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, 2019

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 0-23827

PC CONNECTION, INC.

(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	**02-0513618** (I.R.S. Employer Identification No.)
730 MILFORD ROAD, MERRIMACK, NEW HAMPSHIRE (Address of principal executive offices)	**03054** (Zip Code)

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

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes **No** ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes **No** ☐

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

Large accelerated filer ☐	Accelerated filer
Non-accelerated filer ☐	Smaller reporting company ☐
	Emerging growth company ☐

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

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

Yes ☐ **No**

The number of shares outstanding of the issuer’s common stock as of October 28, 2019 was 26,316,263.

PC CONNECTION, INC. AND SUBSIDIARIES
FORM 10-Q

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PART I. FINANCIAL INFORMATION
ITEM 1 FINANCIAL STATEMENTS

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

	September 30, 2019	December 31, 2018
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 98,489	$ 91,703
Accounts receivable, net	478,907	447,698
Inventories, net	126,078	119,195
Income taxes receivable	—	922
Prepaid expenses and other current assets	6,881	9,661
Total current assets	710,355	669,179
Property and equipment, net	62,336	51,799
Right-of-use assets, net	14,850	—
Goodwill	73,602	73,602
Intangible assets, net	8,613	9,564
Other assets	892	1,211
Total Assets	$ 870,648	$ 805,355
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 197,736	$ 201,640
Accrued payroll	23,393	24,319
Accrued expenses and other liabilities	36,341	33,840
Total current liabilities	257,470	259,799
Deferred income taxes	17,194	17,184
Operating lease liability	11,386	—
Other liabilities	1,454	2,469
Total Liabilities	287,504	279,452
Stockholders' Equity:		
Common stock	288	288
Additional paid-in capital	117,301	115,842
Retained earnings	501,155	441,010
Treasury stock, at cost	(35,600)	(31,237)
Total Stockholders' Equity	583,144	525,903
Total Liabilities and Stockholders' Equity	$ 870,648	$ 805,355

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Net sales	$ 729,410	$ 658,504	$ 2,103,407	$ 1,989,969
Cost of sales	610,547	558,060	1,768,210	1,685,685
Gross profit	118,863	100,444	335,197	304,284
Selling, general and administrative expenses	86,226	81,494	252,125	244,915
Restructuring and other charges	—	—	703	—
Income from operations	32,637	18,950	82,369	59,369
Interest income, net	62	114	444	412
Income before taxes	32,699	19,064	82,813	59,781
Income tax provision	(8,949)	(5,298)	(22,668)	(16,489)
Net income	$ 23,750	$ 13,766	$ 60,145	$ 43,292
Earnings per common share:				
Basic	$ 0.90	$ 0.52	$ 2.28	$ 1.62
Diluted	$ 0.90	$ 0.51	$ 2.27	$ 1.61
Shares used in computation of earnings per common share:				
Basic	26,323	26,716	26,339	26,745
Diluted	26,479	26,902	26,496	26,883

See notes to unaudited condensed consolidated financial statements.

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

	Three months ended September 30, 2019						
	Common Stock		Additional	Retained	Treasury Stock		Total Stockholders'
	Shares	Amount	Paid-In Capital	Earnings	Shares	Amount	Equity
Balance at June 30, 2019	28,818	$ 288	$ 117,212	$ 477,405	(2,500)	$ (34,738)	$ 560,167
Stock-based compensation expense	—	—	426	—	—	—	426
Restricted stock units vested	22	—	—	—	—	—	—
Shares withheld for taxes paid on stock awards	—	—	(337)	—	—	—	(337)
Repurchase of common stock for treasury	—	—	—	—	(23)	(862)	(862)
Net income	—	—	—	23,750	—	—	23,750
Balance at September 30, 2019	28,840	$ 288	$ 117,301	$ 501,155	(2,523)	$ (35,600)	$ 583,144

	Nine months ended September 30, 2019						
	Common Stock		Additional	Retained	Treasury Stock		Total Stockholders'
	Shares	Amount	Paid-In Capital	Earnings	Shares	Amount	Equity
Balance at December 31, 2018	28,787	$ 288	$ 115,842	$ 441,010	(2,391)	$ (31,237)	$ 525,903
Stock-based compensation expense	—	—	1,259	—	—	—	1,259
Restricted stock units vested	34	—	—	—	—	—	—
Issuance of common stock under Employee Stock Purchase Plan	19	—	609	—	—	—	609
Shares withheld for taxes paid on stock awards	—	—	(409)	—	—	—	(409)
Repurchase of common stock for treasury	—	—	—	—	(132)	(4,363)	(4,363)
Net income	—	—	—	60,145	—	—	60,145
Balance at September 30, 2019	28,840	$ 288	$ 117,301	$ 501,155	(2,523)	$ (35,600)	$ 583,144

See notes to unaudited condensed consolidated financial statements.

	Three months ended September 30, 2018						
	Common Stock		Additional	Retained	Treasury Stock		Total Stockholders'
	Shares	Amount	Paid-In Capital	Earnings	Shares	Amount	Equity
Balance at June 30, 2018	28,728	$ 287	$ 115,223	$ 414,396	(2,026)	$ (20,246)	$ 509,660
Stock-based compensation expense	—	—	273	—	—	—	273
Restricted stock units vested	28	—	—	—	—	—	—
Shares withheld for taxes paid on stock awards	—	—	(457)	—	—	—	(457)
Net income	—	—	—	13,766	—	—	13,766
Balance at September 30, 2018	28,756	$ 287	$ 115,039	$ 428,162	(2,026)	$ (20,246)	$ 523,242

	Nine months ended September 30, 2018						
	Common Stock		Additional	Retained	Treasury Stock		Total Stockholders'
	Shares	Amount	Paid-In Capital	Earnings	Shares	Amount	Equity
Balance at December 31, 2017	28,709	$ 287	$ 114,154	$ 383,673	(1,856)	$ (15,862)	$ 482,252
Cumulative effect of adoption of ASC 606	—	—	—	1,197	—	—	1,197
Stock-based compensation expense	—	—	737	—	—	—	737
Restricted stock units vested	28	—	—	—	—	—	—
Issuance of common stock under Employee Stock Purchase Plan	19	—	605	—	—	—	605
Shares withheld for taxes paid on stock awards	—	—	(457)	—	—	—	(457)
Repurchase of common stock for treasury	—	—	—	—	(170)	(4,384)	(4,384)
Net income	—	—	—	43,292	—	—	43,292
Balance at September 30, 2018	28,756	$ 287	$ 115,039	$ 428,162	(2,026)	$ (20,246)	$ 523,242

See notes to unaudited condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Cash Flows provided by Operating Activities:		
Net income	$ 60,145	$ 43,292
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,184	10,362
Provision for doubtful accounts	181	1,428
Stock-based compensation expense	1,259	737
Deferred income taxes	10	429
Loss on disposal of fixed assets	114	51
Changes in assets and liabilities:		
Accounts receivable	(31,390)	63,881
Inventories	(6,883)	(9,399)
Prepaid expenses, income tax receivables and other current assets	3,702	812
Other non-current assets	319	283
Accounts payable	(3,167)	(29,361)
Accrued expenses and other liabilities	5,548	(1,262)
Net cash provided by operating activities	40,022	81,253
Cash Flows used in Investing Activities:		
Purchases of equipment	(20,621)	(15,641)
Net cash used in investing activities	(20,621)	(15,641)
Cash Flows used in Financing Activities:		
Proceeds from short-term borrowings	—	859
Repayment of short-term borrowings	—	(859)
Purchase of treasury shares	(4,363)	(4,384)
Dividend payment	(8,452)	(9,123)
Issuance of stock under Employee Stock Purchase Plan	609	605
Payment of payroll taxes on stock-based compensation through shares withheld	(409)	(457)
Net cash used in financing activities	(12,615)	(13,359)
Increase in cash and cash equivalents	6,786	52,253
Cash and cash equivalents, beginning of period	91,703	49,990
Cash and cash equivalents, end of period	$ 98,489	$ 102,243
Non-cash Investing and Financing Activities:		
Accrued capital expenditures	$ 1,684	$ 1,055
Supplemental Cash Flow Information:		
Income taxes paid	$ 18,972	$ 15,134

See notes to unaudited condensed consolidated financial statements.

