effectively postponed the implementation date until the fourth quarter of fiscal 2000. The implementation date was postponed so that a Frequently Asked Questions document could be prepared and distributed. Management currently believes that the implementation of the SAB will not have a material impact on the Company's financial statements.



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

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

PC CONNECTION, INC. AND SUBSIDIARIES  
PART I - FINANCIAL INFORMATION  
ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company invests cash balances in excess of operating requirements in short-term securities, generally with maturities of 90 days or less. The Company believes that the effect, if any, of reasonably possible near-term changes in interest rates on the Company's financial position, results of operations and cash flows should not be material.

PC CONNECTION, INC. AND SUBSIDIARIES  
PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

Not applicable.

ITEM 2 - CHANGES IN SECURITIES AND USE OF PROCEEDS

Not applicable.

Item 3 - Defaults upon Senior Securities

Not applicable.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the 2000 Annual Meeting of Stockholders of the Company (the "Annual Meeting") on May 25, 2000, the following matters were acted upon by the stockholders of the Company:

1. the election of five Directors;
2. the approval of an amendment to the Company's 1997 Stock Incentive Plan to increase the number of shares of common stock available for grant under the Plan by 600,000; and
3. the ratification of the appointment of Deloitte & Touche LLP as the Company's independent auditors for the current fiscal year.

The number of shares of Common Stock issued, outstanding and eligible to vote as of the record date of March 29, 2000 was 15,796,151. The results of the voting on each of the matters presented to stockholders at the Annual Meeting are set forth below:

|  | VOTES<br>FOR | VOTES<br>WITHHELD | VOTES<br>AGAINST | ABSTENTIONS | BROKER<br>NON-VOTES |
|--|--------------|-------------------|------------------|-------------|---------------------|
| 1. Election of Directors:                      |              |                   |                  |             |                     |
| Patricia Gallup                                | 14,686,183   | 735,665           | 374,303          | N.A.        | N.A.                |
| David Hall                                     | 14,686,183   | 735,665           | 374,303          | N.A.        | N.A.                |
| David B. Beffa-Negrini                         | 14,686,183   | 735,665           | 374,303          | N.A.        | N.A.                |
| Martin C. Murrer                               | 14,686,183   | 735,665           | 374,303          | N.A.        | N.A.                |
| Peter J. Baxter                                | 14,686,183   | 735,665           | 374,303          | N.A.        | N.A.                |
| 2. Amendment to 1997 Stock Incentive Plan      | 14,691,350   | 735,665           | 360,521          | 8,615       | N.A.                |
| 3. Ratification of the Appointment of Auditors | 15,057,659   | 735,665           | 2,635            | 192         | N.A.                |

ITEM 5 - OTHER INFORMATION

Not applicable.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

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| Exhibit<br>Number | Description                                       |
|-------------------|---|
| -----             | -----   |
| 27                | Financial Data Schedule                           |
| 15                | Letter on unaudited interim financial information |

(b) REPORTS ON FORM 8-K

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- (i) The Company filed a current report on Form 8-K on June 8, 2000 due to the distribution of a 50% Stock dividend representing a three-for-two stock split of its outstanding shares of Common Stock.

PC CONNECTION, INC. AND SUBSIDIARIES  
JUNE 30, 2000

SIGNATURES

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

PC CONNECTION, INC. AND SUBSIDIARIES

August 10, 2000

By: /s/ Wayne L. Wilson  
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Wayne L. Wilson  
President and Chief Operating Officer

August 10, 2000

By: /s/ Mark A. Gavin  
-----  
Mark A. Gavin  
Senior Vice President of Finance and Chief  
Financial Officer

July 26, 2000

PC Connection, Inc. and Subsidiaries  
Merrimack, New Hampshire

We have made a review, in accordance with standards established by the American Institute of Certified Public Accountants, of the unaudited interim financial information of PC Connection, Inc. and subsidiaries for the periods ended June 30, 2000 and 1999, as indicated in our report dated July 18, 2000; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, is incorporated by reference in Registration Statement Nos. 333-69981, 333-50847, 333-50845, 333-83943 and 333-40172 of PC Connection, Inc. on Form S-8.

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

DELOITTE & TOUCHE LLP  
Boston, Massachusetts



This schedule contains summary financial information extracted from the June 30, 2000 Form 10-Q and is qualified in its entirety to such financial statements.

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|         |             |         |
|---------|-------------|---------|
|         | 6-MOS       |         |
|         | DEC-31-2000 |         |
|         | JAN-01-2000 |         |
|         | JUN-30-2000 |         |
|         |             | 19,217  |
|         |             | 0       |
|         |             | 141,981 |
|         |             | 7,962   |
|         |             | 69,625  |
|         | 232,801     | 51,351  |
|         |             | 25,026  |
|         |             | 269,516 |
| 144,478 |             | 7,871   |
|         | 0           | 0       |
|         |             | 241     |
|         |             | 115,598 |
| 269,516 |             | 684,333 |
|         | 684,333     | 598,758 |
|         |             | 598,758 |
|         |             | 0       |
|         |             | 4,443   |
|         |             | 674     |
|         |             | 25,360  |
|         |             | 9,640   |
| 15,720  |             | 0       |
|         |             | 0       |
|         |             | 0       |
|         |             | 15,720  |
|         |             | 0.66    |
|         |             | 0.62    |