

# PC CONNECTION INC

## FORM 10-Q (Quarterly Report)

Filed 11/06/15 for the Period Ending 09/30/15

Address	ROUTE 101A 730 MILFORD RD MERRIMACK, NH 03054
Telephone	6036832000
CIK	0001050377
Symbol	PCCC
SIC Code	5961 - Catalog and Mail-Order Houses
Industry	Retail (Catalog & Mail Order)
Sector	Services
Fiscal Year	12/31

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

(Mark One)

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

For the quarterly period ended September 30, 2015

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)

**730 MILFORD ROAD,  
MERRIMACK, NEW HAMPSHIRE**

(Address of principal executive offices)

**02-0513618**

(I.R.S. Employer  
Identification No.)

**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

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).

YES       NO

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if smaller reporting company) Smaller reporting company

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 November 2, 2015 was 26,444,470.

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PC CONNECTION, INC. AND SUBSIDIARIES  
FORM 10-Q

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

	<u>Page</u>
ITEM 1. Unaudited Condensed Consolidated Financial Statements:	
<a href="#">Condensed Consolidated Balance Sheets—September 30, 2015 and December 31, 2014</a>	1
<a href="#">Condensed Consolidated Statements of Income—Three and Nine Months Ended September 30, 2015 and 2014</a>	2
<a href="#">Condensed Consolidated Statements of Cash Flows—Nine Months Ended September 30, 2015 and 2014</a>	3
<a href="#">Notes to Unaudited Condensed Consolidated Financial Statements</a>	4
ITEM 2. <a href="#">Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	8
ITEM 3. <a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	18
ITEM 4. <a href="#">Controls and Procedures</a>	19

PART II OTHER INFORMATION

ITEM 1A. <a href="#">Risk Factors</a>	20
ITEM 6. <a href="#">Exhibits</a>	20
<a href="#">SIGNATURES</a>	21

**PC CONNECTION, INC. AND SUBSIDIARIES**  
**PART I—FINANCIAL INFORMATION**  
**Item 1—Financial Statements**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(Unaudited)**  
*(amounts in thousands)*

	September 30, 2015	December 31, 2014
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 76,867	\$ 60,909
Accounts receivable, net	331,186	293,027
Inventories	102,573	90,917
Deferred income taxes	7,749	7,749
Prepaid expenses and other current assets	4,632	5,332
Income taxes receivable	833	212
Total current assets	523,840	458,146
Property and equipment, net	32,400	27,861
Goodwill	51,276	51,276
Other intangibles, net	1,393	1,953
Other assets	1,173	724
Total Assets	<u>\$ 610,082</u>	<u>\$ 539,960</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 161,054	\$ 124,893
Accrued expenses and other liabilities	22,871	22,011
Accrued payroll	15,909	17,793
Total current liabilities	199,834	164,697
Deferred income taxes	18,859	18,803
Other liabilities	2,723	2,452
Total Liabilities	<u>221,416</u>	<u>185,952</u>
Stockholders' Equity:		
Common stock	283	282
Additional paid-in capital	108,399	106,956
Retained earnings	295,846	262,632
Treasury stock, at cost	(15,862)	(15,862)
Total Stockholders' Equity	<u>388,666</u>	<u>354,008</u>
Total Liabilities and Stockholders' Equity	<u>\$ 610,082</u>	<u>\$ 539,960</u>

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net sales	\$ 680,769	\$ 639,570	\$ 1,889,650	\$ 1,832,574
Cost of sales	592,201	555,918	1,640,482	1,592,309
Gross profit	88,568	83,652	249,168	240,265
Selling, general and administrative expenses	66,707	63,235	193,505	188,900
Income from operations	21,861	20,417	55,663	51,365
Interest/other expense, net	(29)	(36)	(67)	(72)
Income before taxes	21,832	20,381	55,596	51,293
Income tax provision	(8,831)	(8,204)	(22,382)	(20,556)
Net income	<u>\$ 13,001</u>	<u>\$ 12,177</u>	<u>\$ 33,214</u>	<u>\$ 30,737</u>
Earnings per common share:				
Basic	<u>\$ 0.49</u>	<u>\$ 0.46</u>	<u>\$ 1.26</u>	<u>\$ 1.17</u>
Diluted	<u>\$ 0.49</u>	<u>\$ 0.46</u>	<u>\$ 1.25</u>	<u>\$ 1.16</u>
Shares used in computation of earnings per common share:				
Basic	<u>26,423</u>	<u>26,266</u>	<u>26,281</u>	<u>26,225</u>
Diluted	<u>26,622</u>	<u>26,524</u>	<u>26,514</u>	<u>26,498</u>

See notes to unaudited condensed consolidated financial statements.