PC CONNECTION, INC. AND SUBSIDIARIES
PART I—FINANCIAL INFORMATION
Item 1—Financial Statements
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, except per share data)

Note 1–Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of PC Connection, Inc. and its subsidiaries (the "Company," "we," "us," or "our") have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission regarding interim financial reporting and in accordance with accounting principles generally accepted in the United States of America. Such principles were applied on a basis consistent with the accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the Securities and Exchange Commission (the "SEC"), other than the adoption of Accounting Standards Update ("ASU") No. 2016-02, *Leases* ("ASC 842") using a modified retrospective approach as of January 1, 2019, as discussed below. The accompanying condensed consolidated financial statements should be read in conjunction with the audited consolidated 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 the Company's financial condition as of the date of the interim balance sheet. The Company considers events or transactions that occur after the balance sheet date but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. Subsequent events have been evaluated through the date of issuance of these financial statements. The operating results for the three and nine months ended September 30, 2019 may not be indicative of the results expected for any succeeding quarter or the entire year ending December 31, 2019.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the amounts reported in the accompanying condensed consolidated financial statements. Actual results could differ from those estimates.

Restructuring and other charges

	Nine months ended September 30, 2019
Employee separations	$ 553
Lease termination costs	150
Total restructuring and other charges	$ 703

The restructuring and other charges were recorded in the first quarter of 2019 and were related to a reduction in workforce in our Headquarters/Other group and included cash severance payments and other related benefits. These costs will be paid within a year of termination and any unpaid balances are included in accrued expenses at September 30, 2019. Also included are exit costs incurred associated with the closing of one of our office facilities.

All planned restructuring and other charges were incurred as of March 31, 2019 and the Company has no ongoing restructuring plans.

Adoption of Recently Issued Accounting Standards

In February 2016, the Financial Accounting Standards Board, or the FASB, issued ASC 842 -*Leases*, which amended the accounting standards for leases. The core principle of the guidance is that an entity should establish a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than twelve months.

The Company adopted ASC 842 effective January 1, 2019 using a modified retrospective transition approach to each lease that existed as of the adoption date and any leases entered into after that date. The Company elected the package of practical expedients which permits us to not reassess (1) whether any expired or existing contracts are or contain leases, (2) the lease classification of any expired or existing leases, and (3) any initial direct costs for any existing leases as of the effective date. The Company also elected the hindsight practical expedient, which allows it to use hindsight in determining the lease term. The adoption did not result in a cumulative adjustment to opening equity. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

In assessing the impact of the adoption, the Company elected to apply the short-team lease exception to any leases with contractual obligations of one year or less. These leases will continue to be treated as operating leases in accordance with the new accounting standard. Consequently, the adoption resulted in the capitalization of a number of the Company's office leases as of January 1, 2019, for which it recognized a lease liability of $18,835, which was based on the present value of the future payments for these leases. The Company recorded a corresponding right-of-use asset of $18,723, which was adjusted for $114 of remaining unamortized lease incentives as of December 31, 2018. Only those components that were considered integral to the right to use an underlying asset were considered lease components when determining the amounts to capitalize. In accordance with ASC 842, the discount rates used in the present value calculations for each lease should be the rates implicit in the lease, if readily available. Since none of the lease agreements contain explicit discount rates, the Company utilized estimated rates that it would have incurred to borrow, over a similar term, the funds necessary to purchase the respective leased asset with cash. The remaining contractual term for these leases as of January 1, 2019 ranged from 20 to 197 months. Options to renew were considered in determining the present value of the future lease payments in the event the Company believed it was reasonably certain it will assert its respective options to renew.

The Company leases certain facilities from a related party, which is a company affiliated with us through common ownership. Included in the right-of-use asset as of September 30, 2019 was $5,998 and a corresponding lease liability of $5,021 associated with related party leases.

During the third quarter of 2019, the Company amended the terms of one of its existing leases. The amendment was treated as a lease modification and was not accounted for as a separate lease. In accordance with ASC 842, the Company re-measured the right-of-use asset and the lease liability as of the modification date and also re-assessed the reasonably certain holding period of the lease.

As of September 30, 2019, the Company had no leases that were classified as financing leases and there were no additional operating or financing leases that have not yet commenced. Refer to the following table for quantitative information related to the Company's leases:

	Three months ended September 30, 2019			Nine months ended September 30, 2019		
	Related Parties	**Others**	**Total**	**Related Parties**	**Others**	**Total**
Lease Cost						
Capitalized operating lease cost	$ 379	$ 773	$ 1,152	$ 1,137	$ 2,396	$ 3,533
Short-term lease cost	41	2	43	123	6	129
Total lease cost	$ 420	$ 775	$ 1,195	$ 1,260	$ 2,402	$ 3,662
Other Information						
Cash paid for amounts included in the measurement of lease liabilities and capitalized operating leases:						
Operating cash flows	$ 379	$ 832	$ 1,211	$ 1,137	$ 2,585	$ 3,722
Weighted-average remaining lease term (in years):						
Capitalized operating leases				4.11	6.78	5.92
Weighted-average discount rate:						
Capitalized operating leases				3.92%	3.92%	3.92%

As of September 30, 2019, future lease payments over the remaining term of capitalized operating leases were as follows:

For the Years Ended December 31,	Related Parties	Others	Total
2019, excluding the nine months ended September 30, 2019	$ 379	$ 835	$ 1,214
2020	1,385	3,382	4,767
2021	1,253	2,482	3,735
2022	1,253	1,484	2,737
2023	1,149	1,034	2,183
2024	—	1,043	1,043
Thereafter	—	1,460	1,460
	$ 5,419	$ 11,720	$ 17,139
Imputed interest			(1,426)
Lease liability balance at September 30, 2019			$ 15,713

Future aggregate minimum annual lease payments as of December 31, 2018 reported in our 2018 Form 10-K under the previous lease accounting standard were as follows:

For the Years Ended December 31,	Related Parties	Others	Total
2019	$ 1,516	$ 3,519	$ 5,035
2020	1,407	3,386	4,793
2021	1,253	2,466	3,719
2022	1,253	1,490	2,743
2023	1,149	820	1,969
2024 and thereafter	—	1,395	1,395
	$ 6,578	$ 13,076	$ 19,654

As of September 30, 2019, the ROU asset had a net balance of $14,850. The long-term lease liability was $11,386 and the short-term lease liability, which is included in accrued expenses and other liabilities in the consolidated balance sheets, was $4,327.

Recently Issued Financial Accounting Standards

In January 2017, the FASB issued ASU 2017-04,*Simplifying the Test for Goodwill Impairment*, which simplifies the accounting for goodwill impairments by eliminating step two from the goodwill impairment test. Instead, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. ASU 2017-04 also clarifies the requirements for excluding and allocating foreign currency translation adjustments to reporting units related to an entity's testing of reporting units for goodwill impairment and clarifies that an entity should consider income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The new standard is effective for fiscal years beginning January 1, 2020 for both interim and annual reporting periods. The Company expects to adopt this new standard in 2019 when it performs its annual goodwill impairment test in the fourth quarter. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13,*Financial Instruments—Credit Losses,* which adds an impairment model for financial instruments, including trade receivables, that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of lifetime expected losses, which is expected to result in more timely recognition of such losses. The new standard is effective for fiscal years beginning after December 15, 2019 for both interim and annual reporting periods. The Company has evaluated the requirements of this ASU and determined that the potential exposure is limited to the impact this standard may have on its trade receivables. The Company does not currently have any other financial instruments that would be affected by this standard. Customers are evaluated for their credit worthiness at the time of contract inception. Based on the results of the assessment, the Company will extend credit under its standard payment terms or may request alternative early payment actions. In addition, the Company analyzes its aged receivables for collectability at least quarterly, and if necessary, records a reserve against those receivables it determines may not collectable. As such, the Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

Note 2–Revenue

We disaggregate revenue from our arrangements with customers by type of products and services, as we believe this method best depicts how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors.

The following tables represent a disaggregation of revenue from arrangements with customers for the three months ended September 30, 2019 and 2018, along with the reportable segment for each category.

