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 September 30, 2005

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	**02-0513618**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
730 MILFORD ROAD, MERRIMACK, NEW HAMPSHIRE	**03054**
(Address of Principal Executive Offices)	**(Zip Code)**

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

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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES ☐ **NO** ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES ☐ **NO** ☒

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of the issuer's Common Stock, $.01 par value, as of September 30, 2005 was 25,224,048.

PC CONNECTION, INC. AND SUBSIDIARIES
FORM 10-Q

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying condensed consolidated balance sheet of PC Connection, Inc. and subsidiaries (the "Company") as of September 30, 2005, and the related condensed consolidated statements of income for the three and nine months ended September 30, 2005 and 2004, and the condensed consolidated statement of changes in stockholders' equity for the nine months ended September 30, 2005, and the condensed consolidated statements of cash flows for the nine months ended September 30, 2005 and 2004. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 the standards of the Public Company Accounting Oversight Board (United States), 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 reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim 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 the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of PC Connection, Inc. and subsidiaries as of December 31, 2004, 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 March 21, 2005, 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, 2004 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
November 11, 2005

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PC CONNECTION, INC. AND SUBSIDIARIES

PART I—FINANCIAL INFORMATION
Item 1—Financial Statements
CONDENSED CONSOLIDATED BALANCE SHEETS
(amounts in thousands)

	September 30, 2005	December 31, 2004
	(unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 8,121**	$ 6,829
Accounts receivable, net	**148,641**	120,752
Inventories—merchandise	**66,944**	78,390
Deferred income taxes	**3,100**	3,039
Income taxes receivable	**1,369**	1,325
Prepaid expenses and other current assets	**3,550**	3,644
Total current assets	**231,725**	213,979
Property and equipment, net	**17,577**	17,647
Goodwill, net	**51,687**	51,687
Other intangibles, net	**2,776**	3,040
Other assets	**376**	189
Total assets	**$ 304,141**	$ 286,542
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of capital lease obligations:		
To affiliate	**$ 404**	$ 373
To third party	**407**	391
Note payable—bank	**7,566**	4,810
Accounts payable	**96,188**	79,709
Accrued expenses and other liabilities	**18,890**	18,138
Acquisition earn-out obligation	**—**	6,921
Total current liabilities	**123,455**	110,342
Capital lease obligations, less current maturities:		
To affiliate	**5,408**	5,715
To third party	**501**	841
Deferred income taxes	**3,587**	3,486
Total liabilities	**132,951**	120,384
Stockholders' Equity:		
Common stock	**256**	255
Additional paid-in capital	**77,686**	77,091
Retained earnings	**95,534**	91,098
Treasury stock at cost	**(2,286)**	(2,286)
Total stockholders' equity	**171,190**	166,158
Total liabilities and stockholders' equity	**$ 304,141**	$ 286,542

See notes to condensed consolidated financial statements.

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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 Ended September 30,		Nine Months Ended September 30,	
	2005	**2004**	**2005**	**2004**
Net sales	**$371,124**	$351,265	**$1,045,685**	$1,014,235
Cost of sales	**329,044**	311,859	**925,907**	904,742
Gross profit	**42,080**	39,406	**119,778**	109,493
Selling, general, and administrative expenses	**37,531**	32,765	**110,326**	94,938
Special charges	**853**	1,800	**853**	3,583
Income from operations	**3,696**	4,841	**8,599**	10,972
Interest expense	**(289)**	(334)	**(846)**	(1,059)
Other, net	**25**	35	**50**	136
Income before taxes	**3,432**	4,542	**7,803**	10,049
Income tax provision	**(1,508)**	(1,725)	**(3,367)**	(3,818)
Net income	**$ 1,924**	$ 2,817	**$ 4,436**	$ 6,231
Weighted average common shares outstanding:				
Basic	**25,224**	25,047	**25,170**	25,018
Diluted	**25,271**	25,215	**25,275**	25,271
Earnings per common share:				
Basic	**$ .08**	$ .11	**$ .18**	$ .25
Diluted	**$ .08**	$ .11	**$ .18**	$ .25

See notes to condensed consolidated financial statements.

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Item 1—Financial Statements
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
Nine Months Ended September 30, 2005
(Unaudited)
(amounts in thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Shares		Total
	Shares	Amount			Shares	Amount	
Balance—December 31, 2004	25,462	$ 255	$ 77,091	$ 91,098	(362)	$ (2,286)	$ 166,158
Exercise of stock options, including income tax benefits	92	1	427	—	—	—	428
Issuance of stock under employee stock purchase plan	32	—	168	—	—	—	168
Net income	—	—	—	4,436	—	—	4,436
Balance—September 30, 2005	**25,586**	**$ 256**	**$ 77,686**	**$ 95,534**	**(362)**	**$ (2,286)**	**$ 171,190**

See notes to condensed consolidated financial statements.

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PC CONNECTION, INC. AND SUBSIDIARIES

PART I—FINANCIAL INFORMATION
Item 1—Financial Statements
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(amounts in thousands)

	Nine Months Ended September 30,	
	2005	**2004**
Cash Flows from Operating Activities:		
Net income	**$ 4,436**	$ 6,231
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**5,340**	5,340
Provision for doubtful accounts	**2,790**	3,083
Deferred income taxes	**40**	163
Loss on disposal of fixed assets	**41**	9
Income tax benefits from exercise of stock options	**80**	90
Changes in assets and liabilities:		
Accounts receivable	**(30,679)**	17,751
Inventories	**11,446**	2,726
Prepaid expenses and other current assets	**50**	1,163
Other non-current assets	**(187)**	(18)
Accounts payable	**16,479**	(21,981)
Accrued expenses and other liabilities	**752**	3,954
Net cash provided by operating activities	**10,588**	18,511
Cash Flows from Investing Activities:		
Purchases of property and equipment	**(5,060)**	(2,449)
Proceeds from sale of property and equipment	**13**	3
Payment of acquisition earn-out obligation	**(6,921)**	(11,095)
Cash escrow distributed for acquisition	**—**	5,000
Net cash used for investing activities	**(11,968)**	(8,541)
Cash Flows from Financing Activities:		
Proceeds from short-term borrowings	**180,800**	270,686
Repayment of short-term borrowings	**(178,044)**	(276,300)
Repayment of capital lease obligations	**(600)**	(247)
Exercise of stock options	**348**	76
Issuance of stock under employee stock purchase plan	**168**	205
Net cash provided by (used for) financing activities	**2,672**	(5,580)
Increase in cash and cash equivalents	**1,292**	4,390
Cash and cash equivalents, beginning of period	**6,829**	2,977
Cash and cash equivalents, end of period	**$ 8,121**	$ 7,367

See notes to condensed consolidated financial statements.

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PC CONNECTION, INC. AND SUBSIDIARIES

PART I—FINANCIAL INFORMATION
Item 1—Financial Statements
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(amounts in thousands, except per share data)

Note 1—Basis of Presentation

The accompanying condensed consolidated financial statements of PC Connection, Inc. and its subsidiaries ("PC Connection," "we," "us," or "our") 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 our Annual Report on Form 10-K for the year ended December 31, 2004 filed with the Securities and Exchange Commission. The accompanying condensed consolidated financial statements should be read in conjunction with the financial statements contained in our 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 our financial condition as of the date of the interim balance sheet. The operating results for the three and nine months ended September 30, 2005 may not be indicative of the results expected for any succeeding quarter or the entire year ending December 31, 2005.

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. We generally obtain oral or written purchase authorizations from our customers for a specified amount of product at a specified price. Because we either (i) have a general practice of covering customer losses while products are in-transit despite title transferring to the customer at the point of shipment or (ii) have FOB-destination specifically set out in our arrangements with federal agencies and certain commercial customers, delivery is deemed to have occurred at the point in time when the product is received by the customer.

We provide our customers with a limited thirty-day right of return generally limited to defective merchandise. Revenue is recognized at delivery and a reserve for sales returns is recorded. We have demonstrated the ability to make reasonable and reliable estimates of product returns in accordance with Statement of Financial Accounting Standards ("SFAS") No. 48, "Revenue Recognition When Right of Return Exists," based on significant historical experience. Should such returns no longer prove estimable, we believe that the impact on our financials would not necessarily be significant since the return privilege expires thirty days after shipment.

All amounts billed to a customer in a sale transaction related to shipping and handling, if any, represent revenues earned for the goods provided and have been classified as "net sales." Costs related to such shipping and handling billings are classified as "cost of sales."

Revenue for third party service contracts are recorded on a net sales recognition basis because we do not assume the risks and rewards of ownership in these transactions. For such contracts, we evaluate whether the sales of such services should be recorded as gross sales or net sales as required under the guidelines described in Staff Accounting Bulletin No. 104, "Revenue Recognition" and Emerging Issues Task Force ("EITF") Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent." Under gross sales recognition, we are the primary obligor, and the entire selling price is recorded in sales with our cost to the third party service provider recorded as a cost of sales. Under net sales recognition, we are not the primary obligor, and the cost to the third party service provider is recorded as a reduction to sales, with no cost of goods sold, thus leaving the entire gross profit as the reported net sale for the transaction.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)
(amounts in thousands, except per share data)

Similarly, we recognize revenue from agency sales transactions on a net sales basis. In agency sales transactions, we facilitate product sales by equipment manufacturers directly to our customers and receive agency fees for such transactions. We do not take title to the products in these transactions; title is passed directly from the supplier to our customer.

Cost of Sales and Certain Other Costs

Cost of sales includes the invoice cost of the product, packaging, inbound and outbound freight, and provisions for inventory obsolescence, adjusted for discounts, rebates, and other vendor consideration adjustments, including those pursuant to EITF Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" ("EITF 02-16"). Direct operating expenses relating to our purchasing function and receiving, inspection, internal transfer, warehousing, packing and shipping, and other expenses of our distribution center are included in selling, general, and administrative expenses. Total costs of this nature included in selling, general, and administrative expenses for the periods reported are shown below:

	Three Months Ended	Nine Months Ended
September 30, 2005	$ 2,406	$ 6,706
September 30, 2004	2,038	6,484

Advertising Costs and Reimbursements

Costs of producing and distributing catalogs are deferred and charged to expense over the period that each catalog remains the most current selling vehicle (generally one to two months) which approximates the period of probable benefits. Other advertising costs are expensed as incurred. Vendors have the ability to place advertisements in the catalogs for which we receive advertising allowances. These vendor allowances, to the extent that they represent reimbursements of such specific, incremental, and identifiable costs, are offset against selling, general, and administrative expense on the condensed consolidated statements of income. Advertising reimbursements that cannot be associated with a specific program funded by an individual vendor or that exceed the fair value of the advertising expense associated with that program are included in the cost of inventory purchases in accordance with EITF 02-16.

Advertising costs charged to expense were $5,164 and $5,457 for the three months ended September 30, 2005 and 2004, respectively. Gross advertising reimbursements received from vendors were $7,132 and $7,329 for the three months ended September 30, 2005 and 2004, respectively. We included $4,743 and $1,782 of these reimbursements in the cost of inventory purchases for the three months ended September 30, 2005 and 2004, respectively. A lower level of such reimbursements qualified for offset against specific identified costs in 2005.

Advertising costs charged to expense were $17,060 and $15,630 for the nine months ended September 30, 2005 and 2004, respectively. Gross advertising reimbursements received from vendors were $21,113 and $21,304 for the nine months ended September 30, 2005 and 2004, respectively. We included $12,057 and $2,857 of these reimbursements in the cost of inventory purchases for the nine months ended September 30, 2005 and 2004, respectively. The year-over-year difference in the amount of reimbursements offset against cost of sales and inventory is attributable to (1) the refinement we implemented in the third quarter of 2004 in our methods of identifying costs that could be offset pursuant to EITF 02-16, and (2) the lower level of reimbursements that qualified for offset against specific identified costs in 2005.

PC CONNECTION, INC. AND SUBSIDIARIES

PART I—FINANCIAL INFORMATION
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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)
(amounts in thousands, except per share data)

Goodwill and Other Intangible Assets

Intangible assets subject to amortization, consisting of customer lists, were $1,586 and $1,850 at September 30, 2005 and December 31, 2004, respectively (net of accumulated amortization of $1,234 and $970, respectively). For each of the three-month periods ended September 30, 2005 and 2004, we recorded amortization expense of $88. For each of the nine-month periods ended September 30, 2005 and 2004, we recorded amortization expense of $264.

The estimated amortization expense for each of the five succeeding years and thereafter is as follows:

For the Year Ended December 31,	Estimated Amortization Expense
2005	$ 88(A)
2006	353
2007	353
2008	353
2009	353
2010 and thereafter	85

(A) Represents estimated amortization expense for the three months ending December 31, 2005.

We have designated January 1 of each year as the date we perform our annual impairment tests relative to goodwill. This test was completed in the first quarter of 2005, and no impairment was recorded. Additionally, an interim test was performed as of September 30, 2005, and no impairment was recorded.

Use of Estimates

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 amounts reported in the accompanying condensed consolidated financial statements. Actual results could differ from those estimates.

Stock-Based Compensation

Compensation expense associated with awards of stock or options to employees and directors is measured using the intrinsic value method in accordance with APB Opinion No. 25, “Accounting for Stock Issued to Employees.” The intrinsic value method requires that compensation expense, if any, be measured by the difference between the fair value of our common stock and the strike price of the option as of a measurement date. This measurement date is generally when both the number of shares and the strike price of the options are determined. Information concerning the impact of the utilization of the fair market value model prescribed by SFAS No. 123, “Accounting for Stock-Based Compensation” (“SFAS No. 123”), is shown below.