**PC CONNECTION, INC. AND SUBSIDIARIES**  
**PART I—FINANCIAL INFORMATION**  
**Item 1—Financial Statements**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**  
*(amounts in thousands)*

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 33,214	\$ 30,737
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,597	5,998
Provision for doubtful accounts	1,103	826
Stock-based compensation expense	720	702
Deferred income taxes	56	50
Excess tax benefit from exercise of equity awards	(472)	(503)
Changes in assets and liabilities:		
Accounts receivable	(39,262)	8,287
Inventories	(11,656)	(3,400)
Prepaid expenses and other current assets	79	(2,102)
Other non-current assets	(449)	(31)
Accounts payable	35,654	(15,430)
Accrued expenses and other liabilities	(279)	3,749
Net cash provided by operating activities	<u>25,305</u>	<u>28,883</u>
<b>Cash Flows from Investing Activities:</b>		
Purchases of property and equipment	(10,069)	(5,522)
Proceeds from sale of equipment	—	10
Net cash used for investing activities	<u>(10,069)</u>	<u>(5,512)</u>
<b>Cash Flows from Financing Activities:</b>		
Excess tax benefit from exercise of equity awards	472	503
Issuance of stock under Employee Stock Purchase Plan	435	360
Exercise of stock options	379	186
Payment of payroll taxes on stock-based compensation through shares withheld	(564)	(533)
Net cash provided by financing activities	<u>722</u>	<u>516</u>
Increase in cash and cash equivalents	15,958	23,887
Cash and cash equivalents, beginning of period	60,909	42,547
Cash and cash equivalents, end of period	<u>\$ 76,867</u>	<u>\$ 66,434</u>
<b>Non-cash Investing Activities:</b>		
Accrued capital expenditures	\$ 711	\$ 290
<b>Supplemental Cash Flow Information:</b>		
Income taxes paid	\$ 23,360	\$ 22,092

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 condensed consolidated financial statements of PC Connection, Inc. and its subsidiaries (the “Company,” “we,” “us,” or “our”) have been prepared in accordance with accounting principles generally accepted in the United States of America. Such principles were applied on a basis consistent with the accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the Securities and Exchange Commission (the “SEC”). The accompanying condensed consolidated financial statements should be read in conjunction with the financial statements contained in our Annual Report on Form 10-K.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the results of operations for the interim periods reported and of 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, 2015 may not be indicative of the results expected for any succeeding quarter or the entire year ending December 31, 2015.

***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.

***Comprehensive Income***

We had no items of comprehensive income, other than our net income for each of the periods presented.

***Recently Issued Financial Accounting Standards***

On May 28, 2014, the Financial Accounting Standards Board, or the FASB, issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers*, its final standard on revenue from contracts with customers. ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the revenue model to contracts within its scope, an entity identifies the contract(s) with a customer, identifies the performance obligations in the contract, determines the transaction price, allocates the transaction price to the performance obligations in the contract, and recognizes revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 applies to all contracts with customers that are within the scope of other topics in the FASB Accounting Standards Codification. ASU 2014-09 also requires significantly expanded disclosures about revenue recognition. This guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company is currently assessing the potential impact of the adoption of ASU 2014-09 on its consolidated financial statements.

[Table of Contents](#)

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory*, which modifies existing requirements regarding measuring inventory at the lower of cost or market. Under existing standards, the market amount requires consideration of replacement cost, net realizable value (NRV), and NRV less an approximately normal profit margin. The new ASU replaces market with NRV, defined as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This eliminates the need to determine and consider replacement cost or NRV less an approximately normal profit margin when measuring inventory. This standard is effective for the Company prospectively beginning January 1, 2017, with early adoption permitted. The Company is currently assessing the potential impact of the adoption of ASU 2015-11 on its consolidated financial statements.

**Note 2—Earnings Per Share**

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

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

September 30,	Three Months Ended		Nine Months Ended	
	2015	2014	2015	2014
<b>Numerator:</b>				
Net income	\$13,001	\$12,177	\$33,214	\$30,737
<b>Denominator:</b>				
Denominator for basic earnings per share	26,423	26,266	26,281	26,225
Dilutive effect of employee stock awards	199	258	233	273
Denominator for diluted earnings per share	26,622	26,524	26,514	26,498
<b>Earnings per share:</b>				
Basic	\$ 0.49	\$ 0.46	\$ 1.26	\$ 1.17
Diluted	\$ 0.49	\$ 0.46	\$ 1.25	\$ 1.16

For the three and nine months ended September 30, 2015 and 2014, we had no outstanding nonvested stock units or stock options that were excluded from the computation of diluted earnings per share.