	Three Months Ended September 30, 2019			
	Business Solutions	Enterprise Solutions	Public Sector Solutions	Total
Notebooks/Mobility	$ 79,287	$ 77,214	$ 63,154	$ 219,655
Desktops	34,806	36,821	20,499	92,126
Software	36,879	28,439	13,205	78,523
Servers/Storage	26,352	16,374	16,576	59,302
Net/Com Products	25,200	11,666	15,695	52,561
Displays and Sound	23,224	29,641	17,669	70,534
Accessories	26,306	46,546	14,545	87,397
Other Hardware/Services	21,702	31,594	16,016	69,312
Total net sales	$ 273,756	$ 278,295	$ 177,359	$ 729,410

	Three Months Ended September 30, 2018 (1)			
	Business Solutions	Enterprise Solutions	Public Sector Solutions	Total
Notebooks/Mobility	$ 68,822	$ 63,926	$ 50,079	$ 182,827
Desktops	25,828	30,075	13,112	69,015
Software	31,578	25,718	15,541	72,837
Servers/Storage	26,386	21,424	13,115	60,925
Net/Com Products	27,380	16,601	12,745	56,726
Displays and Sound	23,318	23,834	15,748	62,900
Accessories	22,313	52,967	12,516	87,796
Other Hardware/Services	19,247	30,932	15,299	65,478
Total net sales	$ 244,872	$ 265,477	$ 148,155	$ 658,504

(1) Product categories were separated into additional categories in 2019. Certain prior-year balances have been classified to conform with the new presentation.

The following table represents a disaggregation of revenue from arrangements with customers for the nine months ended September 30, 2019 and 2018, along with the reportable segment for each category.

	Nine Months Ended September 30, 2019			
	Business Solutions	Enterprise Solutions	Public Sector Solutions	Total
Notebooks/Mobility	$ 240,644	$ 240,621	$ 125,220	$ 606,485
Desktops	96,377	112,067	50,074	258,518
Software	110,826	91,954	43,362	246,142
Servers/Storage	81,452	48,536	49,149	179,137
Net/Com Products	70,806	38,866	40,918	150,590
Displays and Sound	64,422	82,812	41,839	189,073
Accessories	72,036	162,601	35,112	269,749
Other Hardware/Services	61,177	94,512	48,024	203,713
Total net sales	$ 797,740	$ 871,969	$ 433,698	$ 2,103,407

	Nine Months Ended September 30, 2018 (1)			
	Business Solutions	Enterprise Solutions	Public Sector Solutions	Total
Notebooks/Mobility	$ 222,550	$ 195,909	$ 109,238	$ 527,697
Desktops	82,518	91,307	41,948	215,773
Software	104,377	91,522	33,447	229,346
Servers/Storage	85,190	70,262	46,753	202,205
Net/Com Products	83,546	49,093	36,618	169,257
Displays and Sound	67,193	80,288	41,846	189,327
Accessories	72,385	143,532	34,095	250,012
Other Hardware/Services	60,433	101,873	44,046	206,352
Total net sales	$ 778,192	$ 823,786	$ 387,991	$ 1,989,969

(1) Product categories were separated into additional categories in 2019. Certain prior-year balances have been classified to conform with the new presentation.

Contract Balances

The following table provides information about contract liability from arrangements with customers as of September 30, 2019 and December 31, 2018.

	September 30, 2019	December 31, 2018
Contract liability, which is included in "Accrued expenses and other liabilities"	$ 3,325	$ 2,679

Changes in the contract liability balances during the three and nine months ended September 30, 2019 are as follows (in thousands):

	2019	2018
Balances at June 30,	$ 4,724	$ 8,433
Cash received in advance and not recognized as revenue	1,701	1,024
Amounts recognized as revenue as performance obligations satisfied	(3,100)	(6,828)
Balances at September 30,	$ 3,325	$ 2,629

	2019	2018
Balances at December 31,	$ 2,679	$ 2,914
Cash received in advance and not recognized as revenue	8,868	9,520
Amounts recognized as revenue as performance obligations satisfied	(8,222)	(9,805)
Balances at September 30,	$ 3,325	$ 2,629

Note 3–Earnings Per Share

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Numerator:				
Net income	$ 23,750	$ 13,766	$ 60,145	$ 43,292
Denominator:				
Denominator for basic earnings per share	26,323	26,716	26,339	26,745
Dilutive effect of unvested employee stock awards	156	186	157	138
Denominator for diluted earnings per share	26,479	26,902	26,496	26,883
Earnings per share:				
Basic	$ 0.90	$ 0.52	$ 2.28	$ 1.62
Diluted	$ 0.90	$ 0.51	$ 2.27	$ 1.61

For the three and nine months ended September 30, 2019 and 2018, we had no outstanding non-vested stock units that were excluded from the computation of diluted earnings per share because including them would have had an anti-dilutive effect.

Note 4–Segment and Related Disclosures

The internal reporting structure 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, and he evaluates operations and allocates resources based on a measure of operating income.

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

Segment information applicable to our reportable operating segments for the three and nine months ended September 30, 2019 and 2018 is shown below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net sales:				
Business Solutions	$ 273,756	$ 244,872	$ 797,740	$ 778,192
Enterprise Solutions	278,295	265,477	871,969	823,786
Public Sector Solutions	177,359	148,155	433,698	387,991
Total net sales	$ 729,410	$ 658,504	$ 2,103,407	$ 1,989,969
Operating income (loss):				
Business Solutions	$ 13,533	$ 8,173	$ 38,509	$ 28,303
Enterprise Solutions	16,346	13,629	50,927	43,598
Public Sector Solutions	7,082	528	4,677	(2,083)
Headquarters/Other	(4,324)	(3,380)	(11,744)	(10,449)
Total operating income	32,637	18,950	82,369	59,369
Interest income, net	62	114	444	412
Income before taxes	$ 32,699	$ 19,064	$ 82,813	$ 59,781
Selected operating expense:				
Depreciation and amortization:				
Business Solutions	$ 149	$ 153	$ 447	$ 481
Enterprise Solutions	613	608	1,858	1,653
Public Sector Solutions	22	25	68	91
Headquarters/Other	2,323	2,848	7,811	8,137
Total depreciation and amortization	$ 3,107	$ 3,634	$ 10,184	$ 10,362
Total assets:				
Business Solutions			$ 300,360	$ 263,678
Enterprise Solutions			488,867	423,125
Public Sector Solutions			90,437	69,994
Headquarters/Other			(9,016)	(6,570)
Total assets			$ 870,648	$ 750,227

The assets of our three operating segments presented above consist primarily of accounts receivable, net intercompany receivable, goodwill, and other intangibles. Assets reported under the Headquarters/Other group are managed by corporate headquarters, including cash, inventory, property and equipment, right-of-use assets, and intercompany balance, net. As of September 30, 2019 and 2018, total assets for the Headquarters/Other group are presented net of intercompany balance eliminations of $36,077 and $22,989, respectively. Our capital expenditures consist largely of IT hardware and software purchased to maintain or upgrade our management information systems. These information systems serve all of our segments, to varying degrees, and accordingly, our CODM does not evaluate capital expenditures on a segment basis.

Note 5–Commitments and Contingencies

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

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

Note 6–Bank Credit Facility

We have a $50,000 credit facility collateralized by our account receivables that expires February 10, 2022. This facility can be increased, at our option, to $80,000 for permitted acquisitions or other uses authorized by the lender on substantially the same terms. Amounts outstanding under this facility bear interest at the one-month London Interbank Offered Rate ("LIBOR") (2.02% at September 30, 2019), plus a spread based on our funded debt ratio, or in the absence of LIBOR, the prime rate (5.00% at September 30, 2019). The credit facility includes various customary financial ratios and operating covenants, including minimum net worth and maximum funded debt ratio requirements, and default acceleration provisions. The credit facility does not include restrictions on future dividend payments. Funded debt ratio is the ratio of average outstanding advances under the credit facility to Adjusted EBITDA (Earnings Before Interest Expense, Taxes, Depreciation, Amortization, and Special Charges). The maximum allowable funded debt ratio under the agreement is 2.0 to 1.0. Decreases in our consolidated Adjusted EBITDA could limit our potential borrowing capacity under the credit facility. We had no outstanding bank borrowings at September 30, 2019 or 2018, and accordingly, the entire $50,000 facility was available for borrowings under the credit facility.

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

Statements contained or incorporated by reference in this Quarterly Report on Form 10-Q that are not based on historical fact are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. These forward-looking statements regarding future events and our future results are based on current expectations, estimates, forecasts, and projections and the beliefs and assumptions of management including, without limitation, our expectations with regard to the industry's rapid technological change and exposure to inventory obsolescence, availability and allocations of goods, reliance on vendor support and relationships, competitive risks, pricing risks, and the overall level of economic activity and the level of business investment in information technology products. Forward-looking statements may be identified by the use of forward-looking terminology such as "may," "could," "expect," "believe," "estimate," "anticipate," "continue," "seek," "plan," "intend," or similar terms, variations of such terms, or the negative of those terms.