We did not record any compensation expense under the intrinsic value method in the three and nine months ended September 30, 2005 and 2004. Had we recorded compensation expense using the fair value method under

PC CONNECTION, INC. AND SUBSIDIARIES

PART I—FINANCIAL INFORMATION

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

(amounts in thousands, except per share data)

SFAS No. 123, pro forma net income and diluted net income per share for the periods indicated would have been as follows:

	Three Months Ended		Nine Months Ended	
September 30,	**2005**	**2004**	**2005**	**2004**
Net income, as reported	**$ 1,924**	$ 2,817	**$4,436**	$6,231
Compensation expense, net of taxes, under SFAS No. 123	**139**	256	**421**	764
Net income, under SFAS No. 123	**1,785**	2,561	**4,015**	5,467
Basic net income per share, as reported	**.08**	.11	**.18**	.25
Basic net income per share, under SFAS No. 123	**.07**	.10	**.16**	.22
Diluted net income per share, as reported	**.08**	.11	**.18**	.25
Diluted net income per share, under SFAS No. 123	**.07**	.10	**.16**	.22

We measured the fair value of options on their grant date using the Black-Scholes option-pricing model. The key weighted-average assumptions we used to apply this pricing model were as follows:

	Three Months Ended		Nine Months Ended	
September 30,	**2005**	**2004**	**2005**	**2004**
Risk-free interest rates	**4.01%**	3.39%	**3.53%**	3.08%
Volatility	**72.33%**	96.14%	**75.51%**	97.64%
Expected life of option grants	**4 years**	4 years	**4 years**	4 years
Dividend yield	**0%**	0%	**0%**	0%

The weighted-average fair values of the stock options granted in the three months ended September 30, 2005 and 2004 were $3.81 and $4.77, respectively. The weighted-average fair values of the stock options granted in the nine months ended September 30, 2005 and 2004 were $4.51 and $5.60, respectively.

Note 2—Earnings Per Share

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 options outstanding to purchase common stock, if dilutive.

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

	Three Months Ended		Nine Months Ended	
September 30,	**2005**	**2004**	**2005**	**2004**
Numerator:				
Net income	**$ 1,924**	$ 2,817	**$ 4,436**	$ 6,231
Denominator:				
Denominator for basic earnings per share	**25,224**	25,047	**25,170**	25,018
Dilutive effect of employee stock options	**47**	168	**105**	253
Denominator for diluted earnings per share	**25,271**	25,215	**25,275**	25,271
Earnings per share:				
Basic	**$ .08**	$ .11	**$ .18**	$ .25
Diluted	**$ .08**	$ .11	**$ .18**	$ .25

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)
(amounts in thousands, except per share data)

The following potentially dilutive securities were excluded from the computation of diluted earnings per share for the three and nine months ended September 30, 2005 and 2004 because the exercise prices of these options were generally greater than the average market price of common shares during the respective periods:

	Three Months Ended		Nine Months Ended	
September 30,	**2005**	**2004**	**2005**	**2004**
Anti-dilutive stock options	**1,866**	3,615	**1,849**	2,774

Note 3—New Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123(R), “Share-Based Payment” (“SFAS 123(R)”). This Statement is a revision of SFAS No. 123 and supersedes APB Opinion No. 25, “Accounting for Stock Issued to Employees,” and its related implementation guidance. SFAS 123(R) requires a company to measure the grant date fair value of equity awards given to employees in exchange for services and recognize that cost over the period that such services are performed. SFAS 123(R) is effective for the beginning of the first fiscal year after June 15, 2005 and will be effective for our interim quarter ending March 31, 2006. We are evaluating the two methods of adoption allowed by SFAS 123(R): the modified-prospective transition method and the modified-retrospective transition method. Adoption of SFAS 123(R) may materially increase stock compensation expense and decrease net income. In addition, SFAS 123(R) requires that the excess tax benefits related to stock compensation be reported as a cash inflow from financing activities rather than as a reduction of taxes paid in cash from operations.

In May 2005, the FASB issued SFAS No. 154, “Accounting Changes and Error Corrections,” (“SFAS 154”) which is a replacement of APB Opinion No. 20, “Accounting Changes,” and FASB Statement No. 3, “Reporting Accounting Changes in Interim Financial Statements.” SFAS 154 changes the requirements for the accounting and reporting of accounting changes by requiring retrospective application to prior period financial statements unless impracticable. This statement is effective in fiscal years beginning after December 15, 2005. We do not expect the adoption of SFAS 154 to have a material impact on our financial statements.

Note 4—Segment and Related Disclosures

SFAS No. 131, “Disclosures About Segments of an Enterprise and Related Information,” requires that public companies report profits and losses and certain other information on their “reportable operating segments” in their annual and interim financial statements. The internal organization used by our Chief Operating Decision Maker (“CODM”) to assess performance and allocate resources determines the basis for our reportable operating segments. Our CODM is our Chief Executive Officer.

Our operations are organized under three reportable operating segments—the “SMB” segment, which serves small- and medium-sized businesses, as well as consumers, the “Public Sector” segment, which serves federal, state, and local government organizations and educational institutions, and the “Large Account” segment, which serves medium-to-large corporations.

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(Unaudited)
(amounts in thousands, except per share data)

Segment information applicable to our reportable operating segments for the three and nine months ended September 30, 2005 and 2004 is shown below:

	Three Months Ended September 30, 2005				
	SMB Segment	Public Sector Segment	Large Acct. Segment	Eliminations	Consolidated
Sales to external customers	$203,493	$ 87,249	$ 80,382	$ —	$ 371,124
Transfers between segments	80,707	—	—	(80,707)	—
Net sales	$284,200	$ 87,249	$ 80,382	$ (80,707)	$ 371,124
Operating income before allocations	$ 13,805	$ 2,631	$ 4,346	$ (17,086)	$ 3,696
Allocations	12,491	4,248	347	(17,086)	—
Operating income (loss)	1,314	(1,617)	3,999	—	3,696
Interest and other—net	(185)	(90)	11	—	(264)
Income (loss) before taxes	$ 1,129	$ (1,707)	$ 4,010	$ —	$ 3,432
Selected Operating Expenses:					
Depreciation and amortization	$ 1,544	$ 25	$ 185	$ —	$ 1,754
Special charges	602	251	—	—	853

	Three Months Ended September 30, 2004				
	SMB Segment	Public Sector Segment	Large Acct. Segment	Eliminations	Consolidated
Sales to external customers	$195,943	$ 77,864	$ 77,458	$ —	$ 351,265
Transfers between segments	71,281	—	—	(71,281)	—
Net sales	$267,224	$ 77,864	$ 77,458	$ (71,281)	$ 351,265
Operating income before allocations	$ 14,367	$ 1,488	$ 4,248	$ (15,262)	$ 4,841
Allocations	10,852	4,006	404	(15,262)	—
Operating income (loss)	3,515	(2,518)	3,844	—	4,841
Interest and other—net	(224)	(87)	12	—	(299)
Income (loss) before taxes	$ 3,291	$ (2,605)	$ 3,856	$ —	$ 4,542
Selected Operating Expenses:					
Depreciation and amortization	$ 1,595	$ 29	$ 177	$ —	$ 1,801
Special charges	280	1,501	19	—	1,800

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PART I—FINANCIAL INFORMATION
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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)
(amounts in thousands, except per share data)

	Nine Months Ended September 30, 2005				
	SMB Segment	Public Sector Segment	Large Acct. Segment	Eliminations	Consolidated
Sales to external customers	$611,114	$ 199,366	$235,205	$ —	$1,045,685
Transfers between segments	183,106	—	—	(183,106)	—
Net sales	$794,220	$ 199,366	$235,205	$(183,106)	$1,045,685
Operating income before allocations	$ 39,414	$ 4,008	$ 13,375	$ (48,198)	$ 8,599
Allocations	35,854	11,302	1,042	(48,198)	—
Operating income (loss)	3,560	(7,294)	12,333	—	8,599
Interest and other—net	(644)	(186)	34	—	(796)
Income (loss) before taxes	$ 2,916	$ (7,480)	$ 12,367	$ —	$ 7,803
Selected Operating Expenses:					
Depreciation and amortization	$ 4,688	$ 107	$ 545	$ —	$ 5,340
Special charges	602	251	—	—	853
Balance Sheet Data:					
Total assets	$192,817	$ 75,305	$ 99,927	$ (63,908)	$ 304,141
Goodwill, net	1,173	7,634	42,880	—	51,687

	Nine Months Ended September 30, 2004				
	SMB Segment	Public Sector Segment	Large Acct. Segment	Eliminations	Consolidated
Sales to external customers	$597,425	$ 195,051	$221,759	$ —	$1,014,235
Transfers between segments	176,910	—	—	(176,910)	—
Net sales	$774,335	$ 195,051	$221,759	$(176,910)	$1,014,235
Operating income before allocations	$ 43,787	$ 2,532	$ 11,585	$ (46,932)	$ 10,972
Allocations	34,636	11,084	1,212	(46,932)	—
Operating income (loss)	9,151	(8,552)	10,373	—	10,972
Interest and other—net	(735)	(217)	29	—	(923)
Income (loss) before taxes	$ 8,416	$ (8,769)	$ 10,402	$ —	$ 10,049
Selected Operating Expenses:					
Depreciation and amortization	$ 4,728	$ 84	$ 528	$ —	$ 5,340
Special charges	677	2,685	221	—	3,583
Balance Sheet Data:					
Total assets	$200,457	$ 71,468	$100,790	$ (90,486)	$ 282,229
Goodwill, net	1,173	7,634	35,959	—	44,766

General and administrative expenses were charged to the reportable operating segments, based on their estimated usage of the underlying functions. Interest and other expense was charged to the segments, based on the actual costs incurred by each segment, net of interest and other income generated. The amount shown above representing total assets eliminated consists of inter-segment receivables, resulting primarily from inter-segment sales transfers reported above and from inter-segment service charges.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

(amounts in thousands, except per share data)

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

	Three Months Ended		Nine Months Ended	
September 30,	2005	2004	2005	2004
Segment (excludes transfers between segments)				
SMB	**$ 203,493**	$ 195,943	**$ 611,114**	$ 597,425
Public Sector	**87,249**	77,864	**199,366**	195,051
Large Account	**80,382**	77,458	**235,205**	221,759
Total	**$ 371,124**	$ 351,265	**$ 1,045,685**	$ 1,014,235
Sales Channel				
Outbound Telemarketing and Field Sales	**$ 260,208**	$ 258,784	**$ 733,529**	$ 751,466
Internet Sales	**95,361**	73,189	**259,293**	200,553
Inbound Telesales	**15,555**	19,292	**52,863**	62,216
Total	**$ 371,124**	$ 351,265	**$ 1,045,685**	$ 1,014,235
Product Mix				
Notebooks and PDAs	**$ 71,958**	$ 75,894	**$ 196,423**	$ 212,044
Desktop/Servers	**51,730**	48,858	**151,407**	141,351
Storage Devices	**32,119**	27,635	**89,719**	80,848
Software	**44,875**	41,958	**125,686**	122,683
Net/Com Products	**29,023**	25,703	**81,724**	73,661
Printers and Printer Supplies	**40,033**	37,065	**112,147**	113,688
Video, Imaging, and Sound	**43,753**	41,407	**124,483**	122,668
Memory and System Enhancements	**18,152**	19,068	**53,379**	53,528
Accessories/Other	**39,481**	33,677	**110,717**	93,764
Total	**$ 371,124**	$ 351,265	**$ 1,045,685**	$ 1,014,235

Substantially all of our net sales for the nine months ended September 30, 2005 and 2004 were made to customers located in the United States. Shipments to customers located in foreign countries aggregated less than 1% in each of those respective periods. All of our assets at September 30, 2005 and December 31, 2004 were located in the United States. Our primary target customers are small- to medium-sized businesses comprised of 20 to 500 employees, federal, state, and local governmental agencies, educational institutions, and medium-to-large corporate accounts. Except for the federal government, no single customer accounted for more than 2% of total net sales in the three and nine months ended September 30, 2005 and 2004. Net sales to the federal government accounted for $22,520, or 6.1% of total net sales for the three months ended September 30, 2005, and $18,230, or 5.2% of total net sales for the three months ended September 30, 2004. Net sales to the federal government accounted for $48,082, or 4.6% of total net sales for the nine months ended September 30, 2005, and $43,698, or 4.3% of total net sales for the nine months ended September 30, 2004.

Note 5—Special Charges

In the three and nine months ended September 30, 2005, we recorded special charges of $853 related to management restructuring costs classified as workforce reductions. In the three months ended September 30, 2004, we recorded special charges of $1,500 related to the General Services Administration ("GSA") contract

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cancellation, $8 related to staff reductions, and $292 primarily related to our review of certain calendar year 2000 and 2003 transactions. In the nine months ended September 30, 2004, we recorded special charges of $2,627 related to the GSA contract cancellation, $583 related to staff reductions, and $373 primarily related to our review of certain calendar year 2000 and 2003 transactions.

A rollforward of restructuring reserves for the nine months ended September 30, 2005 is shown below.

	Workforce Reductions	Litigation Matters	GSA Review	Other	Total
Balance December 31, 2004	$ 249	$ 200	$ 724	$ 15	$ 1,188
Charges	853	–	–	–	853
Cash payments	(235)	–	(724)	–	(959)
Adjustments	–	–	–	(15)	(15)
Liabilities at September 30, 2005	$ 867	$ 200	$ –	$ –	$ 1,067

Liabilities at September 30, 2005 and December 31, 2004 are included in accrued expenses and other liabilities on the balance sheet.

Note 6—Acquisition of MoreDirect, Inc.

On April 5, 2002, we completed the acquisition of MoreDirect, Inc. Our Annual Report on Form 10-K for the year ended December 31, 2004 details this transaction. Under the terms of the agreement, MoreDirect's shareholder continued to be eligible to earn additional consideration based upon MoreDirect achieving targeted levels of annual earnings before income taxes through December 31, 2004. For the years ended December 31, 2004, 2003, and 2002, we paid earn-out consideration owed to MoreDirect's shareholder of $6,921, $11,095, and $10,829, respectively. The payment for the year ended December 31, 2004, made in April 2005, was the final payment required under this agreement.

Note 7—Commitments and Contingencies

We are subject to various legal proceedings and claims which have arisen during the ordinary course of business. These claims included a patent infringement action filed in the U.S. District Court for the Southern District of Ohio (the "Ohio Action"). The Ohio Action was resolved and the case dismissed on October 31, 2005. In the opinion of management, the outcome of the Ohio Action did not, and the outcome of the other matters is not expected to have a material effect on our financial position, results of operations, and cash flows.

We are also subject to audit by various government agencies relating to sales under certain government contracts. As noted in our Annual Report on Form 10-K for the year ended December 31, 2004, the GSA, in the fourth quarter of 2003, canceled the contract that our subsidiary, GovConnection, Inc. ("GovConnection"), had with that agency. Although the GSA awarded GovConnection a new contract in August 2004, we have not received an audit report or received a claim from the GSA concerning amounts that might be owed pursuant to that agency's audit. We have reserved $1,050 which we believe is adequate to cover any claims as they relate to payment of fees required under the contract or any penalties assessed. We will continue to evaluate such reserves in light of additional information that comes to our attention.

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The matter has been referred to the Department of Justice for its review, and we are cooperating in that review. Such a referral exposes us to possible civil damages for non-compliance with the GSA contract. Such damages can be substantial. No reserves have been provided for such a claim because of the preliminary nature of this matter. We will continue to evaluate our reserves—as they relate both to the GSA audit and the Department of Justice investigation—in light of additional information that comes to our attention. The ultimate outcome of these matters cannot be determined. Future events may result in conclusions that could have a material impact, either positively or negatively, on our results of operations or financial condition. We have no indication of intentional wrongdoing by GovConnection regarding the GSA contract. In order to assist in this evaluation, we engaged outside counsel and an independent consulting firm to review our systems, policies, and procedures relative to its federal, state, and local government contracts. That review has been substantially completed.

We have established accruals for certain state tax contingencies when, despite our belief that our tax return positions are fully supported, we believe that certain positions are probable of being successfully challenged. These accruals relate primarily to various state tax jurisdictional issues concerning the nature and extent of our operations and activities in those states. The tax contingency accruals are adjusted in light of changing facts and circumstances. Net decreases in these accruals were $108 and $99 for the three and nine months ended September 30, 2005, respectively. Total tax contingency reserves were $1,098 at September 30, 2005.

Note 8—Bank Borrowing and Trade Credit Arrangements

On June 29, 2005, we secured a new $50,000 credit facility collateralized by substantially all of our business assets. This facility also gives us the option of increasing the borrowing amount by an additional $20,000 at substantially the same terms. Amounts outstanding under this facility bear interest at the prime rate (6.75% at September 30, 2005). The credit facility includes various customary financial and operating covenants, including minimum net worth and maximum funded debt ratio requirements, and restrictions on the payment of dividends, and default acceleration provisions, none of which we believe significantly restricts our operations. The maximum allowable funded debt ratio under the agreement is 2.0 to 1.0; our actual funded debt ratio at September 30, 2005 was 0.1 to 1.0. Funded debt ratio is the ratio of average outstanding advances under the facility to EBITDA (Earnings Before Interest Expense, Taxes, Depreciation, and Amortization). Borrowing availability under the agreement was $42,434 at September 30, 2005.

Borrowings of $7,566 and $4,810 were outstanding under the respective credit facilities at September 30, 2005 and December 31, 2004. Our new credit facility matures on June 29, 2008, at which time amounts outstanding, if any, become due.

At September 30, 2005 and December 31, 2004, we had security agreements with two financial institutions to facilitate the purchase of inventory from various suppliers under certain terms and conditions. The agreements allow a collateralized position in inventory financed by the financial institutions up to an aggregated amount of $45,000. The cost of such financing under these agreements is borne by the suppliers by discounting their invoices to the financial institutions as an incentive for us to purchase their products. We do not pay any interest or discount fees on such inventory financing. At September 30, 2005 and December 31, 2004, accounts payable included $7,192 and $8,215, respectively, owed to these financial institutions.

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Note 9— Purchase of Certain Assets of Amherst Technologies, L.L.C.

On October 21, 2005, we completed the acquisition of certain assets of Amherst Technologies, L.L.C. and certain other parties (collectively, “Amherst”) from IBM Credit, LLC (“IBM”), pursuant to a Bill of Sale, entered into between IBM and us, for $7,751,000 in cash. Prior to this transaction, IBM was granted a security interest to the acquired assets by Amherst. The assets we acquired include customer relationships and related intangibles; intellectual property; and miscellaneous furniture, fixtures, and equipment. Most of the acquired assets will be combined with our MoreDirect, Inc. subsidiary to expand its reach into the medium-to-large corporate customer segment and enhance its sales efforts. The remaining assets will be combined with either our PC Connection Sales Corporation subsidiary, which sells to the small- and medium-sized business market, or our ServiceConnection, Inc. subsidiary, which offers value-added IT services and provides back-end services to our sales subsidiaries.

PC CONNECTION, INC. AND SUBSIDIARIES

PART I—FINANCIAL INFORMATION
Item 2—MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements based on management's current expectations, estimates, and projections about our 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," "may," "project," "will," "would," and "intend" and other similar expressions, constitute forward-looking statements. These forward-looking statements involve risks and uncertainties, and actual results may differ materially from those anticipated or expressed in such statements. Potential risks and uncertainties include, among others, those set forth under the caption "Factors That May Affect Future Results and Financial Condition" included within this section. Particular attention should be paid to the cautionary statements involving the industry's rapid technological change and exposure to inventory obsolescence, availability and allocations of goods, reliance on vendor support and relationships, competitive risks, pricing risks, and the overall level of economic activity, and the level of business investment in information technology products. Except as required by law, we undertake 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 we file from time to time with the Securities and Exchange Commission.

OVERVIEW

PC Connection, Inc. ("we," "us," or "our") is a national direct marketer of a wide range of information technology products and services—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 a growing range of repair, installation, and other services performed by third-party providers. We operate through three primary business segments: (1) consumers and small- to medium-sized businesses ("SMB") through our PC Connection Sales subsidiary, (2) federal, state, and local government and educational institutions ("Public Sector") through our GovConnection subsidiary, and (3) large corporate accounts ("Large Account") through our MoreDirect subsidiary.

We generate sales through (i) outbound telemarketing and field sales contacts by account managers focused on the business, education, and government markets, (ii) our Web sites, and (iii) inbound calls from customers responding to our catalogs and other advertising media.

Opportunities and Challenges

With our sales representing less than 1% of the overall approximately $200 billion United States Information Technology ("IT") market, we believe we have an excellent opportunity to grow and gain a larger share of this market. We anticipate that most of this additional market share will come from smaller value-added resellers who have the largest share of the current IT market. We expect our expanding service offerings to compete effectively with these historical service providers.

As noted in our Annual Report on Form 10-K for the year ended December 31, 2004, the General Services Administration ("GSA") canceled its contract with GovConnection in November 2003, following its review of that subsidiary's contract management system and procedures and the possibility of the sale of unqualified items and underpayment of required fees. Although we received a new GSA contract in August 2004, we saw a significant year-over-year decline in our federal government sales. Our federal government revenues may

continue to be negatively impacted as GovConnection seeks to regain sales under the new GSA contract. This matter is further discussed below in the section entitled "Factors That May Affect Future Results and Financial Condition."

The primary challenges we face in effectively managing our business are: (1) increasing our revenues while continuing to improve our gross profit margins in all three sales subsidiaries, (2) recruiting, retaining, and improving the productivity of our sales personnel, and (3) effectively managing and leveraging our selling, general, and administrative ("SG&A") expenses over a higher sales base. With only moderate growth projected in the overall IT industry, any significant sales growth for us must come through increased market share. Competition is expected to be even more intense in the future, which could put more pressure on margins.

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		Nine Months Ended	
September 30,	**2005**	**2004**	**2005**	**2004**
Net sales (in millions)	**$ 371.1**	$ 351.3	**$1,045.7**	$1,014.2
Net sales	**100.0%**	100.0%	**100.0%**	100.0%
Gross margin	**11.3**	11.2	**11.5**	10.8
Selling, general, and administrative expenses	**10.1**	9.3	**10.6**	9.4
Special charges	**0.2**	0.5	**0.1**	0.3
Income from operations	**1.0**	1.4	**0.8**	1.1

Our overall increase in net sales for the above-reported 2005 periods resulted from year-over-year sales growth achieved in all three business segments. Gross margin dollars increased for the quarter partly as a result of increased sales, as overall gross margin rate increased only modestly. SG&A rates increased for the third quarter as a result of higher net advertising expense (and lower levels of offsetable vendor reimbursements pursuant to EITF 02-16—see below), as well as our increased investments in sales systems and service business. For the nine months ended September 30, 2005, the year-over-year increases in our gross margin and SG&A expenses as a percentage of net sales are attributable largely to a reclassification of certain vendor consideration amounts. As noted in our Annual Report on Form 10-K for the year ended December 31, 2004, we revised our estimates in the third quarter of 2004 relating to vendor consideration as a result of Emerging Issues Task Force Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" ("EITF 02-16"). Most product manufacturers provide us with co-op advertising support in exchange for product coverage in our catalogs as well as other advertising promotions. This pronouncement requires that such consideration be recorded as a reduction of cost of sales unless the consideration represents reimbursement for costs incurred for a specific advertising program funded by an individual vendor. In the nine-month periods ended September 30, 2005 and 2004, we reclassified $10.5 million and $1.2 million, respectively, of additional advertising reimbursements in excess of advertising costs incurred from SG&A expenses to cost of sales and inventory. We reclassified $10.3 million and $0.8 million of these respective amounts to cost of sales, and the respective balances were deducted from inventory. Such excess advertising reimbursements had previously been recorded as offsets to SG&A expense.

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Net Sales Distribution

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

September 30,	Three Months Ended 2005	Three Months Ended 2004	Nine Months Ended 2005	Nine Months Ended 2004
Business Segment				
SMB	**55%**	56%	**58%**	59%
Public Sector	**23**	22	**19**	19
Large Account	**22**	22	**23**	22
Total	**100%**	100%	**100%**	100%
Sales Channel				
Outbound Telemarketing and Field Sales	**70%**	74%	**70%**	74
Internet Sales	**26**	21	**25**	20
Inbound Telesales	**4**	5	**5**	6
Total	**100%**	100%	**100%**	100%
Product Mix				
Notebooks and PDAs	**19%**	21%	**19%**	21%
Desktop/Servers	**14**	14	**14**	14
Storage Devices	**9**	8	**9**	8
Software	**12**	12	**12**	12
Net/Com Products	**8**	7	**8**	7
Printers and Printer Supplies	**11**	11	**11**	11
Videos, Imaging, and Sound	**12**	12	**12**	12
Memory and System Enhancements	**5**	5	**5**	6
Accessories/Other	**10**	10	**10**	9
Total	**100%**	100%	**100%**	100%

Cost of Sales and Certain Other Costs

Cost of sales includes the invoice cost of the product, packaging, inbound and outbound freight, and provisions for inventory obsolescence, adjusted for discounts, rebates, and other vendor consideration adjustments, including those pursuant to EITF 02-16. Direct operating expenses relating to our purchasing function and receiving, inspection, internal transfer, warehousing, packing and shipping, and other expenses of our distribution center are included in selling, general, and administrative expenses. Accordingly, our gross margins may not be comparable to those of other entities who include all of the costs related to their distribution network in cost of goods sold. Such costs as a percentage of net sales for the periods reported are as follows:

	Three Months Ended	Nine Months Ended
September 30, 2005	0.65%	0.64%
September 30, 2004	0.58	0.64

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Gross Profit Margins

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

September 30,	Three Months Ended 2005	Three Months Ended 2004	Nine Months Ended 2005	Nine Months Ended 2004
Segment				
SMB	**12.9%**	12.2%	**12.5%**	11.6%
Public Sector	**9.2**	9.8	**9.7**	9.3
Large Account	**9.8**	10.2	**10.3**	10.0
Total	**11.3%**	11.2%	**11.5%**	10.8%

Consolidated gross margin increased modestly year over year for the third quarter due to the gross margin gain realized in our SMB segment, as both the Public Sector and Large Account segments experienced year-over-year gross margin declines. We continue to focus on improving product margins by increasing add-on sales of accessories and other companion products to system sales and by increasing sales of third-party warranty, installation, and other services. Our increase in gross margin rate for the nine months ended September 30, 2005 was primarily the result of our revised estimates relating to EITF 02-16, as discussed previously. Specifically, on a segment basis for the nine months ended September 30, 2005, our revised estimates relating to EITF 02-16 resulted in year-over-year increases of 1.2% and 0.9%, respectively, in our SMB and Public Sector gross margin rates. Favorable changes in MoreDirect's customer mix led to a year-over-year increase in our Large Account segment's margin rate for the nine months ended September 30, 2005.

Operating Expenses

The following table breaks out our more significant operating expenses for the periods indicated (in millions of dollars):

September 30,	Three Months Ended 2005	Three Months Ended 2004	Nine Months Ended 2005	Nine Months Ended 2004
Personnel costs	**$ 24.9**	$ 23.2	**$ 73.2**	$ 69.3
Advertising, net	**2.8**	—	**8.0**	(2.8)
Facilities operations	**2.2**	2.3	**6.4**	7.1
Credit card fees	**2.0**	1.8	**5.7**	5.4
Depreciation and amortization	**1.8**	1.8	**5.3**	5.3
Bad debts	**0.7**	0.8	**1.9**	1.9
Other, net	**3.1**	2.9	**9.8**	8.7
Total	**$ 37.5**	$ 32.8	**$ 110.3**	$ 94.9
Percentage of net sales	**10.1%**	9.3%	**10.6%**	9.4%

Personnel costs continue to represent the majority of our operating expenses, with sales personnel representing the largest portion of these costs. Our other operating costs, except for credit card fees and bad debts, tend to be relatively fixed over changing sales levels. Total operating expenses increased for the three and nine months ended September 30, 2005 partly as a result of investments in our sales systems and our service-related business; these included additional personnel and a new advertising brand campaign for our recently formed ServiceConnection, Inc. subsidiary.

For the nine months ended September 30, 2005 and 2004, we recorded gross advertising expense of $17.1 million and $15.6 million, respectively, and received total vendor consideration of $21.1 million and $21.3 million, respectively. We reclassified $12.1 million and $2.9 million of the respective vendor consideration to

cost of sales and inventory. As discussed earlier, we revised our estimates used to determine excess vendor advertising in 2004, and accordingly, $10.5 million and $1.2 million of the respective reclassifications for the nine months ended September 30, 2005 and 2004 relate to this revision in our estimates, which accounts for the majority of our year-over-year increase in net advertising expense. Net advertising expense increased also as a result of higher Internet advertising costs and larger catalog circulation in the nine months ended September 30, 2005.