We cannot assure investors that our assumptions and expectations will prove to have been correct. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks, and changes in circumstances that are difficult to predict. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements. We therefore caution you against undue reliance on any of these forward-looking statements. Important factors that could cause our actual results to differ materially from those indicated or implied by forward-looking statements include those discussed in Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Quarterly Report on Form 10-Q and in Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018. Any forward-looking statement made by us in this Quarterly Report on Form 10-Q speaks only as of the date on which this Quarterly Report on Form 10-Q was first filed. We undertake no intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as may be required by law.

OVERVIEW

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

We generate sales through (i) outbound telemarketing and field sales contacts by sales representatives focused on the business, educational, healthcare, and government markets, (ii) our websites, and (iii) direct responses from customers responding to our advertising media. We seek to recruit, retain, and increase the productivity of our sales personnel through training, mentoring, financial incentives based on performance, and updating and streamlining our information systems to make our operations more efficient.

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

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

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

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

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

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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net sales (in millions)	$ 729.4	$ 658.5	$2,103.4	$1,990.0
Gross margin	16.3 %	15.3 %	15.9 %	15.3 %
Selling, general and administrative expenses	11.8 %	12.4 %	12.0 %	12.3 %
Income from operations	4.5 %	2.9 %	3.9 %	3.0 %

Net sales of $729.4 million for the third quarter of 2019 reflected an increase of $70.9 million compared to the third quarter of 2018, which was driven by growth in our Business Solutions and Public Sector Solutions segments. Our investments in advance solution sales led to increased sales of mobility, desktop, and software products despite being negatively impacted by a higher percentage of our software sales recognized on a net basis in the current period in transactions where we are considered to be the agent. Gross profit dollars increased year-over-year by $18.4 million due to higher invoice selling margins realized on advanced solution sales and increased sales of software products. SG&A expenses increased by $4.7 million, mostly due to higher personnel costs, but decreased as a percentage of net sales. Operating income in the third quarter of 2019 increased year-over-year both in dollars and as a percentage of net sales by $13.7 million and 160 basis points, respectively, primarily as a result of increased gross profit margins, which grew by 104 basis points over the period.

Net Sales Distribution

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018 (1)	2019	2018 (1)
Sales Segment				
Enterprise Solutions	38 %	40 %	41 %	41 %
Business Solutions	38	37	38	39
Public Sector Solutions	24	23	21	20
Total	100 %	100 %	100 %	100 %
Product Mix				
Notebooks/Mobility	30 %	28 %	29 %	27 %
Desktops	13	10	12	11
Software	11	11	12	12
Servers/Storage	8	9	9	10
Net/Com Products	7	9	7	9
Displays and Sound	10	10	9	9
Accessories	12	13	13	13
Other Hardware/Services	9	10	9	9
Total	100 %	100 %	100 %	100 %

Product categories were separated into additional categories in 2019. Certain prior-year balances have been classified to conform with the new presentation.

Gross Profit Margin

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Sales Segment				
Enterprise Solutions	15.1 %	14.3 %	14.8 %	14.3 %
Business Solutions	19.0	18.2	18.8	17.8
Public Sector Solutions	13.9	12.1	12.9	12.4
Total	16.3 %	15.2 %	15.9 %	15.3 %

Operating Expenses

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

($ in millions)	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Personnel costs	$ 65.9	$ 61.8	$ 191.4	$ 188.0
Advertising	4.6	4.1	14.2	12.3
Facilities operations	4.6	4.3	14.0	12.7
Professional fees	2.7	2.3	8.1	6.9
Credit card fees	1.7	1.9	5.0	5.3
Depreciation and amortization	3.1	3.6	10.2	10.4
Other	3.6	3.5	9.2	9.3
Total SG&A expense	$ 86.2	$ 81.5	$ 252.1	$ 244.9
Percentage of net sales	11.8 %	12.4 %	12.0 %	12.3 %

Restructuring and other charges

In the first quarter of 2019, we undertook a number of actions at our Headquarters/Other group to lower our cost structure and align our business in an effort to improve our ability to execute our strategy. In connection with these restructuring initiatives, we incurred restructuring and related costs of $0.7 million in the first quarter of 2019. There were no restructuring and other charges recorded in the second and third quarter of 2019 or in the nine months ended September 30, 2018.

Year-Over-Year Comparisons

Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018

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

	Three Months Ended September 30,				
	2019		2018		
($ in millions)	Amount	% of Net Sales	Amount	% of Net Sales	% Change
Net Sales:					
Enterprise Solutions	$ 278.3	38.2 %	$ 265.5	40.3 %	4.8 %
Business Solutions	273.8	37.5	244.9	37.2	11.8
Public Sector Solutions	177.3	24.3	148.1	22.5	19.7
Total	$ 729.4	100.0 %	$ 658.5	100.0 %	10.8 %
Gross Profit:					
Enterprise Solutions	$ 42.1	15.1 %	$ 37.9	14.3 %	11.1 %
Business Solutions	52.1	19.0	44.6	18.2	16.8
Public Sector Solutions	24.7	13.9	17.9	12.1	38.0
Total	$ 118.9	16.3 %	$ 100.4	15.2 %	18.4 %

Net sales increased in the third quarter of 2019 compared to the third quarter of 2018, as explained below:

- Net sales of $278.3 million for the Enterprise Solutions segment reflect an increase of $12.8 million, or 4.8%, year-over-year. Notebooks/mobility and desktop products grew by $13.3 million and $6.7 million, respectively, as the Company has benefitted from the personal computer refresh driven by the anticipated end-of-life support for Windows 7 and technological advances in hardware that enable modern workplace solutions. Sales of software products also grew by $2.7 million despite being negatively impacted by a higher percentage of our software sales recognized on a net basis in the current period in transactions where we are considered to be the agent. These increases were partially offset by decreases in accessories and server/storage products of $6.4 million and $5.1 million, respectively, primarily driven by the timing of large product rollouts.

- Net sales of $273.8 million for the Business Solutions segment reflect an increase of $28.9 million, or 11.8% year-over-year. Sales of notebooks/mobility products, desktop products, and other accessories increased by $10.5 million, $9.0 million, and $4.0 million, respectively, while software products grew by $5.3 million despite being negatively impacted by a higher percentage of our software sales recognized on a net basis in the current period in transactions where we are considered to be the agent. Though we experienced strong growth in cloud-based and security software sales, revenues from these products are recognized on a net basis, resulting in a smaller contribution to net sales.

- Net sales of $177.3 million for the Public Sector Solutions segment increased by $29.2 million, or 19.7%, compared with the same period a year ago. We experienced growth year-over-year in almost every product category highlighted by increases in net sales of notebooks/mobility and desktop products of $13.1 million and $7.4 million, respectively.

Gross profit for the third quarter of 2019 increased year-over-year in dollars and as a percentage of net sales (gross margin), as explained below:

- Gross profit for the Enterprise Solutions segment increased largely due to favorable changes in product mix and higher invoice selling margins of 50 basis points associated primarily with an increase in software sales recognized on a net basis. Agency fees also increased by $0.9 million year-over-year. Agency fees, which we receive from vendors for certain software and hardware sales, are recorded as revenue with no corresponding cost of goods sold, and accordingly have a positive impact on gross margin.

- Gross profit for the Business Solutions segment increased primarily as a result of changes in customer mix and higher invoice selling margins of 53 basis points, driven by an increase in sales volume. Agency fees from enterprise software agreements also increased year-over-year by $0.8 million.

- Gross profit for the Public Sector Solutions segment increased as a result of changes in customer mix and higher invoice selling margins of 165 basis points, driven primarily by improved hardware margins and an increase in software sales reported on a net basis. Agency fees from enterprise software agreements also increased year-over-year by $0.2 million.

Selling, general and administrative expenses increased in dollars, but decreased as a percentage of net sales in the third quarter of 2019 compared to the prior year quarter. SG&A expenses attributable to our three segments and the remaining unallocated Headquarters/Other group expenses are summarized in the table below:

	Three Months Ended September 30,				
	2019		2018		
($ in millions)	Amount	% of Segment Net Sales	Amount	% of Segment Net Sales	% Change
Enterprise Solutions	$ 25.8	9.3 %	$ 24.3	9.2 %	6.2 %
Business Solutions	38.6	14.1	36.4	14.9	6.0
Public Sector Solutions	17.5	9.9	17.5	11.8	—
Headquarters/Other, unallocated	4.3		3.3		30.3
Total	$ 86.2	11.8 %	$ 81.5	12.4 %	5.8 %

- SG&A expenses for the Enterprise Solutions segment increased in both dollars and as a percentage of net sales. The year-over-year change in SG&A dollars was almost entirely attributable to increased personnel costs of $1.5 million, driven by merit increases and variable compensation associated with higher gross profit. SG&A expenses as a percentage of net sales was 9.3% for the Enterprise Solutions segment in the third quarter of 2019, which reflects an increase of 10 basis points and is a result of net sales growing at a lower rate than operating expenses when compared with the same period a year ago.