Although the level of vendor co-op advertising support available to us from certain manufacturers has declined from previous years, and may decline further in the future, the overall level of co-op advertising support has remained consistent with our levels of spending for catalog and other advertising programs. We believe that the overall levels of co-op advertising support available over the next twelve months will be consistent with our planned advertising programs.

Year-Over-Year Comparisons

Three Months Ended September 30, 2005 Compared to Three Months Ended September 30, 2004

Changes in net sales and gross profit by business segment are shown in the following table (dollars in millions):

	Three Months Ended September 30,				
	2005		2004		
	Amount	% of Net Sales	Amount	% of Net Sales	% Change
Net Sales:					
SMB	**$203.5**	**54.8%**	$195.9	55.8%	3.9%
Public Sector	**87.2**	**23.5**	77.9	22.2	11.9
Large Account	**80.4**	**21.7**	77.5	22.0	3.7
Total	**$371.1**	**100.0%**	$351.3	100.0%	5.6%
Gross Profit:					
SMB	**$ 26.2**	**12.9%**	$ 23.9	12.2%	9.6%
Public Sector	**8.0**	**9.2**	7.6	9.8	5.3
Large Account	**7.9**	**9.8**	7.9	10.2	—
Total	**$ 42.1**	**11.3%**	$ 39.4	11.2%	6.9%

Net sales for the third quarter of 2005 increased compared to the third quarter of 2004 in all three of our segments, as explained by the following:

- Net sales for our SMB segment increased due to an increase in sales representatives and a 26.2% increase in this segment's Internet sales. We attribute our higher level of Internet sales to increased Internet advertising and enhancements to our Internet site, as well as a shift by our consumer customers to the Internet channel from our inbound telesales channel. Sales representatives for our SMB segment totaled 410 at September 30, 2005, an increase from 384 at September 30, 2004. Sales productivity decreased modestly year over year due to having a larger percentage of new hires in 2005.
- Net sales for our Public Sector segment increased due to a 23.5% increase in sales to the federal government and an 8.5% increase in sales to state and local government units and educational organizations. Our increased federal revenues were partly due to the addition of new vendors to our current GSA contract, which was awarded in August 2004 and therefore only in effect for the latter half of the prior year quarter. Our sales to educational customers increased year over year due to customer acquisitions and stronger back-to-school sales. Sales representatives for our Public Sector segment totaled 105 at September 30, 2005, an increase from 104 at September 30, 2004.

- Net sales for our Large Account segment increased for the seventh consecutive quarter year over year. Average annualized sales productivity increased 11.2% compared to the prior year quarter as its sales representatives increased revenues from existing customers as well as acquired new accounts in the large corporate market. Sales representatives for our Large Account segment totaled 70 at September 30, 2005, down from 73 at September 30, 2004.

Gross profit for the third quarter of 2005 increased compared to the third quarter of 2004 in both dollars and as a percentage of sales, on a consolidated basis, as explained by the following:

- Gross profit for our SMB segment increased year over year in both dollars and as a percentage of net sales. These increases were primarily the result of a larger percentage of vendor consideration being recorded as a reduction to cost of sales in 2005 as discussed earlier. However, increased competitive pressures and higher freight costs negatively impacted gross profit.
- Gross profit for our Public Sector segment increased year over year in dollars but decreased as a percentage of net sales. The dollar increase was largely the result of increased vendor consideration associated with higher sales levels. Gross margin rates declined due to competitive pressures experienced in that segment's state and local government and education markets.
- Gross profit for our Large Account segment was unchanged year over year but decreased as a percentage of sales. Increased business with certain high-volume low-margin customers, as well as decreased supplier reimbursements, led to its margin decline.

Selling, general, and administrative expenses increased in the third quarter of 2005 and also increased as a percentage of sales as compared to the third quarter of 2004. As noted earlier, these increases were due to higher net advertising expense and increased investments in our sales systems and services business.

We have concentrated our efforts on managing our overall operating costs. Personnel costs generally account for over two-thirds of our SG&A expenses, as shown earlier in the table of SG&A expenses. While we plan to continue our focus on controlling discretionary expenditures, we expect that SG&A expense may vary depending on changes in sales volume, as well as the levels of continued investments in key growth initiatives such as hiring more experienced outbound sales account managers, improving marketing programs, implementing improvements in our information systems, and developing more responsive and productive systems for our sales organization.

SG&A expenses attributable to our operating segments are summarized below (dollars in millions):

	Three Months Ended September 30,				
	2005		2004		
	Amount	% of Net Sales	Amount	% of Net Sales	% Change
SMB	**$ 24.3**	**11.9%**	$ 20.1	10.2%	20.9%
Public Sector	**9.3**	**10.7**	8.7	11.1	6.9
Large Account	**3.9**	**4.9**	4.0	5.2	(2.5)
Total	**$ 37.5**	**10.1%**	$ 32.8	9.3%	14.3%

- SG&A expenses for our SMB segment increased for the third quarter of 2005 compared to the third quarter of 2004 as result of higher net advertising expense, as well as our investments in our service business and in making our sales support systems more responsive and flexible. Net advertising expense increased due to higher Internet advertising costs and as a result of our reporting a smaller percentage of our 2005 vendor funding as a reduction of SG&A expense. In accordance with EITF 02-16, vendor consideration which cannot be identified to a specific program funded by an individual vendor is recorded as a reduction of cost of sales, and not as a reduction of SG&A expense. In 2005, a greater

share of our supplier reimbursements was recorded as a reduction of cost of sales when compared to the third quarter a year ago due to the nature of the funding, which reduced the amount of specific identifiable costs which could be offset.

- SG&A expenses for our Public Sector segment increased modestly in the third quarter of 2005 and were lower as a percentage of net sales compared to the third quarter of 2004. Similar to the SMB segment, SG&A expense increased due to investments in our service business and in making our sales support systems more responsive and flexible.
- SG&A expenses for our Large Account segment were largely unchanged in the third quarter of 2005 in dollars and as a percentage of net sales. SG&A expenses for our Large Account segment represent the lowest of our three segments as a percentage of net sales, reflecting the nature and efficiency of this segment's variable cost field sales and drop-shipping operating model.

We recorded special charges of $0.9 million related to management restructuring costs, classified as workforce reductions in the three months ended September 30, 2005. A roll forward of special charges for the period presented is shown in the table below (in thousands). There were no changes in estimates for these special charges in any of the periods presented.

	Workforce Reductions	Litigation Matters	Total
Balance June 30, 2005	$ 109	$ 200	$ 309
Charges	853	—	853
Cash payments	(95)	—	(95)
Liabilities at September 30, 2005	$ 867	$ 200	$1,067

In the three months ended September 30, 2004, we recorded special charges of $1.5 million related to the 2003 GSA contract cancellation and $0.3 million related to a review of certain calendar year 2000 and 2003 transactions.

Income from operations decreased by $1.1 million to $3.7 million for the third quarter of 2005 from $4.8 million for the third quarter of 2004. Income from operations as a percentage of net sales decreased to 1.0% for the third quarter of 2005 from 1.4% for the third quarter of 2004. This decrease was attributable to the changes in net sales, gross margin, and SG&A expenses as discussed above.

Interest expense decreased due to lower average borrowings outstanding in the third quarter of 2005 as compared to the third quarter of 2004.

Our effective tax rate was 43.9% for the third quarter of 2005 and 38.0% for the third quarter of 2004. The increase was due primarily to state tax loss carryforwards in certain jurisdictions not recognizable as offsets to state tax charges in other jurisdictions.

Net income decreased by $0.9 million to $1.9 million for the third quarter of 2005 from $2.8 million for the third quarter of 2004, principally as a result of the decrease in income from operations.

Nine Months Ended September 30, 2005 Compared to Nine Months Ended September 30, 2004

Changes in net sales and gross profit by business segment are shown in the following table (dollars in millions):

	Nine Months Ended September 30,				
	2005		2004		
	Amount	% of Net Sales	Amount	% of Net Sales	% Change
Net Sales:					
SMB	**$ 611.1**	**58.4%**	$ 597.4	58.9%	2.3%
Public Sector	**199.4**	**19.1**	195.0	19.2	2.3
Large Account	**235.2**	**22.5**	221.8	21.9	6.0
Total	**$1,045.7**	**100.0%**	$1,014.2	100.0%	3.1%
Gross Profit:					
SMB	**$ 76.4**	**12.5%**	$ 69.3	11.6%	10.2%
Public Sector	**19.3**	**9.7**	18.1	9.3	6.6
Large Account	**24.1**	**10.2**	22.1	10.0	9.0
Total	**$ 119.8**	**11.5%**	$ 109.5	10.8%	9.4%

Net sales for the nine months ended September 30, 2005 increased compared to the nine months ended September 30, 2004 due to increases in all three segments, as explained by the following:

- Net sales for our SMB segment increased due to an increase in sales representatives and the implementation of customer acquisition initiatives, including free shipping for Internet orders above specified order amounts and increased Internet advertising. Sales representatives for our SMB segment totaled 410 at September 30, 2005, an increase from 384 at September 30, 2004.
- Net sales for our Public Sector segment increased due to a 10.0% year-over-year increase in our federal government revenues, as our sales to state and local government units and educational organizations were level year over year. During the nine months ended September 30, 2005, we added several new vendors to our GSA contract, which was awarded mid-way through the third quarter of 2004 and therefore not in effect for most of the prior year period. Sales representatives for our Public Sector segment totaled 105 at September 30, 2005, an increase from 104 at September 30, 2004.
- Net sales for our Large Account segment improved as a result of increased sales volumes to existing customers and new account acquisitions, offsetting a decrease in the number of sales representatives. Sales representatives for this segment totaled 70 at September 30, 2005, down from 73 at September 30, 2004.

Gross profit for the nine months ended September 30, 2005 increased in both dollars and gross margin rates in all three sales subsidiaries compared to the nine months ended September 30, 2004, as explained by the following:

- Gross profit for our SMB segment increased primarily due to a refinement of estimates pursuant to EITF 02-16 used to reclassify excess vendor consideration from SG&A to cost of goods sold. As discussed earlier, we reclassified an additional $7.6 million of vendor consideration to cost of goods sold in the nine-month period ended September 30, 2005 as compared to the nine months ended September 30, 2004. This represents a 1.2% improvement in this segment’s gross margin. Gross margins were negatively impacted by increased shipping costs and tighter competitive pricing pressures, which offset the increased vendor consideration.
- Gross profit for our Public Sector segment increased in both dollars and as a percentage of sales due primarily to the EITF 02-16 reclassification of $1.8 million of vendor consideration from SG&A to cost of goods sold. This reclassification accounted for the dollar increase and resulted in a 0.9%

improvement in this segment's gross margin rate. We have implemented margin improvements, which have partially offset this segment's increasingly competitive pricing pressures. These margin improvement initiatives include increasing add-on sales of accessories and other companion products to our system sales, as well as increasing service revenues.

- Gross profit for our Large Account segment increased due to corresponding increases in both sales and gross margin rates. The addition of higher margin business, as well as increased supplier reimbursements, contributed to its margin improvement.

Selling, general, and administrative expenses increased for the nine months ended September 30, 2005 and also increased as a percentage of sales as compared to the nine months ended September 30, 2004. As noted earlier, the dollar increase was partly related to the EITF 02-16 reclassification of an additional $9.2 million from SG&A to cost of sales and inventory in our SMB and Public Sector segments.

SG&A expenses attributable to our operating segments are summarized below (dollars in millions):

	Nine Months Ended September 30,				
	2005		2004		
	Amount	% of Net Sales	Amount	% of Net Sales	% Change
SMB	**$ 72.2**	**11.8%**	$ 59.5	10.0%	21.3%
Public Sector	**26.3**	**13.2**	23.9	12.3	10.0
Large Account	**11.8**	**5.0**	11.5	5.2	2.6
Total	**$110.3**	**10.6%**	$ 94.9	9.4%	16.2%

- SG&A expenses for our SMB segment increased primarily due to an increase in net advertising expense. Net advertising expense increased as a result of the previously discussed vendor consideration reclassification as well as increased Internet advertising costs and higher catalog circulation. Our investments in making our sales support systems more responsive and flexible also contributed to this segment's SG&A expenses.
- SG&A expenses for our Public Sector segment increased in the nine months ended September 30, 2005, and were higher as a percentage of net sales compared to the nine months ended September 30, 2004. This segment's SG&A expenses as a percentage of net sales have been higher the last year as we took steps to retain our experienced federal sales personnel in anticipation of our new GSA contract, which was awarded in August 2004. Our investments in making our sales support systems more responsive and flexible also contributed to this segment's SG&A expenses.
- SG&A expenses for our Large Account segment increased in the nine months ended September 30, 2005 in dollars but decreased as a percentage of net sales compared to the nine months ended September 30, 2004. SG&A expenses for this segment represent the lowest of the three segments as a percentage of net sales, reflecting the nature and efficiency of this segment's variable cost field sales and drop-shipping operating model.

We recorded special charges of $0.9 million related to management restructuring costs, classified as workforce reductions in the nine months ended September 30, 2005. A roll forward of special charges for the period presented is shown below.

	Workforce Reductions	Litigation Matters	GSA Review	Other	Total
Balance December 31, 2004	$ 249	$ 200	$ 724	$ 15	$1,188
Charges	853	—	—	—	853
Cash payments	(235)	—	(724)	—	(959)
Adjustments	—	—	—	(15)	(15)
Liabilities at September 30, 2005	$ 867	$ 200	$ —	$—	$1,067

In the nine months ended September 30, 2004, we recorded special charges of $2.6 million related to the 2003 GSA contract cancellation, $0.6 million related to staff reductions, and $0.4 million related to our review of certain calendar year 2000 and 2003 transactions.

Income from operations decreased by $2.4 million to $8.6 million for the nine months ended September 30, 2005 from $11.0 million for the nine months ended September 30, 2004. Income from operations as a percentage of net sales decreased to 0.8% for the nine months ended September 30, 2005 from 1.1% for the nine months ended September 30, 2004. This decrease was attributable to the changes in gross margin and SG&A expenses as discussed above.

Interest expense decreased due to lower average borrowings outstanding in the nine months ended September 30, 2005 as compared to the nine months ended September 30, 2004.

Our effective tax rate was 43.2% for the nine months ended September 30, 2005 and 38.0% for the nine months ended September 30, 2004. The increase was due primarily to state tax loss carryforwards in certain jurisdictions not recognizable as offsets to state tax charges in other jurisdictions.

Net income decreased by $1.8 million to $4.4 million for the nine months ended September 30, 2005 from $6.2 million for the nine months ended September 30, 2004, principally as a result of the decrease in income from operations.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity have historically been internally generated funds from operations and borrowings under our bank line of credit. We have used those funds to meet our capital requirements, which consist primarily of operational needs, capital expenditures for computer equipment and software used in our business, and during the last three years, earn-out payments required under our 2002 agreement with MoreDirect.

We believe that funds generated from operations, together with available credit under our bank line of credit, will be sufficient to finance our working capital, capital expenditure, and other requirements at least for the next twelve months. As stated in Note 9 to our condensed financial statements, in October 2005 we paid $7.8 million for the purchase of certain assets of Amherst Technologies, L.L.C. We expect our capital needs for the next twelve months to consist primarily of capital expenditures of approximately $9.0 million and payments on capital and operating lease obligations of approximately $4.0 million. We expect to meet our cash requirements for the next twelve months through a combination of cash on hand, cash generated from operations, and, if necessary, additional borrowings on our bank line of credit.

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 at this time we do not anticipate needing any additional sources of financing to fund our operations, if demand for information technology products declines, our cash flows from operations may be substantially affected. See also related risks listed below under “Factors That May Affect Future Results and Financial Condition.”

Summary Sources and Uses of Cash

The following table summarizes our sources and uses of cash over the periods indicated (in millions):

	Nine Months Ended	
September 30,	**2005**	**2004**
Net cash provided by operating activities	**$ 10.6**	$ 18.5
Net cash used for investing activities	**(12.0)**	(8.5)
Net cash provided by (used for) financing activities	**2.7**	(5.6)
Increase in cash and cash equivalents	**$ 1.3**	$ 4.4

Cash provided by operations in the nine months ended September 30, 2005 decreased primarily due to an increase in receivables, partially offset by an increase in payables and a decrease in inventory from December 31, 2004 levels. Recent supply chain initiatives contributed substantially to the reduced inventory levels. Receivables increased due to higher sales as well as an increase in our overall Days Sales Outstanding (DSO) for the nine months ended September 30, 2005. DSO's increased to 46 days at September 30, 2005, from 41 days at September 30, 2004, and from 41 days at June 30, 2005, as a result of a higher concentration of sales in the last half of the 2005 third quarter.

At September 30, 2005, we had $96.2 million in outstanding accounts payable. Such accounts are generally paid within 30 days of incurrence and will be financed by cash flows from operations or short-term borrowings under the line of credit. This amount included $7.2 million payable to two financial institutions under security agreements to facilitate the purchase of inventory. We believe we will be able to meet our obligations under our accounts payable with cash flows from operations and our existing line of credit.

Cash used for investing activities include our capital expenditures in periods presented, primarily for computer equipment and capitalization of internally-developed software. Additionally, according to the terms of our 2002 agreement with MoreDirect, we used cash to fund earn-out payments due to the former shareholder of MoreDirect. We paid $6.9 million and $11.1 million in earn-out consideration in the nine months ending September 30, 2005 and 2004, respectively. The payment made in the nine months ended September 30, 2005 was the final payment required under the agreement.

Cash used for financing activities related to an increase of $2.8 million and a decrease of $5.6 million in our net borrowings under our bank line of credit in the nine months ended September 30, 2005 and 2004, respectively.

Debt Instruments, Contractual Agreements, and Related Covenants

Below is a summary of certain provisions of our credit facilities and other contractual obligations. It is qualified in its entirety by the terms of the actual agreements, which are on file with the Securities and Exchange Commission. For more information about the restrictive covenants in our debt instruments and inventory financing agreements, see "Factors Affecting Sources of Liquidity." For more information about our obligations, commitments, and contingencies, see our consolidated financial statements and the accompanying notes included in this quarterly report.

Bank Line of Credit. We recently secured an increased bank line of credit which provides us with a borrowing capacity of up to $50 million, based on sufficient levels of trade receivables to meet borrowing base requirements, and depending on meeting minimum EBITDA (earnings before interest, taxes, depreciation, and amortization) and equity requirements, described below under "Factors Affecting Sources of Liquidity." This facility includes an option to increase our borrowings by an additional $20 million at substantially the same terms. Amounts outstanding under this facility bear interest at the prime rate (6.75% at September 30, 2005). Borrowings of $7.6 million were outstanding under this credit facility at September 30, 2005. Substantially all of our assets are collateralized as security for this facility, and all of our subsidiaries are guarantors under the line of credit. Borrowing availability under the line was $42.4 million at September 30, 2005. The credit facility matures on June 29, 2008, at which time amounts outstanding, if any, become due.

This facility operates under an automatic cash management program whereby disbursements in excess of available cash are added as borrowings at the time disbursement checks clear the bank, and available cash receipts are first applied against any outstanding borrowings and then invested in short-term qualified cash investments. Accordingly, borrowings under the line are classified as current.

Inventory Trade Credit Arrangements. We have security agreements with two financial institutions to facilitate the purchase of inventory from various suppliers under certain terms and conditions. These agreements

allow a collateralized first position in certain branded products inventory financed by these financial institutions. Although the agreements provide for financing up to an aggregate of $45 million, any outstanding financing must be fully secured by available inventory. We do not pay any interest or discount fees on such inventory financing; such costs are borne by the suppliers as an incentive for us to purchase their products.

Liquidity Table for Contractual Obligations. The following table sets forth information with respect to our long-term obligations payable in cash as of September 30, 2005 (in thousands):

	Payments Due by Period				
	Total	Less Than 1 Year	1–3 Years	3–5 Years	More Than 5 Years
Contractual Obligations:					
Capital lease obligations(1)	$ 9,901	$ 1,467	$2,566	$2,260	$ 3,608
Operating lease obligations	5,156	2,238	2,216	702	—
Total	$15,057	$ 3,705	$4,782	$2,962	$ 3,608

(1) Including interest, excluding taxes, insurance, and common area maintenance charges.

Capital Leases. We have a fifteen-year lease for our corporate headquarters with an affiliated company related through common ownership. We also have a three-year lease for certain computer equipment with an unrelated party. These leases require us to make lease payments aggregating from $1.1 million to $1.5 million per year. In addition to the rent payable under the facility lease, we are required to pay real estate taxes, insurance, and common area maintenance charges.

Operating Leases. We also lease facilities from our principal stockholders and facilities and equipment from third parties under non-cancelable operating leases. See the above "Liquidity Table for Contractual Obligations" for lease commitments under these leases.

Earn-out Provisions of MoreDirect Agreement. We completed the acquisition of MoreDirect in April 2002. Under the terms of this agreement, we were required to make additional payments to the former shareholder of MoreDirect if certain earnings levels were achieved through December 31, 2004. Earn-out payments aggregating $6.9 million, $11.1 million, and $10.8 million were made in 2005, 2004, and 2003, based on MoreDirect's 2004, 2003, and 2002 earnings, respectively. We made the 2004 earn-out payment of $6.9 million, which represents the final payment required under the agreement, in April 2005.

We do not have any other 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 or 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 and profitable operations, timely collection of our customer receivables, and management of our inventory levels.

Bank Line of Credit. Our credit facility contains certain financial ratios and operational covenants and other restrictions (including restrictions on additional debt, guarantees, dividends and other distributions, investments, and liens) with which we and all of our subsidiaries must comply. Any failure to comply with these covenants would not only prevent us from borrowing additional funds under this line of credit, but would also constitute a default. This credit facility contains two financial tests:

- The funded debt ratio (defined as the average outstanding advances under the line for the quarter, divided by the consolidated EBITDA for the trailing four quarters) must not be more than 2.0 to 1.0. Our actual funded debt ratio at September 30, 2005 was 0.1 to 1.0.

- Minimum Consolidated Net Worth must be at least $150.0 million, plus 50% of consolidated net income for each quarter, beginning with the quarter ending March 31, 2006 (loss quarters not counted). Our actual consolidated stockholders' equity at September 30, 2005 was $171.2 million.

The borrowing base under this facility is set at 80% of qualified commercial receivables, plus 50% of qualified government receivables, less $5 million of the formula availability which must be held in reserves. As of September 30, 2005, $42.4 million of the facility was available for additional borrowings.

Inventory Trade Credit Agreements. These agreements contain similar financial ratios and operational covenants and restrictions as those contained in our bank line of credit described above. Such agreements also contain cross-default provisions whereby a default under the bank agreement would also constitute a default under these agreements. Financing under these agreements is limited to the purchase of specific branded products from authorized suppliers, and amounts outstanding must be fully collateralized by inventories of those products on hand.

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.

RECENTLY ISSUED FINANCIAL ACCOUNTING STANDARDS

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123(R), "Share-Based Payment" ("SFAS 123(R)"). This Statement is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and its related implementation guidance. SFAS 123(R) requires a company to measure the grant date fair value of equity awards given to employees in exchange for services and recognize that cost over the period that such services are performed. SFAS 123(R) is effective for the beginning of the first fiscal year after June 15, 2005 and will be effective for our interim quarter ending March 31, 2006. We are evaluating the two methods of adoption allowed by SFAS 123(R): the modified-prospective transition method and the modified-retrospective transition method. Adoption of SFAS 123(R) may materially increase stock compensation expense and decrease net income. In addition, SFAS 123(R) requires that the excess tax benefits related to stock compensation be reported as a cash inflow from financing activities rather than as a reduction of taxes paid in cash from operations.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections," ("SFAS 154") which is a replacement of APB Opinion No. 20, "Accounting Changes" and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS 154 changes the requirements for the accounting and reporting of accounting changes by requiring retrospective application to prior period financial statements unless impracticable. This statement is effective in fiscal years beginning after December 15, 2005. We do not expect the adoption of SFAS 154 to have a material impact on our financial statements.

INFLATION

We have historically offset any inflation in operating costs by a combination of increased productivity and price increases, where appropriate. We do not expect inflation to have a significant impact on our business in the future.

FACTORS THAT MAY AFFECT FUTURE RESULTS AND FINANCIAL CONDITIONS

Our future results and financial condition are dependent on our ability to continue to successfully market, sell, and distribute information technology products and services, including computers, hardware, and software. Inherent in this process are a number of factors that we must successfully manage in order to achieve a favorable financial condition and favorable operating results. Potential risks and uncertainties that could affect our future financial condition and operating results include, without limitation, the following factors:

We have experienced variability in sales, and there is no assurance that we will be able to maintain profitable operations.

Several factors have caused our sales and results of operations to fluctuate and we expect these fluctuations to continue on a quarterly basis. Causes of these fluctuations include:

- changes in the overall level of economic activity;
- the condition of the personal computer industry in general;
- changes in the level of business investment in information technology products;
- shifts in customer demand for hardware and software products;
- industry shipments of new products or upgrades;
- the timing of new merchandise and catalog offerings;
- fluctuations in response rates;
- fluctuations in postage, paper, shipping, and printing costs and in merchandise returns;
- adverse weather conditions that affect response, distribution, or shipping;
- shifts in the timing of holidays;
- changes in our product offerings;
- changes in consumer demand for information technology products; and
- changes in vendor distribution of products.

Our results also may vary based on our success of integrating acquisitions into our business, the impact of the costs of acquisitions and integration, and our ability to hire and retain sales representatives and other essential personnel. In addition, customer response rates for our catalogs and other marketing vehicles are subject to variations. The first and last quarters of the year generally have higher response rates while the two middle quarters typically have lower response rates.

We base our operating expenditures on sales forecasts. If our revenues do not meet anticipated levels in the future, we may not be able to reduce our staffing levels and operating expenses in a timely manner to avoid significant losses from operations.

Despite our August 2004 award of an authorization to sell to the federal government under a new General Services Administration schedule, our sales to that organization may not regain prior years' sales levels, which would negatively impact our business.

In November 2003, we were advised that the GSA canceled its contract with our subsidiary, GovConnection, following a review of its contract management system and procedures and the possibility of the sale of unqualified items or underpayment of required fees. The matter has been referred to the Department of Justice for review, and we are cooperating in that review. While we were awarded authorization in August 2004 to resume selling to the federal government under a new GSA schedule, we experienced significant declines in our 2004 and 2005 federal government sales from 2003 levels. Accordingly, our revenues may continue to be adversely impacted as we attempt to regain this business.

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

The market for personal computer products is characterized by rapid technological change and the frequent introduction of new products and product enhancements. Our success depends in large part on our ability to identify and market products that meet the needs of customers in that marketplace. In order to satisfy customer demand and to obtain favorable purchasing discounts, we have and may continue to carry increased inventory

levels of certain products. By so doing, we are subject to the increased risk of inventory obsolescence. Also, in order to implement our business strategy, we intend to continue, among other things, placing larger than typical inventory stocking orders and increasing our participation in first-to-market purchase opportunities. We may also participate in end-of-life-cycle purchase opportunities and market products on a private-label basis, which would increase the risk of inventory obsolescence. In addition, we sometimes acquire special purchase products without return privileges. There can be no assurance that we will be able to avoid losses related to obsolete inventory. In addition, manufacturers are limiting return rights and are taking steps to reduce their inventory exposure by supporting "build-to-order" programs authorizing distributors and resellers to assemble computer hardware under the manufacturers' brands. These trends reduce the costs to manufacturers and shift the burden of inventory risk to resellers like us, which could negatively impact our business.

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

We acquire products for resale both directly from manufacturers and indirectly through distributors and other sources. The five vendors supplying the greatest amount of goods to us constituted 69% and 62% of our total product purchases in the nine months ended September 30, 2005 and 2004, respectively. Among these five vendors, purchases from Ingram Micro, Inc. ("Ingram") represented 26% and 27% of our total product purchases in the nine months ended September 30, 2005 and 2004, respectively. Purchases from Tech Data Corporation ("Tech Data") comprised 26% and 13% of our total product purchases in the nine months ended September 30, 2005 and 2004, respectively. Purchases from Hewlett-Packard Company ("HP") represented 10% and 11% of our total product purchases in the three months ended September 30, 2005 and 2004, respectively. No other vendor supplied more than 10% of our total product purchases in the nine months ended September 30, 2005 and 2004, respectively. If we were unable to acquire products from Ingram, HP, or Tech Data, we could experience a short-term disruption in the availability of products, and such disruption could have a material adverse effect on our results of operations and cash flows.