- SG&A expenses for the Business Solutions segment increased in dollars and decreased as a percentage of net sales. The year-over-year increase in SG&A dollars was primarily driven by a $1.1 million increase in personnel costs, including variable compensation associated with higher gross profit, a $0.5 million increase in the use of Headquarter services, and a $0.4 million increase in advertisng expenses. SG&A expenses as a percentage of net sales was 14.1% for the Business Solutions segment in the third quarter of 2019 compared to 14.9% in the third quarter of 2018. This improvement, which reflects a decrease of 80 basis points year-over-year, was driven primarily by growth in net sales which outpaced the growth in operating expenses.

- SG&A expenses for the Public Sector Solutions segment was flat year-over-year in dollars and decreased as a percentage of net sales. An increase in the use of Headquarter services resulted in an increase in operating expenses of $0.3 million year-over-year, but this increase was almost entirely offset by other miscellaneous operating expenses, of which there were no individually significant drivers. SG&A expenses as a percentage of net sales was 9.9% for the Public Sector Solutions segment in the third quarter of 2019 compared to 11.8% in the third quarter of 2018. This improvement year-over-year is attributable to the increase in net sales, combined with relatively flat SG&A expenses.

- SG&A expenses for the Headquarters/Other group increased primarily due to a $1.4 million increase in personnel-related costs driven primarily by a higher headcount, increased payroll expense, and increased variable compensation associated with higher profits. Professional fees and facilities costs also increased by $0.6 million and $0.3 million, respectively. These increases were partially offset by a decrease in unallocated executive oversight costs of $1.0 million. The Headquarters/Other group provides services to the three segments in areas such as finance, human resources, IT, marketing, and product management. Most of the operating costs associated with such corporate Headquarters services are charged to the segments based on their estimated usage of the underlying services. The amounts shown in the table above represent the remaining unallocated costs.

Income from operations for the third quarter of 2019 increased to $32.6 million, compared to $19.0 million for the third quarter of 2018, primarily due to the increase in net sales and gross profit year-over-year. Income from operations as a percentage of net sales was 4.5% for the third quarter of 2019, compared to 2.9% of net sales for the prior year quarter, primarily as a result of the growth rate in gross profit exceeding the growth rate in SG&A expenses.

Our effective tax rate was 27.4% for the third quarter of 2019, compared to 27.8% for the third quarter of 2018. We expect our corporate income tax rate for 2019 to range from 27% to 29%.

Net income for the third quarter of 2019 increased to $23.8 million, compared to $13.8 million for the third quarter of 2018, primarily due to higher gross profit and an increase in gross margin which outpaced the growth in operating expenses in the third quarter of 2019, as compared to the third quarter of 2018.

Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 30, 2018

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

	Nine Months Ended September 30,				
	2019		2018		
($ in millions)	Amount	% of Net Sales	Amount	% of Net Sales	% Change
Net Sales:					
Enterprise Solutions	$ 872.0	41.5 %	$ 823.8	41.4 %	5.8 %
Business Solutions	797.7	37.9	778.2	39.1	2.5
Public Sector Solutions	433.7	20.6	388.0	19.5	11.8
Total	$2,103.4	100.0 %	$1,990.0	100.0 %	5.7 %
Gross Profit:					
Enterprise Solutions	$ 129.1	14.8 %	$ 117.8	14.3 %	9.6 %
Business Solutions	150.1	18.8	138.2	17.8	8.6
Public Sector Solutions	56.0	12.9	48.3	12.4	15.9
Total	$ 335.2	15.9 %	$ 304.3	15.3 %	10.2 %

Net sales increased for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018, as explained below:

- Net sales of $872.0 million for the Enterprise Solutions segment reflect an increase of $48.2 million, or 5.8%, primarily driven by increases in net sales of notebooks/mobility and desktop products, which grew by $44.7 million and $20.8 million, respectively, as the Company has benefitted from the personal computer refresh driven by the anticipated end-of-life support for Windows 7 and technological advances in hardware that enable modern workplace solutions. Also contributing to the change year-over-year were an increase in sales of accessories of $19.1 million and decreases in sales of server/storage and net/com products of $21.7 million and $10.2 million, respectively, which were primarily attributable to the timing of large product rollouts.

- Net sales of $797.7 million for the Business Solutions segment reflect an increase of $19.5 million, or 2.5%. The increase in net sales year-over-year was primarily driven by growth in notebooks/mobility and desktop products of $18.1 and $13.9 million, respectively. This growth was partially offset by a decrease in net/com products of $12.7 million. While net sales in the nine months ended September 30, 2019 were improved by our third quarter results, net sales throughout the year were negatively impacted by a higher percentage of our software sales recognized on a net basis in the current period in transactions where we are considered to be the agent. Though we have experienced strong growth in cloud-based and security software sales, revenues from these products are recognized on a net basis, resulting in a smaller contribution to net sales.

- Net sales of $433.7 million for the Public Sector Solutions segment reflect an increase of $45.7, or 11.8%. We experienced growth year-over-year in almost every product category, highlighted by increases in net sales of notebooks/mobility, sofware, and desktop products of $16.0 million, $9.9 million, and $8.1 million, respectively.

Gross profit for the nine months ended September 30, 2019 increased year-over-year in dollars and as a percentage of net sales (gross margin), as explained below:

- Gross profit for the Enterprise Solutions segment increased due to higher invoice selling margins of 57 basis points, driven primarily by an increase in software sales reported on a net basis, and partially offset by a decrease in agency fees of 4 basis points. Agency fees, which we receive from vendors for certain software and hardware sales, are recorded as revenue with no corresponding cost of goods sold, and accordingly have a positive impact on gross margin.

- Gross profit for the Business Solutions segment increased period-over-period primarily fromhigher invoice selling margins of 81 basis points, driven by an increase in software sales reported on a net basis. Agency fees from enterprise software agreements also increased year-over-year by $2.2 million.

- Gross profit for the Public Sector Solutions segment increased as a result of changes in customer mix and higher invoice selling margins of 44 basis points, driven primarily by improved hardware margins and an increase in software sales reported on a net basis. Agency fees from enterprise software agreements also increased year-over-year by $0.2 million.

Selling, general and administrative expenses increased in dollars and decreased as a percentage of net sales in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. SG&A expenses attributable to our three segments and the remaining unallocated Headquarters/Other group expenses are summarized in the table below (dollars in millions):

	Nine Months Ended September 30,				
	2019		2018		
($ in millions)	Amount	% of Segment Net Sales	Amount	% of Segment Net Sales	% Change
Enterprise Solutions	$ 78.2	9.0 %	$ 74.2	9.0 %	5.4 %
Business Solutions	111.6	14.0	109.8	14.1	1.6
Public Sector Solutions	51.3	11.8	50.4	13.0	1.8
Headquarters/Other, unallocated	11.0		10.5		4.8
Total	$ 252.1	12.0 %	$ 244.9	12.3 %	2.9 %

- SG&A expenses for the Enterprise Solutions segment increased in dollars and remained flat as a percentage of net sales. The year-over-year increase in SG&A dollars was primarily driven by a $2.1 million increase in personnel expenses, including merit increases and variable compensation associated with higher gross profit, and a $1.1 million increase in the usage of Headquarters services. Also contributing to the year-over-year change were increases in advertising expenses of $0.6 million and depreciation and amortization expense of $0.2 million. SG&A expenses as a percentage of net sales was 9.0% for the Enterprise Solutions segment for both periods ended September 30, 2019 and 2018.

- SG&A expenses for the Business Solutions segment increased in dollars and decreased slightly as a percentage of net sales. The year-over-year increase in SG&A dollars was primarily driven by a $2.3 million increase in the usage of Headquarter services in the current period, along with a $1.3 million increase in advertising expenses. These increases were partially offset by a decrease in personnel-related expenses of $0.8 million, which was driven by a decrease in expenses attributable to the reallocation of certain personnel-related expenses in the first half of 2018 to the Headquarters/Other group, partially offset by increased variable compensation associated with higher gross profits. Also offsetting the period-over-period increases in SG&A expenses was a decrease in bad debt expense associated with the timing of certain write-offs. SG&A expenses as a percentage of net sales was 14.0% for the Business Solutions segment, which reflects a decrease of 10 basis points compared to the prior period.

- SG&A expenses for the Public Sector Solutions segment increased in dollars and decreased as a percentage of net sales. The year-over-year increase in SG&A dollars was primarily driven by a $0.8 million increase in the usage of Headquarters sevices, along with a $0.6 million increase in personnel expenses, including variable compensation associated with higher gross profit. These increases were partially offset by a $0.3 million decrease in professional fees. SG&A expenses as a percentage of net sales was 11.8% for the Public Sector segment, which reflects a decrease of 120 basis points compared to the prior period, resulting from net sales growth that outpaced spending compared with the same period a year ago.

- SG&A expenses for the Headquarters/Other group increased primarily due to a $1.4 million increase in personnel-related costs driven primarily by a higher headcount, increased payroll expense, and increased variable compensation associated with higher gross profits. Professional fees and facilities costs also increased by $1.6 million and $1.2 million, respectively. The Company also incurred $0.7 million in restructuring and other charges in the current year. These increases were partially offset by a decrease in unallocated executive oversight costs of $4.2 million and a decrease in depreciation and amortization expense of $0.3 million. The Headquarters/Other group provides services to the three segments in areas such as finance, human resources, IT, marketing, and product management. Most of the operating costs associated with such corporate Headquarters services are charged to the segments based on their estimated usage of the underlying services. The amounts shown in the table above represent the remaining unallocated costs.

Restructuring and other charges incurred in the first quarter of 2019 were $0.7 million and related to a reduction in workforce in our Headquarters/Other group, and included cash severance payments and other related benefits. Also included were costs incurred related to the closing of one of our office facilities. There were no such charges incurred in the third quarter of 2019 or in the nine months ended September 30, 2018.

Income from operations for the nine months ended September 30, 2019 increased to $82.4 million, compared to $59.4 million for the nine months ended September 30, 2018, primarily due to the increase in net sales and gross profit year-over-year. Income from operations as a percentage of net sales was 3.9% for the nine months ended September 30, 2019, compared to 3.0% of net sales for the same period in the prior year, primarily due to the growth rate in gross profit exceeding the growth rate in SG&A expenses.

Our effective tax rate was 27.4% for the nine months ended September 30, 2019, compared to 27.6% for the nine months ended September 30, 2018. We expect our corporate income tax rate for 2019 to range from 27% to 29%.

Net income for the nine months ended September 30, 2019 increased to $60.1 million, compared to $43.3 million for the nine months ended September 30, 2018, primarily due to higher gross profit and improved operating expense management in the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018.

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 working capital for operational needs, capital expenditures for computer equipment and software used in our business, special dividend payments, repurchases of common stock for treasury, and as opportunities arise, acquisitions of businesses.

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

We expect to meet our cash requirements for the next twelve months through a combination of cash on hand, cash generated from operations, and borrowings under our bank line of credit, as follows:

- *Cash on Hand*. At September 30, 2019, we had $98.5 million in cash and cash equivalents.
- *Cash Generated from Operations*. We expect to generate cash flows from operations in excess of operating cash needs by generating earnings and managing net changes in inventories and receivables with changes in payables to generate a positive cash flow.
- *Credit Facilities.* As of September 30, 2019, we had no borrowings under our $50.0 million bank line of credit, which is available until February 10, 2022. This line of credit can be increased, at our option, to $80.0 million for approved acquisitions or other uses authorized by the bank. Borrowings are, however, limited by certain minimum collateral and earnings requirements, as described more fully below.

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

Summary of Sources and Uses of Cash

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

	Nine Months Ended	
($ in millions)	2019	2018
Net cash provided by operating activities	$ 40.0	$ 81.3
Net cash used in investing activities	(20.6)	(15.6)
Net cash used in financing activities	(12.6)	(13.4)
Increase in cash and cash equivalents	$ 6.8	$ 52.3

Cash provided by operating activities was $40.0 million in the nine months ended September 30, 2019. Cash flow provided by operations in the nine months ended September 30, 2019 resulted primarily from net income before depreciation and amortization, an increase in accrued expenses, and a decrease in prepaid expenses. These factors that contributed to the positive inflow of cash from operating activities were partially offset by increases in accounts receivable and inventory, which grew by $31.4 million and $6.9 million, respectively, compared with the prior year-end balance. Days sales outstanding increased to 52 days at September 30, 2019, compared to 50 days at September 30, 2018. Inventory increased from the prior year-end balance due to higher levels of inventory on-hand related to future backlog and an increase in shipments in transit but not received by our customers as of September 30, 2019 compared to December 31, 2018. Inventory turns decreased to 16 for the third quarter of 2019 compared to 22 turns for the prior year quarter. This decrease was driven by a higher inventory balance in the current period, primarily related to committed customer orders not yet shipped as of the end of the quarter.

Cash used in investing activities in the nine months ended September 30, 2019 represented $20.6 million of purchases of property and equipment. These expenditures were primarily for computer equipment and capitalized internally-developed software in connection with investments in our IT infrastructure, compared to $15.6 million of purchases of property and equipment in the prior year.

Cash used in financing activities in the nine months ended September 30, 2019 consisted primarily of an $8.5 million payment of a special $0.32 per share dividend and $4.4 million for the purchase of treasury shares. In the prior year period, financing activities primarily represented a $9.1 million payment of a special $0.34 per share dividend and $4.4 million for the purchase of treasury shares.

Debt Instruments, Contractual Agreements, and Related Covenants

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

Credit Facility. Our bank line of credit extends until February 2022 and is collateralized by our accounts receivable. Our borrowing capacity is up to $50.0 million. Amounts outstanding under the facility bear interest at the one-month London Interbank Offered Rate, or LIBOR, plus a spread based on our funded debt ratio, or in the absence of LIBOR, the prime rate (5.00% at September 30, 2019). The one-month LIBOR rate at September 30, 2019 was 2.02%. In addition, we have the option to increase the facility by an additional $30.0 million to meet additional borrowing requirements. Our credit facility is subject to certain covenant requirements which are described below under “Factors Affecting Sources of Liquidity.” At September 30, 2019, $50.0 million was available for borrowing under the facility.

Cash receipts are automatically applied against any outstanding borrowings. Any excess cash on account may either remain on account to generate earned credits to offset up to 100% of cash management fees, or may be invested in short-term qualified investments. Borrowings under the line of credit are classified as current.

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

Contractual Obligations. The disclosures relating to our contractual obligations in our Annual Report on Form 10-K for the year ended December 31, 2018 have not materially changed since the report was filed.

Factors Affecting Sources of Liquidity

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

Credit Facility. Our credit facility contains certain financial ratios and operational covenants and other restrictions (including restrictions on additional debt, guarantees, and other distributions, investments, and liens) with which we and all of our subsidiaries must comply. Our credit facility does not include restrictions on future dividend payments. Any failure to comply with the covenants and other restrictions would constitute a default and could prevent us from borrowing funds under this line of credit. This credit facility contains two financial covenants:

- Our funded debt ratio (defined as the average outstanding advances under the line for the quarter, divided by our consolidated Adjusted EBITDA—earnings before interest expense, taxes, depreciation, amortization, and special charges—for the trailing four quarters) must not be more than 2.0 to 1.0. Our outstanding borrowings under the credit facility during nine months ended September 30, 2019 were zero, and accordingly, the funded debt ratio did not limit potential borrowings as of September 30, 2019. Future decreases in our consolidated Adjusted EBITDA, could limit our potential borrowings under the credit facility.
- Our minimum consolidated net worth (defined as our consolidated total assets less our consolidated total liabilities) must be at least $346.7 million, plus 50% of consolidated net income for each quarter, beginning with the quarter ended December 31, 2016 (loss quarters not counted). Such amount was calculated as $443.0 million at September 30, 2019, whereas our consolidated stockholders' equity at that date was $583.1 million.

Capital Markets. Our ability to raise additional funds in the capital market depends upon, among other things, general economic conditions, the condition of the information technology industry, our financial performance and stock price, and the state of the capital markets.

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our critical accounting policies have not materially changed from those discussed in our Annual Report on Form 10-K for the year ended December 31, 2018.