Substantially all of our contracts and arrangements with our vendors that supply significant quantities of products are terminable by such vendors or us without notice or upon short notice. Most of our product vendors provide us with trade credit, of which the net amount outstanding at September 30, 2005 was $96.2 million. Termination, interruption, or contraction of relationships with our vendors, including a reduction in the level of trade credit provided to us, could have a material adverse effect on our financial position.

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

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

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

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

Many product suppliers provide us with co-op advertising support, and in exchange, we feature their products in our catalogs. This support significantly defrays our catalog production expense. In the past, we have experienced a decrease in the level of co-op advertising support available to us from certain manufacturers. The level of co-op advertising support we receive from some manufacturers may further decline in the future. Such a decline could decrease our gross margin and increase our SG&A expenses as a percentage of sales and have a material adverse effect on our cash flows.

We face many competitive risks.

The direct marketing industry and the computer products retail business, in particular, are highly competitive. We compete with consumer electronics and computer retail stores, including superstores. We also compete with other direct marketers of hardware and software and computer related products, including an increasing number of Internet retailers. Certain hardware and software vendors, such as HP, Lenovo, and Apple, who provide products to us, are also selling their products directly to end users through their own catalogs and over the Internet. We compete not only for customers, but also for co-op advertising support from personal computer product manufacturers. Some of our competitors have larger catalog circulations and customer bases and greater financial, marketing, and other resources than we do. In addition, some of our competitors offer a wider range of products and services than we do and may be able to respond more quickly to new or changing opportunities, technologies, and customer requirements. Many current and potential competitors also have greater name recognition, engage in more extensive promotional activities, and adopt pricing policies that are more aggressive than ours. We expect competition to increase as retailers and direct marketers who have not traditionally sold computers and related products enter the industry.

In addition, product resellers and direct marketers are combining operations or acquiring or merging with other resellers and direct marketers to increase efficiency. Moreover, current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to enhance their products and services. Accordingly, it is possible that new competitors or alliances among competitors may emerge and acquire significant market share.

We cannot assure you that we can continue to compete effectively against our current or future competitors. If we encounter new competition or fail to compete effectively against our competitors, our business may be harmed.

We face and will continue to face significant price competition.

Generally, pricing is very aggressive in the personal computer industry, and we expect pricing pressures to continue. An increase in price competition could result in a reduction of our profit margins. There can be no assurance that we will be able to offset the effects of price reductions with an increase in the number of customers, higher sales, cost reductions, or otherwise. Also, our sales of personal computer hardware products are generally producing lower profit margins than those associated with software products. Such pricing pressures could result in an erosion of our market share, reduced sales, and reduced operating margins, any of which could have a material adverse effect on our business.

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

The manner in which personal computers and related products are distributed and sold is changing, and new methods of distribution and sale, such as online shopping services, have emerged. Hardware and software manufacturers have sold, and may intensify their efforts to sell, their products directly to end users. From time to time, certain manufacturers have instituted programs for the direct sales of large order quantities of hardware and software to certain major corporate accounts. These types of programs may continue to be developed and used by various manufacturers. Some of our vendors, including Apple, HP, and Lenovo, currently sell some of their

products directly to end users and have stated their intentions to increase the level of such direct sales. In addition, manufacturers may attempt to increase the volume of software products distributed electronically to end users. An increase in the volume of products sold through or used by consumers of any of these competitive programs or distributed electronically to end users could have a material adverse effect on our results of operations.

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

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

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

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

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

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

Our success in growing our Internet business will depend in large part upon the development of an infrastructure for providing Internet access and services. If the number of Internet users or their use of Internet resources continues to grow rapidly, such growth may overwhelm the existing Internet infrastructure. Our ability to increase the speed with which we provide services to customers and to increase the scope of such services ultimately is limited by, and reliant upon, the speed and reliability of the networks operated by third parties, and these networks may not continue to be developed.

We depend heavily on third-party shippers to deliver our products to customers.

We ship approximately 50% of our products to customers by DHL Worldwide Express (“DHL”), with the remainder being shipped by United Parcel Service, Inc. and other overnight delivery and surface services. A strike or other interruption in service by these shippers could adversely affect our ability to market or deliver products to customers on a timely basis.

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

Shipping costs are a significant expense in the operation of our business. Increases in postal or shipping rates and paper costs could significantly impact the cost of producing and mailing our catalogs and shipping customer orders. Postage prices and shipping rates increase periodically, and we have no control over future

increases. We have a long-term contract with DHL whereby DHL ships products to our customers. We believe that we have negotiated favorable shipping rates with DHL. We generally invoice customers for shipping and handling charges. There can be no assurance that we will be able to pass on to our customers the full cost, including any future increases in the cost, of commercial delivery services such as DHL.

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

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

We mail catalogs and send electronic messages to names in our proprietary customer database and to potential customers whose names we obtain from rented or exchanged mailing lists. World-wide public concern regarding personal privacy has subjected the rental and use of customer mailing lists and other customer information to increased scrutiny. Any domestic or foreign legislation enacted limiting or prohibiting these practices could negatively affect our business.

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

We presently collect sales and use tax on sales of products to residents in many states. During the nine months ended September 30, 2005, we collected sales and use tax on approximately 20% of our net sales. Various states have sought to impose on direct marketers the burden of collecting state sales and use taxes on the sales of products shipped to their residents. In 1992, the United States Supreme Court affirmed its position that it is unconstitutional for a state to impose sales or use tax collection obligations on an out-of-state mail-order company whose only contacts with the state are limited to the distribution of catalogs and other advertising materials through the mail and the subsequent delivery of purchased goods by United States mail or by interstate common carrier. However, legislation that would expand the ability of states to impose sales and use tax collection obligations on direct marketers has been introduced in Congress on many occasions. Additionally, certain states have adopted rules that require companies and their affiliates to register in those states as a condition of doing business within those states. Moreover, due to our presence on various forms of electronic media and other operational factors, our contacts with many states may exceed the limited contacts involved in the Supreme Court case. We cannot predict the level of contacts that is sufficient to permit a state to impose on us a sales or use tax collection obligation. Two of our competitors have elected to collect sales and use taxes in all states. If the Supreme Court changes its position, or if legislation is passed to overturn the Supreme Court’s decision, or if a court were to determine that our contacts with a state exceed the constitutionality permitted contacts, the imposition of a sales or use tax collection obligation on us in states to which we ship products would result in additional administrative expenses to us, could result in tax liability for past sales as well as price increases to our customers, and could reduce demand for our product.

We are dependent on key personnel.

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

We are controlled by two principal stockholders.

Patricia Gallup and David Hall, our two principal stockholders, beneficially own or control, in the aggregate, approximately 68% of the outstanding shares of our common stock. Because of their beneficial stock ownership, these stockholders can continue to elect the members of the Board of Directors and decide all matters requiring stockholder approval at a meeting or by a written consent in lieu of a meeting. Similarly, such stockholders can control decisions to adopt, amend, or repeal our charter and our bylaws, or take other actions requiring the vote or consent of our stockholders and prevent a takeover of us by one or more third parties, or sell or otherwise transfer their stock to a third party, which could deprive our stockholders of a control premium that might otherwise be realized by them in connection with an acquisition of us. Such control may result in decisions that are not in the best interest of our public stockholders. In connection with our initial public offering, the principal stockholders placed substantially all shares of common stock beneficially owned by them into a voting trust, pursuant to which they are required to agree as to the manner of voting such shares in order for the shares to be voted. Such provisions could discourage bids for our common stock at a premium as well as have a negative impact on the market price of our common stock.

PC CONNECTION, INC. AND SUBSIDIARIES

PART I—FINANCIAL INFORMATION

Item 3—QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We invest cash balances in excess of operating requirements in short-term securities, generally with maturities of 90 days or less. In addition, our unsecured credit agreement provides for borrowings which bear interest at variable rates based on the prime rate. Borrowings of $7.6 million were outstanding pursuant to our credit agreement as of September 30, 2005. We believe that the effect, if any, of reasonably possible near-term changes in interest rates on our financial position, results of operations, and cash flows should not be material. Our credit agreement exposes earnings to changes in short-term interest rates since interest rates on the underlying obligations are variable. However, as noted above, no borrowings were outstanding on the credit agreement at September 30, 2005, and the average outstanding borrowings during the nine-month period ended September 30, 2005 were not material. A change in earnings resulting from a hypothetical 10% increase or decrease in interest rates is not material.

PC CONNECTION, INC. AND SUBSIDIARIES

PART I—FINANCIAL INFORMATION
Item 4—CONTROLS AND PROCEDURES

Our management, with the participation of our Chief Executive Officer and Interim Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2005. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) 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 a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives as described above. Based on the evaluation of our disclosure controls and procedures, our Chief Executive Officer and Interim 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.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended September 30, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1—Legal Proceedings

As noted in our 2004 Annual Report on Form 10-K, NCR Corporation had previously filed a complaint in the U.S. District Court for the Southern District of Ohio (the "Ohio Action"), alleging patent infringement against us. The Ohio Action was resolved and the case dismissed on October 31, 2005. In the opinion of management, the outcome of this matter did not have a material effect on our financial position, results of operations, and cash flows.

Item 2—Unregistered Sales of Equity Securities and Use of Proceeds

(e) The following table provides information about purchases by the Company during the quarter ended September 30, 2005 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (1)
07/01/05–07/31/05	—	—	—	$ 12,714,000
08/01/05–08/31/05	—	—	—	$ 12,714,000
09/01/05–09/30/05	—	—	—	$ 12,714,000
Total:	—	—	—	$ 12,714,000

(1) Our Board of Directors approved the repurchase by us of shares of our common stock having a value of up to $15.0 million in the aggregate pursuant to a repurchase program announced on March 28, 2001.

Item 5—Other Information

On July 30, 2004, our subsidiary, Merrimack Services Corporation entered into an amendment to its agreement with DHL Express, Inc., dated June 2, 2003. This amendment was effective July 30, 2004 and extended the term of the agreement until September 11, 2006.

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Item 6—Exhibits

Exhibit Number	Description
10.1*	Amendment to agreement with DHL Express, Inc., dated July 30, 2004.
15*	Letter on unaudited interim financial information.
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 Treasurer and Interim 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 Treasurer and Interim Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

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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

Date: November 14, 2005

By: /s/ PATRICIA GALLUP

Patricia Gallup
Chairman and Chief Executive Officer

Date: November 14, 2005

By: /s/ JACK FERGUSON

Jack Ferguson
Treasurer and Interim Chief Financial Officer

AMENDMENT NO. 1

MERRIMACK SERVICES CORPORATION d/b/a P C CONNECTION SERVICES, (hereinafter referred to as "SENDER") and DHL EXPRESS (USA), INC. (hereinafter referred to as "DHL") are parties to an agreement dated June 2, 2003, and amended by Amendment 1 dated July 30, 2004.

W I T N E S S E T H

Whereas, Sender and Carrier entered into a National Account Agreement (Agreement) dated June 2, 2003, wherein Carrier agreed to perform certain air express and freight forwarding services: and

Whereas, the parties now desire to make certain changes to said Agreement effective July 30, 2004.

Now therefore, for and in consideration of the mutual and dependent promises contained herein, the parties hereto agree as follows:

1. Effective July 30, 2004, Sender and Carrier agree to extend the Agreement without changes in the rates through September 11, 2006.
2. Change in Carrier name. The Agreement is hereby amended to reflect that DHL Express (USA), Inc. ("DHL") is the contracting corporate entity, and that all references to Airborne, Airborne Express, Inc. and/or DHL Worldwide Express, Inc., shall be replaced with DHL Express (USA), Inc. (hereinafter referred to as "DHL").
3. Sender and DHL agree that THE CONDITIONS OF CONTRACT, as stated in Article 9, of the Agreement is deleted in its entirety and amended as follows:

Article 9. Conditions of Contract

All shipments transported hereunder shall be subject to the conditions of this Agreement and either DHL's Terms and Conditions of Carriage (Exhibit B) or the Terms and Conditions of Service (Exhibit C) current at time of shipment, and as published on www.dhl-usa.com.

4. Sender and DHL agree that the notification requirements as stated in Article 19, NOTICES of the Agreement are amended as follows:

ARTICLE 19. NOTICES.

All notices required or permitted by this Agreement shall be in writing and either delivered personally, by express courier, or by certified mail. Notices shall be effective upon receipt, and shall be addressed as follows:

TO SENDER:

P C CONNECTION SERVICES
730 Milford Road,
Merrimack, NH 03054
Attention: Steve Baldridge

TO DHL:

DHL Express (USA), Inc.
8201 Peters Road
Suite 3000
Plantation FL, 33324
Attn: Customer Agreement Administration

With A Copy To:

DHL Express (USA), Inc.
1200 South Pine Island Rd.
Suite 600
Plantation FL, 33324
Attn: General Counsel

5. Sender and DHL agree that TERMINATION, as stated in Article 18, of the Agreement is deleted in its entirety and amended as follows:

ARTICLE 18. TERMINATION

SENDER or CARRIER may terminate this Agreement upon five (5) days written notice to the other party in the event of any material breach of any of the provisions of this Agreement, which remains uncured ten (10) days after written notice of breach. SENDER's sole remedy for breach of this Agreement is SENDER's right to terminate this Agreement pursuant to Article 18. CARRIER's sole remedy for material breach of this Agreement, except for non-payment for shipments actually made, is CARRIER's right to terminate this Agreement pursuant to Article 18. In the event of non-payment CARRIER shall have the right to terminate immediately.

6. Except as specifically amended by this amendment, all other terms and conditions of the Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, Sender and Carrier have executed this Agreement in duplicate. Each copy for all purposes to be deemed an original, as of the first date written below.

DHL Express (USA), Inc.

By: /s/ Mike Berger

Mike Berger
Title: Director, National Accounts
Date: July 30, 2004

P C Connection Services, Inc.

By: /s/ Stephen C. Baldridge

Stephen C. Baldridge
Title: Vice-President, Finance
Date: July 30, 2004

EXHIBITS

Special Services and Fees	Exhibit A
Terms and Conditions of Carriage (Air)	Exhibit B
Terms and Conditions of Service (Ground)	Exhibit C

Special Services and Fees

Fees and Charges apply as outlined in DHL Fees current at the time of shipment

DHL Fees - U.S. ALL PRODUCTS

Address Correction

In cases of incorrect or incomplete consignee address, DHL will research, redirect and deliver the shipment as soon as possible for an additional $10.00 per shipment.

Claims Research

A $10 fee will be assessed for each duplicate claims research request (up to a maximum of $250) if the final disposition of a previously researched claim shows the claim was paid and the reimbursement check was cashed or was previously denied.

COD Service

A service fee of 1.5% of COD amount (subject to a $7.50 minimum) will be applied for collecting and remitting COD funds to the sender.

Delivered Duty Paid Service

Delivered Duty Paid (DDP) service allows a shipper to send a WPX shipment and bill the duties and taxes to the shipper or Third Party. DDP service is available to most countries. DDP must be marked "Shipper" after the "Destination Duties/Taxes" box on the DHL air waybill (required). No prior arrangement or consignee account number is required.

Billing of destination duties and taxes to a third party in destination or a third country requires prior arrangement and a DHL payor account number. Contact your local representative for additional information.

To aid in the identification of DDP shipments, *the shipper may note Delivered Duty Paid in the "Description of Contents" and also on the Commercial Invoice*. A fee of $15.00 per shipment will apply.

Delivery Area Service

Shipments destined to certain zip codes outside DHL's direct domestic delivery area will be subject to an onforwarding fee of $1.75. To determine if this fee applies to your shipment, go to http://www.dhl-usa.com and enter your shipping information, including destination zip code, as a rate inquiry. The system will indicate to you if this fee is applicable.

DIM Weight Divisor

The following formulas apply to the shipping of low density, bulky air express packages:

	Domestic	International
English Measurement Pounds & Inches	L x W x H (inches) 194*	LxWxH (inches) 166*
Metric Measurement Kilos & Centimeters (In 1/2 KG increments)	L x W x H (cm) 7000*	L x W x H (cm) 6000*

* DHL reserves the right to modify these formulas. Not charged when DHL packaging is used without modification.

Document Preparation Service

DHL will prepare shipment forms and documents as follows:

Service	Fee
Banking Letter of Credit (compliance verification)	$35.00
Banking Letter of Credit (document completion)	$85.00
Banking Sight Drafts (Including messenger and Consular fees	$40.00
Carnet (ATA)	$65.00
Certificate of Origin (Completed for US-made goods only)	$10.00
Commercial Invoice (Pro Forma)	$20.00
Customs Registration (CF4455)	$25.00
Export Validation for DOS Shipment (All DOS shippers must be pre-approved)	$65.00
Legalization (consular invoice)	$60.00
Shipper's Export Declaration Electronic Filing	$10.00
Waybill Preparation (per waybill)	$10.00

Emergency Situations

DHL reserves the right to fix temporary surcharges to recover costs associated with emergency situations that could not be reasonably anticipated at the time of the preparation of this Agreement. Temporary emergency surcharges will be assessed on DHL's general customer base, listed separately and in addition to negotiated rates. Shipper will receive a fifteen (15) day written notice, via our web site, of any pending emergency situations requiring a temporary surcharge.

Exception Handling Fee

Shipments that require exceptional additional handling (due to their size, shape or packaging) will be assessed a fee of $5.00 per package. The fee applies to any package not fully encased in an outside shipping container, any package that is encased in a wood or metal container, cans or pails that are not fully encased in cardboard packaging, or other cases determined at DHL's discretion.

Excess Dimensions

A ground package with a primary length greater than 60 inches will be assessed a $5.00 fee. A ground package with a secondary length greater than 30 inches will be assessed a $5.00 fee.

Excess Limits

A package will not be accepted by DHL for shipments if it exceeds the maximum length of 108 inches, the maximum combined length plus girth of 165 inches or the maximum weight of 150 pounds. If such a package is accepted by DHL, a $50.00 fee will be assessed.

Fuel Surcharge

Air Express shipments are assessed a fuel surcharge which is indexed to the USGC jet fuel index. For details go to http://www.dhl-usa.com and see Indexed Fuel Surcharge.

HAZMAT Handling Charge

Under some circumstance DHL can carry acceptable quantities of hazardous material. Shipments containing hazardous materials will be assessed a service fee of $25. For details see Dangerous Goods.

Import Express Account Change

If a U.S. inbound collect shipment is sent to a U.S. payer and the payer's Import Express account number is not noted on the air waybill, a $20.00 fee will be assessed if the payer requests billing to their IMP account number.

Invalid Account Number

If the billing account number is omitted from the air waybill or an incorrect account number is provided, a fee of $10 will be assessed.

Iraq/Afghanistan Clearance

Iraq and Afghanistan shipments will incur a clearance fee of $15.00 plus 10% of the declared value.

Iraq/Afghanistan Security

Iraq and Afghanistan shipments will incur a security charge of 10% of the transportation charge.

Lab Pack Handling

When DHL's Lab Packs (for special bodily fluids packaging) are used for shipping, a fee of $.75 per package will be assessed.

Late Payment

A fee of 5% per month of the invoice amount (subject to a $5.00 minimum), will be assessed for any invoice not paid within 30 days of the invoice date.

Low Usage Fee

A fee of $50 will be assessed if the DHL Libra/EasyShip account ships less than 300 waybill or less than $5000 in net freight charges in one month. A fee of $75 will be assessed if the DHL Libra/EasyShip account ships less than 150 waybills or less than $2500 per month.

Multi-Piece Shipments

Rather than rating per package, which results in higher customer costs, DHL limits its multi-piece charge to a single additional $10.00 per waybill, for international air express shipments, regardless of the number of pieces on that waybill.

Neutral Delivery Service

In many cases international shippers will want to keep the declared value of their shipment confidential to the physical consignee of the shipment. DHL's Neutral Delivery Service (NDS) allows a shipper to send a dutiable WPX shipment directly to an international consignee while keeping the declared value confidential. The destination duties and taxes are billed to a Third Party/Importer of Record. All documents showing the declared value will go to the importer of record and not to the consignee.

The Importer of Record and the final consignee must reside in the same country and that country must be approved for Inbound Neutral Delivery Service. The recipient's copy of the air waybill, with no indication of the declared value is the only documentation on the shipment delivered to the final consignee. A fee is $15.00 per shipment will be assessed for Neutral Delivery Service. Contact your local representative to arrange.

On Demand Pickup Fee

The fee for courier pickup is $3.00 per waybill. The $3.00 fee will not apply if the package is dropped off at a DHL Express center or drop box location or if classified for the Weekly Service fee.

Oversize 1

A ground package weighing less than 30 pounds and measuring between 84 inches and 108 inches in combined length plus girth will be classified as an Oversize 1 package and charged at the customer's 30-pound transportation price.

Oversize 2

A ground package weighing less than 70 pounds and measuring greater than 108 inches, but less than or equal to 130 inches in combined length plus girth will be classified as an Oversize 2 package and charged at the customer's 70-pound transportation price.

Oversize 3

A ground package weighing less than 90 pounds and measuring greater than 130 inches but less than or equal to 165 inches in combined length plus girth will be classified as an Oversize 3 package and charged at the customers 90-pound transportation price.

Pickup and Return on Demand (PROD)

If the receiver requests DHL to contact the sender to arrange for the transport of a shipment, a service charge of $10 will be assessed in addition to all other transport charges and service fees, whether or not DHL receives the package(s). Not available for shipments originating from private residences. Valid DHL account required. No COD or HAZMAT.

Rebills

Customers may request reassignment of transportation charges to a different billing account number. When DHL is not at fault customer request, can be accommodated at the rate of $10.00 per waybill. The rebill fee will be included with the transportation charges on the invoice to the revised payer.

Remote Area Service

Any shipment destined to certain zip codes outside DHL's direct international delivery area will be subject to an onforwarding charge of $0.20 per lb., subject to a $20 minimum. Go to http://www.dhl-usa.com and using your destination zip code, generate a rate inquiry to determine if this fee is applicable to a specific shipment.

Residential Delivery

DHL will assess a fee of $1.75 for US delivery of shipments to residential locations, including businesses in homes.

Saturday Service

The fee for Saturday pickup or delivery is $15.00 per shipment in addition to normal transportation charges. Contact DHL customer service for more information. Not available for all levels of service. Call customer service at 1-800- CALL-DHL to inquire about service availability.

Shipment Value Protection (Air)

DHL will, upon the shipper's request (as indicated on the waybill), provide value protection coverage at a cost of $0.70 per $100 of coverage. For all values of $300 or less per shipment, a minimum charge of $2.50 will apply. Shipper requests for Shipment Value Protection over $50,000 per shipment must be pre-approved by DHL. DHL is pleased to consider these requests, but is under no obligation to approve them.

Shipment Value Protection (Ground)

DHL will, upon the shipper's request (as indicated on the waybill), provide value protection coverage at a cost of $0.70 per $100 of coverage. Shipper requests for Shipment Value Protection over $50,000 per shipment must be pre-approved by DHL. DHL is pleased to consider these requests, but is under no obligation to approve them.

Signature Service (Proof Of Delivery)

Delivery details are available at no charge through DHL's Global Track, via phone, DHL provided software, or EasyShip. Delivery details are also available by speaking directly with any of our customer service agents. If the shipper requires a physical copy of the actual signature, Signature Service may be requested on the waybill for an additional fee of $5.00 per shipment. (Not available for Web Ship.)

Signature Required Fee

An additional fee of $2.00 will be billed when the sender requests that a signature be obtained at the time of a residential delivery. (Physical copy not provided, see Signature Service).

Special Handling

Handling fees for customized services not otherwise defined may be agreed upon on a case-by-case basis with the local DHL service center.

Spill Fees

When spills of various material (HAZMAT or otherwise) occur or are discovered on any DHL property where cleaning is required, a fee will be charged. This charge applies to Ground and Air shipments and is applied at the rate of $20 for small spills and $200 for large spills.

Sunday, Holiday and After Hours Service

Sunday, Holiday and After Hours Service is available by prior arrangement and is subject to an additional charge. Not available for all levels of service. Call customer service at 1-800-CALL-DHL to inquire about service availability and rates.

Supplies Packaging

A fee of $1.00 will be assessed for DHL provided packaging for Ground services.

Thermo Express®

DHL's Thermo Express box allows for air express transit of goods requiring temperature control, both domestically and internationally, without the need for dry ice. Pre-paid fees vary from $25.00 to $85.00 per lot, depending on size and temperature requirement, and include the container, refrigerant, interior protective bag, special handling, and materials management.

Undeliverable or Refused Shipments

When a shipment is undeliverable or refused, DHL will advise the shipper and confirm disposition (redirect, return or abandon). When the shipment is returned or redirected, additional transportation charges will be applied. For international shipments that are returned or redirected to another country Import Express rates may apply if the IMP account number is provided at time of authorization. NOTE: Overseas destination duties and taxes will also apply regardless of whether goods are returned, redirected or abandoned.

US Import Service Fees*

The following charges are normally billed to the recipient or Importer of Record.

Broker Turnover	$50.00 per air waybill
Duty Advancement Fee	2% of value ($5.00 minimum)
Multi-line Item Entry	$3.00 per line over 5 lines
Single Informal Entry	$35.00 per entry
Single transaction Bond	$40.00 minimum
Storage Charge (up to 5 days no charge)	$25.00 per additional day

* Other charges may apply based on services provided

Weekly Service Fee

For customers requiring regular DHL service a weekly service fee of $7.00 will apply. These customers will not be subject to the On Demand Pickup fee.

10:30 am Service Guarantee

A fee of $3.00 will be assessed when there is a request for this service and delivery is completed prior to 10:30 am.

DHL's fee list is available at http://www.dhl-usa.com/dhlfees and may be updated or supplemented.

DHL fees are charged in addition to applicable transportation charges.

Other fees may apply for some accounts established prior to January 1, 2004.

Terms and Conditions of Carriage (Air)

DHL WORLDWIDE EXPRESS
TERMS AND CONDITIONS OF CARRIAGE
(“Terms and Conditions”)

IMPORTANT NOTICE

When ordering DHL’s services you, as “Shipper”, are agreeing, on your behalf and on behalf of anyone else with an interest in the Shipment, that the Terms and Conditions shall apply from the time that DHL accepts the Shipment unless otherwise agreed in writing by an authorized officer of DHL. Your statutory rights and entitlements under any defined service feature (for which additional payment has been made) are not affected.

“Shipment” means all documents or parcels that travel under one waybill and may be carried by any means DHL chooses, including air, road or any other carrier. A “waybill” shall include any label produced by DHL’s automated systems, air waybill, or consignment note and shall incorporate these Terms and Conditions. Every Shipment is transported on a limited liability basis as provided herein. If Shipper requires greater protection, then Shipment Value Protection may be arranged at an additional cost. (Please see below for further information). “DHL” means any member of the DHL Worldwide Express Network

1. Customs, Exports and Imports

DHL may perform any of the following activities on Shipper’s behalf in order to provide its services to Shipper: (1) complete any documents, amend product or service codes, and pay any duties or taxes required under applicable laws and regulations, (2) act as Shipper’s forwarding agent for customs and export control purposes and as Receiver solely for the purpose of designating a customs broker to perform customs clearance and entry and (3) redirect the Shipment to Receiver’s import broker or other address upon request by any person who DHL believes in its reasonable opinion to be authorized.

2. Unacceptable Shipments

Shipper agrees that its Shipment is acceptable for transportation and is deemed unacceptable if:

- It is classified as hazardous material, dangerous goods, prohibited or restricted articles by IATA (International Air Transport Association), ICAO (International Civil Aviation Organization), any applicable government department or other relevant organization;
- No customs declaration is made when required by applicable customs regulations; or
- DHL decides it cannot transport an item safely or legally (such items include but are not limited to: animals, bullion, currency, bearer form negotiable instruments, precious metals and stones, firearms, parts thereof and ammunition, human remains, pornography and illegal narcotics/drugs).