RECENTLY ISSUED FINANCIAL ACCOUNTING STANDARDS

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

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

For a description of our market risks, see Item 7A. “Quantitative and Qualitative Disclosures About Market Risk” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018. No material changes have occurred in our market risks since December 31, 2018.

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

Disclosure Controls and Procedures

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2019. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives as described above. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter ended September 30, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1A - Risk Factors

In addition to other information set forth in this report, you should carefully consider the factors discussed in Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2018, which could materially affect our business, financial position, and results of operations. We did not identify any additional risks in the current period that are not included in our Annual Report. Risk factors which could cause actual results to differ materially from those suggested by forward-looking statements include but are not limited to those discussed or identified in this document, in our public filings with the SEC, and those incorporated by reference in Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2018.

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

The following table sets forth certain information with respect to repurchases of our common stock during the quarter ended September 30, 2019.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)(2)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1) (in thousands)
July 1 - July 31, 2019	—	$ —	—	$ 23,891
August 1 - August 31, 2019	—	$ —	—	$ 23,891
September 1 - September 30, 2019	23,472	$ 36.73	23,472	$ 23,029
Total	23,472	$ 36.73	23,472	

(1) In December 2018, our Board of Directors announced a new share repurchase program of our common stock authorizing up to $25 million in share repurchases to be added to our previous publicly-announced share repurchase programs. Purchases may be made in open-market transactions, block transactions on or off an exchange, or in privately negotiated transactions.

(2) We have repurchased approximately 2.3 million shares of our common stock for approximately $32 million pursuant to Board-approved programs.

Item 6 - Exhibits

Exhibit Number		Description
10.1	*	Amendment No. 1, dated April 16, 2015, to Lease Agreement between the Registrant and Wilmington Investors, LLC, dated August 27, 2014, for property located at 3336 Progress Way, Building 11, Wilmington, OH
10.2	*	Amendment No. 2, dated August 29, 2019, to Lease Agreement between the Registrant and Wilmington Investors, LLC, dated August 27, 2014, for property located at 3336 Progress Way, Building 11, Wilmington, OH
31.1	*	Certification of the Company's President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	*	Certification of the Company's Senior Vice President and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	*	Certification of the Company's President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	*	Certification of the Company's Senior Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	**	XBRL Instance Document.
101.SCH	**	XBRL Taxonomy Extension Schema Document.
101.CAL	**	XBRL Taxonomy Calculation Linkbase Document.
101.DEF	**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	**	XBRL Taxonomy Label Linkbase Document.
101.PRE	**	XBRL Taxonomy Presentation Linkbase Document.

* Filed herewith.
** Submitted electronically herewith.

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at September 30, 2019 and December 31, 2018, (ii) Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2019 and September 30, 2018, (iii) Condensed Consolidated Statements of Stockholders' Equity at September 30, 2019 and December 31, 2018, (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2019 and September 30, 2018, and (v) Notes to Unaudited Condensed Consolidated Financial Statements.

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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.

Date:	October 30, 2019	By:	/s/ TIMOTHY J. MCGRATH Timothy J. McGrath President and Chief Executive Officer (Duly Authorized Officer)
Date:	October 30, 2019	By:	/s/ THOMAS C. BAKER Thomas C. Baker Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)

Exhibit 10.1

FIRST AMENDMENT TO LEASE AGREEMENT

BY AND BETWEEN

WILMINGTON INVESTORS, LLC

a Delaware Limited Liability Company ("Landlord")

AND

PC CONNECTION, INC.

a Delaware corporation
("Tenant")

Prepared By:

Owen T.Hughes, Esq.
Mandelbaum SaJsbnrg P.C.

3 Becker Farm Road, Suite 105
Roseland, New .Jersey 07068

THIS First Amendment to Lease (the “amendment”) dated the day of March, 2015, between WILMINGTON INVESTORS, LLC, a Delaware limited liability company, with an address at 111 Magee Avenue, Lavallette, New Jersey 08735 ("Landlord") and PC CONNECTION, INC., a Delaware corporation, with offices at 730 Milford Road, Merrimack, New Hampshire 03054 ("Tenant").

BACKGROUND

A. On August 27, 2014, Landlord and Tenant entered into that certain Lease Agreement for the land and building commonly known as 3336 Progress Way, Building 11, Wilmington, Ohio ("Lease").

B. Pursuant to the terms of Section 4.01 of the Lease, Landlord, at its sole cost and expense, agreed it wou1d construct or cause to be constructed certain "Landlord Improvements", including certain work installed for the benefit of the Tenant referred to as the "Fit Up Work", all as defined in the scope of work set forth on Exhibit D to the Lease.

C. Tenant has requested that Landlord undertake for the benefit of the Tenant, additional fit-up work, which is not contained within the scope of work set forth in Exhibit D to the Lease.

D. Landlord has agreed to undertake such additional fit-up work pursuant to the terms and conditions contained herein.

E. Landlord and Tenant desire to enter into this First Amendment to Lease to provide the terms and provisions for the installation, performance, and payment of the additional fit-up work requested by the Tenant.

NOW THEREFORE, in consideration of the foregoing and mutual covenants contained herein, Landlord and Tenant agree as follows:

1. Tenant has requested and Landlord has agreed to perform additional work not contained within the scope of work set forth in Exhibit D to the Lease. Said additional work will be undertaken pursuant to the Change Orders entered, and to be entered in the future between the Landlord and Tenant. The term "Change Order" shall mean a work order for additional work not contained within the scope of work set forth in Exhibit D to the Lease, which work order shall set forth the description of work and the estimated cost of such work.

2. As of the Effective Date of this First Amendment, the Landlord and Tenant acknowledge and agree that following Change Orders have been entered between the parties:

RFC#	DATE	DESCRIPTION	VALUE
18	1/26/2015	Furnish and Install 2 Mitsubishi Split Systems for Bum In Room Cooling Requirements	$17,299.00
24	2/2/2015	Changes in Permit Drawings Requested by PCC After GMP Established	$13,890.00
36	2/23/2015	Replace Existing UPS – supply only $87,638.00 Deduct Liebert Maintenance (-12,370.00) Total - $75,268.00	$75,268.00
TOTAL:			$106,457. 00

A copy of all of the aforesaid Change Orders are annexed hereto and are referred to herein as the "Existing Change Orders". All of the work the subject of the Change Orders entered between the parties, including without limitation, the Existing Change Orders, as well as any future Change Orders duly executed by the parties, shall be hereinafter referred to as "Tenants Additional Fit Up Work".

3. The Tenant's Additional Fit-Up Work shall be deemed part of the "Landlord Improvements" and except as expressly provided otherwise herein, all references in the Lease to "Landlord Improvements" shall be deemed to include the Tenant's Additional Fit-Up Work.

4. Unless otherwise provided in the applicable Change Order, the Tenant's Additional Fit-Up Work shall be completed in conjunction with the timetable and conditions for the completion of the Landlord's Improvements set forth in the Lease including without limitation Section 2.03 of the Lease.

5. Unless otherwise provided in the applicable Change Order, the Tenant's Additional Fit-Up Work shall be subject to the terms and provisions of Article IV of the Lease, including in particular and without limitation the provisions of Section 4.04.

6. Notwithstanding anything to the contrary contained in the Lease, on the Commencement Date, Tenant shall pay in full, by way of a lump sum payment, an amount equal to the total costs of all of the Change Orders constituting the Tenant's Additional Fit-Up Work. Failure of Tenant to make said payment on or before the Commencement Date shall be deemed an Event of Default under the Lease and Landlord shall be entitled to enforce all of its rights and remedies under the Lease with respect to the Tenant's Additional Fit-Up Work as if the payment for same was Rent or Additional Rent due under the Lease.

7. All of the terms of the Lease, except as specifically modified herein, shall remain in full force and effect, and shall pertain to the Tenant's Additional Fit-Up Work, to the extent applicable.

8. This First Amendment may be executed in on or more counterparts, each of which shall be deemed an original against any party who signs such counterpart, but all of which together shall constitute one and the same instrument.

[Signatures appear on next page]

IN WTINESS WHEREOF, Landlord and Tenant have executed this First Amendment to Lease as of the day and year first above written.

LANDLORD:

WILMINGTON INVESTORS LLC

a Delaware limited liability company

By: Wilmington Partners of NJ,
LLC a New Jersey limited liability company

By: ______________________________
Title: Manager

TENANT

PC CONNECTION, INC.