3. Deliveries & Undeliverables

Shipments cannot be delivered to PO boxes or postal codes. Shipments are delivered to the Receiver’s address given by Shipper (which in the case of mail services shall be deemed to be the first receiving postal service) but not necessarily to the named Receiver personally. Shipments to addresses with a central receiving area will be delivered to that area. If Receiver refuses delivery or to pay for delivery, or the Shipment is deemed to be unacceptable, or it has been undervalued for customs purposes, or Receiver cannot be reasonably identified or located, DHL shall use reasonable efforts to return the Shipment to Shipper at Shipper’s cost, failing which the Shipment may be released, disposed of or sold by DHL without incurring any liability whatsoever to Shipper or anyone else, with the proceeds applied against service charges and related administrative costs and the balance of the proceeds of a sale to be returned to Shipper.

4. Inspection

DHL has the right to open and inspect a Shipment without prior notice to Shipper.

5. Shipment Charges & Billing

DHL's Shipment charges are calculated according to the higher of actual or volumetric weight and any Shipment may be re-weighed and re-measured by DHL to confirm this calculation. Shipper shall pay or reimburse DHL for all Shipment charges, storage charges, duties and taxes owed for services provided by DHL or incurred by DHL on Shipper's or Receiver's or any third party's behalf and all claims, damages, fines and expenses incurred if the Shipment is deemed unacceptable for transport as described in Section 2.

6. DHL's Liability

DHL's liability is strictly limited to direct loss only and to the per kg. /lb. limits in this Section 6. If Shipper regards these limits as insufficient it must make a special declaration of value and request Shipment Value Protection as described in section 8 (Shipment Value Protection) or make its own insurance arrangements. All other types of loss or damage are excluded (including but not limited to lost profits, income, interest, future business), whether such loss or damage is special or indirect, and even if the risk of such loss or damage was brought to DHL's attention before or after acceptance of the Shipment since special risks can be insured by Shipper. If a Shipment combines carriage by air, road or other mode of transport, it shall be presumed that any loss or damage occurred during the air period of such carriage unless proven otherwise. DHL's liability in respect of any one Shipment transported, without prejudice to Sections 7-11, is limited to its actual cash value and shall not exceed the greater of;

> **$US 100; or**
>
> **For certain international Shipments in which the Warsaw Convention applies, approximately $US 20.00/kg. or $US 9.07/lb., depending on the applicable law; or**
>
> **$US 10.00/kg. or $US 4.54/lb. for Shipments transported by road (not applicable to the US).**

7. Claims

Claims are limited to one claim per Shipment, settlement of which will be full and final settlement for all loss or damage in connection therewith.

All claims for international shipments must be submitted in writing to DHL within thirty (30) days from the date that DHL accepted the Shipment, failing which DHL shall have no liability whatsoever. All claims for domestic U.S. shipments must be submitted in writing to DHL within ninety (90) days from the date that DHL accepted the Shipment, failing which DHL shall have no liability whatsoever

All of the original shipping cartons, packing and contents must be made available for DHL's inspection and retained until the claim is concluded.

DHL is not obligated to act on any claim until all transportation charges have been paid.

8. Shipment Value Protection

If the Shipment has an actual value greater than the liability limits listed in Section 6, DHL can arrange shipment value protection for Shipper covering the actual cash value in respect of loss of or physical damage to the Shipment provided Shipper completes the Declared Value for Carriage section on the front of the waybill or requests it via DHL's automated systems and pays the applicable premium. Shipment Value Protection does not cover indirect loss or damage, or loss or damage caused by delays. If Shipper does not declare a value for carriage and pay the appropriate charge, Shipper assumes all risks of loss or damage over the amount of DHL's liability as stated in Section 6.

9. Delayed Shipments

DHL will make every reasonable effort to deliver the Shipment according to DHL's regular delivery schedules, but these are **not guaranteed and do not form part of the contract.** DHL is not liable for any damages or loss caused by delays.

10. Circumstances Beyond DHL's Control

DHL is not liable for any loss or damage arising out of circumstances beyond DHL's control. These include but are not limited to: "Act of God" - e.g. earthquake, cyclone, storm, flood, fog; "Force Majeure" - e.g. war, plane crash or embargo; any defect or characteristic related to the nature of the Shipment, even if known to DHL; riot or civil commotion; any act or omission by a person not employed or contracted by DHL, e.g. Shipper, Receiver, third party, Customs or other government official; labor strike; and electrical or magnetic damage to, or erasure of, electronic or photographic images, data or recordings.

11. Warsaw Convention

If the Shipment is transported by air and involves an ultimate destination or stop in a country other than the country of departure, the Warsaw Convention, if applicable, governs and in most cases limits DHL's liability for loss or damage.

12. Shipper's Warranties and Indemnity

Shipper shall indemnify and hold DHL harmless for any loss or damage arising out of Shipper's failure to comply with any applicable laws or regulations and for Shipper's breach of the following warranties and representations:

- all information provided by Shipper or its representatives is complete and accurate;
- Shipper protected the Shipment against unauthorized interference during preparation, storage and transportation to DHL;
- the Shipment is properly marked and addressed and packed to ensure safe transportation with ordinary care in handling;
- all applicable Customs, import, export and other laws and regulations have been complied with; and
- the waybill has been signed by Shipper's authorized representative and the Terms and Conditions constitute binding and enforceable obligations of Shipper.

13. Routing

Shipper agrees to all routing and diversion, including the possibility that the Shipment may be carried via intermediate stopping places which DHL deems appropriate.

14. Governing Law

Any dispute arising under or in any way connected with these Terms and Conditions shall be subject to the non-exclusive jurisdiction of the courts of, and governed by the law of, the country of origin of the Shipment.

15. Severability

The invalidity or unenforceability of any provision shall not affect any other part of these Terms and Conditions.

Terms and Conditions of Service (Ground)

DHL WORLDWIDE EXPRESS
TERMS AND CONDITIONS OF SERVICE
("Terms and Conditions")

IMPORTANT NOTICE

When ordering DHL's services you, as "Shipper", are agreeing, on your behalf and on behalf of anyone else with an interest in the Shipment, that the Terms and Conditions shall apply from the time that DHL accepts the Shipment unless otherwise agreed in writing by an authorized officer of DHL.

"Shipment" means all documents or parcels that travel under one waybill and which may be carried by any means DHL chooses, including air, road or any other carrier. A "waybill" shall include any bill of lading, label produced by DHL's automated systems, air waybill, or consignment note and shall incorporate these Terms and Conditions. Every Shipment shall be transported on a limited liability basis as provided herein. If Shipper requires greater protection, then Shipment Value Protection may be arranged at an additional cost. (Please see below for further information). "DHL" means any member of the DHL Worldwide Express Network.

All Shipments are governed by DHL's Ground Tariff in effect as of the date of execution of this Ground Waybill, available at http://www.dhl-usa.com.

1. Unacceptable Shipments

Shipper warrants that its Shipment is acceptable for transportation and that it does not contain:

- any article classified as hazardous material, dangerous goods, prohibited or restricted by the DOT (Department of Transportation), TSA (Transportation Security Administration), IATA (International Air Transport Association), or any applicable government agency or other relevant organization;
- animals; articles of extraordinary value such as but not limited to bullion, currency, bearer form negotiable instruments, precious metals and stones; firearms, parts thereof and ammunition; human remains; pornography or illegal narcotics/drugs.
- DHL will not accept any Shipment that contains the articles listed above, or that contains any articles that DHL decides cannot be transported safely or legally, as stated in Unacceptable Items of DHL's Ground Tariff.

2. Deliveries and Undeliverables

Shipments cannot be delivered to PO boxes or postal codes. If Receiver refuses delivery or to pay for delivery, or the Shipment is deemed to be unacceptable, or Receiver cannot be reasonably identified or located, DHL shall use reasonable efforts to return the Shipment to Shipper at Shipper's cost, failing which the Shipment may be released, disposed of or sold by DHL without incurring any liability whatsoever to Shipper or anyone else, with the proceeds applied against freight charges, storage charges and related administrative costs incurred by DHL, and the balance of the proceeds of a sale to be returned to Shipper.

3. Inspection

DHL has the right to open and inspect a Shipment without prior notice to Shipper.

4. Shipment Charges & Billing

DHL's freight charges are calculated according to the higher of actual or volumetric weight and any Shipment may be re-weighed and re-measured by DHL to confirm this calculation. Shipper shall pay or reimburse DHL for all freight charges, storage charges, and taxes owed for services provided by DHL or incurred by DHL on Shipper's or Receiver's or any third party's behalf and all claims, damages, fines and expenses incurred if the Shipment is deemed unacceptable for transport as described in Section 1.

5. DHL's Liability

Unless Shipper requests and pays for Shipment Value Protection, and makes a special declaration of value as described in Section 7 at the time of shipment, DHL's liability for loss or damage to any Shipment or any portion thereof is limited to the lesser of (i) $100.00 or (ii) the actual cash value of the article(s) lost or damaged. In no event shall DHL be liable for special, incidental or consequential damages, such as but not limited to lost profits, income, interest or loss of future business, even if the risk of such damages was brought to DHL's attention before or after acceptance of the Shipment. Should any article of extraordinary value as defined in Section 1 be inadvertently accepted for shipment, DHL's liability for loss or damage thereto shall be limited to $100.00.

6. Claims

Claims are limited to one claim per Shipment, settlement of which will be full and final settlement for all loss or damage in connection therewith.

Claims must be submitted in writing to DHL within nine (9) months after the delivery of the Shipment, except that claims for failure to make delivery must be submitted in writing within nine (9) months after a reasonable time for delivery has elapsed. Written notice of concealed loss or damage must be given to DHL within fifteen (15) days after the delivery of the Shipment. Claims and notices shall be submitted to DHL at DHL Claims Department, 1144 West Washington Street, Tempe, Arizona 85281.

Suit for loss of or damage to a Shipment must be instituted against DHL no later than two (2) years and one (1) day from the date when DHL gives written denial of any part of the claim.

All of the original shipping cartons, packing and contents must be made available for DHL's inspection and retained until the claim is concluded.

DHL is not obligated to act on any claim until all transportation charges have been paid.

7. Shipment Value Protection

If the Shipment has an actual value greater than the liability limits listed in Section 5, DHL can arrange Shipment Value Protection for Shipper covering the actual cash value with respect to loss of or physical damage to the Shipment, subject to Section 9 herein, provided Shipper completes the Shipment Value Protection section on the front of the Ground Waybill or requests it via DHL's automated systems and pays the applicable excess value charge. Shipment Value Protection does not cover consequential damages or indirect loss or damage, or any loss or damage caused by delays. If Shipper does not request Shipment Value Protection and pay the appropriate charge, Shipper assumes all risks of loss or damage over the amount of DHL's liability as stated in Section 5.

8. Delayed Shipments

DHL will make every reasonable effort to deliver the Shipment according to DHL's regular delivery schedules, but these delivery schedules are not guaranteed and do not form part of the contract. DHL is not liable for any damages or loss caused by delays.

9. Exclusion

DHL is not liable for any loss or damage arising out of acts of God, e.g., earthquake, cyclone, storm, flood, fog; force majeure events, e.g., war, plane crash or embargo; acts of the public enemy; acts of government; acts of public authorities possessing actual or apparent authority; any defect, characteristic or vice inherent in the Shipment; any act or default of the Shipper, consignee or other party who claims an interest in the Shipment; or any other cause beyond DHL's control.

10. Shipper's Warranties and Indemnity

Shipper shall indemnify and hold DHL harmless for any loss or damage arising out of Shipper's failure to comply with any applicable laws or regulations and for Shipper's breach of the following warranties and representations:

- all information provided by Shipper or its representatives is complete and accurate;
- Shipper protected the Shipment against unauthorized interference during preparation, storage and transportation to DHL;
- the Shipment is properly marked and addressed and packed to ensure safe transportation with ordinary care in handling;
- all applicable laws and regulations have been complied with;
- the waybill has been signed by Shipper's authorized representative and the Terms and
- Conditions constitute binding and enforceable obligations of Shipper; and
- the materials constituting the Shipment are properly classified, described, packaged, marked and labelled and are in proper condition for transportation according to the applicable regulations of the DOT and TSA.

Violation of any of these warranties will excuse DHL from any liability whatsoever for loss of or damage to a Shipment incurred as a result of the violation. Furthermore, Shipper shall be liable to DHL for all claims, fines, penalties, damages, and costs incurred by or imposed upon DHL as a result of a violation of these warranties.

11. Severability

The invalidity or unenforceability of any provision shall not affect any other part of these Terms and Conditions.

Exhibit 15

November 11, 2005

PC Connection, Inc.
730 Milford Road
Merrimack, NH 03054

We have made a review, in accordance with the standards of the Public Company Accounting Oversight Board (United States), of the unaudited interim financial information of PC Connection, Inc. and subsidiaries for the periods ended September 30, 2005 and 2004, as indicated in our report dated November 11, 2005; 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 September 30, 2005, is incorporated by reference in Registration Statement Nos. 333-40172, 333-50845, 333-50847, 333-66450, 333-69981, 333-83943, 333-91584, and 333-106652 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

Exhibit 31.1

CERTIFICATIONS

I, Patricia Gallup, 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)) 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) Not applicable;
   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: November 14, 2005

/S/ PATRICIA GALLUP

Patricia Gallup
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Jack Ferguson, 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)) 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) Not applicable;
   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: November 14, 2005

/S/ JACK FERGUSON
Jack Ferguson
Treasurer and Interim Chief Financial Officer

Exhibit 32.1

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

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q of PC Connection, Inc. (the "Company") for the period ended September 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Patricia Gallup, President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 350, 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.

/S/ PATRICIA GALLUP

Dated: November 14, 2005

Patricia Gallup
President and Chief Executive Officer

Exhibit 32.2

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

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q of PC Connection, Inc. (the “Company”) for the period ended September 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Jack Ferguson, Treasurer and Interim Chief Financial 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.

	/S/ JACK FERGUSON
Dated: November 14, 2005	Jack Ferguson Treasurer and Interim Chief Financial Officer