A Delaware corporation

By: ______________________________
Name: Timothy McGrath
Title: President and CEO

Exhibit A

Copies of Existing Change Orders

Exhibit 10.2

SECOND AMENDMENT TO LEASE AGREEMENT

THIS SECOND AMENDMENT TO LEASE AGREEMENT (this "Second Amendment") is made and entered into as of August **__,** 2019 (the "Effective Date"), by and between WILMINGTON TIC-SB, LLC , a Delaware limited liability company as a successor to the original lessor, Wilmington Investors, LLC, a Delaware limited liability company ("Lessor") and PC CONNECTION, INC., a Delaware corporation, with an address of 730 Milford Road, Merrimack, New Hampshire 03054 ("Lessee").

RECITALS

WHEREAS, Lessor and Lessee entered into that certain Lease Agreement dated August 27th, 2014 (the "Original Lease"), demising the Demised Premises at 3336 Progress Way, Building 11, Wilmington, Ohio and also known as Parcel Number 2902003030000000, as more particularly described in the Original Lease; and

WHEREAS, Lessor and Lessee amended the Original Lease by letters from Mandelbaum, Salsburg, Lazris & Discenza, P.C. dated October 6, 2014 and October 7, 2014 (the Original Lease with such amendments being the "Lease"); and

WHEREAS, Lessor and Lessee desire to further amend the Lease:

NOW THEREFORE, as of the Effective Date, for and in consideration of the mutual covenants contained herein and other good and valuable consideration exchanged by each of the parties to this Second Amendment, the receipt and sufficiency of which are hereby acknowledged, the Lease, is hereby further amended as follows:

1. Replacement Generator. Notwithstanding the provisions of Section 9.01(a), Lessor agrees, at its sole cost and expense, promptly but not later than December 31, 2019 to replace the generator serving the Demised Premises with a new generator meeting the specifications set forth on Exhibit A hereto. Commencing with the installation of the new generator, Lessee shall be responsible to maintain the same as required by Lease, including Section 9.01, and shall execute any required maintenance contracts and take all other appropriate action to prevent the invalidation of the manufacturer's warranty, but shall be permitted to make any claim under the manufacturer's warranty, but only after notice to Lessor. Lessee agrees to replace the new generator during the Term of the Lease, if replacement is necessary or appropriate as a result of ordinary wear and tear or to the extent provided in Article 11 in the case of loss by casualty. Lessor agrees to reimburse Lessee based on invoices for the third party leasing costs incurred by Lessee from and after May 1, 2019 until the replacement generator being furnished by Lessor under this Section 1 of this Second Amendment is operational. Lessor shall be responsible for removing the original generator from the Demised Premises and shall return the temporary generator as directed by the Lessee in an "AS IS" condition as of the date it is disconnected. In addition, Lessee hereby releases Lessor for all other claims for reimbursement of any costs incurred by it arising out of the failure of the generator previously furnished by Lessor and all claims for actual or consequential damages incurred by it or its affiliates as a result of such failure, including not replacing it earlier.

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2. Extension of Lease Term. The first sentence of Section 2.01 is deleted and replaced with the following:

"The term of this Lease and the demise of the Demised Building shall be for One Hundred and Thirty-Two (132) months beginning September 1, 2015 (the "Commencement Date") and ending on August 31, 2026, which term is hereinafter called the "Term" or "Lease Term."

3. Option of Early Termination. Section 2.04 is hereby deleted in its entirety and of no further force and effect.

4. Base Rent. Section 3.02 is hereby amended to set forth the "Basic Rent" for the period 9/1/2025 to 8/31/2026:

Lease Year	**Annual Basic Rent**	**Monthly Basic Rent**	**SF Rate**
9/1/2025 to 8/31/2026	$876,739	$73,061.58	$3.10/sf

5. Notices. All notices or other communications required or permitted under the Lease will be given to Lessor at the following addresses:

Lessor: WILMINGTON TIC-SB, LLC
c/o SKM Realty Management LLC
254 West 31st Stret, 4th Floor New York,
NY 10001

With a copy to: Seyfarth Shaw LLP
233 S. Wacker Drive Suite 8000
Chicago, IL 60606 Attn: Joel D. Rubin

6. Miscellaneous.

A . Counterparts. This Second Amendment may be executed in any number of counterparts via facsimile or electronic transmission or otherwise, each of which shall be deemed an original, but all of which, taken together, shall constitute one and the same instrument.

B. Entire Agreement. This Second Amendment and the Lease sets forth the entire agreement between the parties with respect to the matters set forth herein. There have been no additional oral or written representations or agreements.

C. Authority. The parties signing below on behalf of the parties hereto represent and warrant that they have the authority and power to bind their respective party.

D. Terms. Capitalized terms not otherwise defined herein shall have the same meanings as are set forth in the Lease.

E. Parties Bound. This Second Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, successors and assigns.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto, through their duly authorized representatives, have on the dates set forth below executed this Second Amendment to be effective as of the Effective Date.

LANDLORD:	TENANT:
WILMINGTON TIC-SB, LLC, a Delaware limited liability company	PC CONNECTION, INC., a Delaware corporation,
By: ______________________	By: ______________________
Name: ______________________	Name: ______________________
Title: ______________________	Title: ______________________
Date: ______________________	Date: ______________________

EXHIBIT A

SPECIFICATIONS FOR NEW GENERATOR - ATTACHED

Quotation

Cummins Sales and Service - East Region

5400 Rialto Road

West Chester OH 45069 United States

Direct: 513-956-3058

June 24, 2019

Project Name: Connection Quotation:4846000000019811

Thank you for your Inquiry. We are pleased to quote as follows:

Item	Description	USD Qty
	Diesel Genset: 60Hz11000kW	
	U.S. EPA, Stationary Emergency Application	
1000DQFAD	Genset-Dletel,60Hz, 1OOOkW	
A331-2	Duty Rating-Standby Power	
l090-2	Listing-UL 2200	
L170-2	Emissions Certification, EPA, Tier 2, NSPS Cl Stationary Emergency	
F200-2	Enclosure-Steel, Weather Protective, Base Mtd, w/Exhaust System	1
C251-2	Fuel Tank-Subbase, 1500 Gallon, UL142 Compliant, Ohio Compliant	
R002-2	Voltage-277/480, 3 Phase, Wye,4 Wire	
8252-2	Alternator-60 Hz, 12 Lead, Broad Range, 1251105C	1
H704-2	Generator Set Control-PowerCommand 3.3, Paralleling	1
H678-2	Display-Control, LCD	1
KP74-2	Stop Switch-Emergency , Externally Mounted	1
KU67-2	Relay&-Paralleling Circuit Breaker Control	1
H609-2	Control Mounting-Left Facing	1
KP87-2	CB-160DA,3P,600/690V,UUIEC,ServEnt,100%UL,Left	1
P175-2	Enclosure Color-Green, Steel Enclosure	
L163-2	listing, ULC-SB01-07	
C258-2	Fuel Tank Connection-Dual Stub Up	1
E126-2	EngineCooling-Enhanced HighAmblent Air Temperature	1
H389-2	Shutdown-Low Coolant Level	1
E098-2	Sight Glass-Coolant Level	1
H657-2	Coolant Heater-208f240/480V, Below 40F Ambient Temp	1
0041 2	Engine Air Cleaner-Normal Duty	1
L028-2	Genset Warranty- Base	1
0300-5929-02	Annunciator-Panel Mounted With Enclosure (RS485)	1
A04BG802	Battery Charger-1OAmp,120/2081240VAC,12/24V,50/60Hz	1
SU-5000	Start Up After Installation & 2Hr Load Bank	1
PD GS120SN4X	Remote Emergency Stop station In a NEMA 4X Enclosure	1
BE OOBD-2	24VDC Engine Starting Batteries 1165CCA	1
EUR-5004	Removal transport of existing genset	

Exhibit 31.1

CERTIFICATION

I, Timothy J. McGrath, certify that:

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

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 30, 2019

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

Exhibit 31.2

CERTIFICATION

I, Thomas C. Baker, certify that:

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

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

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

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

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: October 30, 2019

/s/ THOMAS C. BAKER

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

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, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Timothy J. McGrath, President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

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

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

Date: October 30, 2019

/s/ TIMOTHY J. MCGRATH

Timothy J. McGrath
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, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Thomas C. Baker, Senior Vice President, Chief Financial Officer and Treasurer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

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

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

Date: October 30, 2019	/s/ THOMAS C. BAKER
	Thomas C. Baker
	Senior Vice President, Chief Financial Officer and Treasurer