**Note 3—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 Chairman of the Board of Directors, and she evaluates operations and allocates resources based on a measure of operating income.

Our operations are organized under three reporting segments—the SMB segment, which serves primarily small- and medium-sized businesses; the Large Account segment, which serves primarily medium-to-large corporations; and the Public Sector 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.



[Table of Contents](#)

Net sales presented below exclude inter-segment product revenues. Segment information applicable to our reportable operating segments for the three and nine months ended September 30, 2015 and 2014 is shown below:

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
<b>Net sales:</b>				
SMB	\$ 268,720	\$ 254,432	\$ 777,940	\$ 775,959
Large Account	242,771	201,979	684,033	625,187
Public Sector	169,278	183,159	427,677	431,428
Total net sales	<u>\$ 680,769</u>	<u>\$ 639,570</u>	<u>\$ 1,889,650</u>	<u>\$ 1,832,574</u>
<b>Operating income (loss):</b>				
SMB	10,462	7,133	30,604	24,510
Large Account	11,007	10,879	30,916	28,981
Public Sector	3,568	4,743	3,552	4,552
Headquarters/Other	(3,176)	(2,338)	(9,409)	(6,678)
Total operating income	<u>\$ 21,861</u>	<u>\$ 20,417</u>	<u>\$ 55,663</u>	<u>\$ 51,365</u>
Interest/other expense, net	(29)	(36)	(67)	(72)
Income before taxes	<u>\$ 21,832</u>	<u>\$ 20,381</u>	<u>\$ 55,596</u>	<u>\$ 51,293</u>
<b>Selected Operating Expense:</b>				
Depreciation and amortization:				
SMB	5	1	16	3
Large Account	319	348	972	1,023
Public Sector	39	23	118	91
Headquarters/Other	1,863	1,761	5,491	4,881
Total depreciation and amortization	<u>\$ 2,226</u>	<u>\$ 2,133</u>	<u>\$ 6,597</u>	<u>\$ 5,998</u>
<b>Assets at September 30, 2015:</b>				
SMB			\$ 201,833	
Large Account			284,575	
Public Sector			64,140	
Headquarters/Other			59,534	
Total assets			<u>\$ 610,082</u>	

The assets of our three operating segments presented above consist primarily of accounts receivable, intercompany receivable, goodwill, and other intangibles. Assets reported under the Headquarters/Other group are managed by corporate headquarters, including cash, inventory, and property and equipment. Total assets for the Headquarters/Other group are presented net of intercompany balance eliminations of \$25,571 as of September 30, 2015. Our capital expenditures consist largely of IT hardware and software purchased to maintain or upgrade our management information systems and equipment related to our new distribution center in 2015. These information systems and the distribution center serve all of our subsidiaries, to varying degrees, and accordingly, our CODM does not evaluate capital expenditures on a segment basis.

**Note 4—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 cash flows.

We are subject to audits by states on sales and income taxes, unclaimed property, employment matters, and other assessments. A comprehensive multi-state unclaimed property audit continues to be in progress. While management believes that known and estimated unclaimed property liabilities have been adequately provided for, it is too early to determine the ultimate outcome of such audits, as not all formal assessments have been finalized. Additional liabilities for this and other audits could be assessed, and such outcomes could have a material, negative impact on our financial position, results of operations, and cash flows.

**Note 5—Bank Borrowing and Trade Credit Arrangements**

We have a \$50,000 credit facility collateralized by our accounts receivables that expires February 24, 2017. This facility can be increased, at our option, to \$80,000 for approved 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, or LIBOR, plus a spread based on our funded debt ratio, or in the absence of LIBOR, the prime rate (3.25% at September 30, 2015). The one-month LIBOR rate at September 30, 2015 was 0.20%. 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. 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 borrowings under the credit facility. We had no outstanding bank borrowings at September 30, 2015 or December 31, 2014, and accordingly, the entire \$50,000 facility was available for borrowings under the credit facility.

At September 30, 2015 and December 31, 2014, we had security agreements with two financial institutions to facilitate the purchase of inventory from various suppliers under certain terms and conditions. The agreements allow a collateralized first position in certain branded products in our inventory financed by the financial institutions up to an aggregated amount of \$65,000. The cost of such financing under these agreements is borne by the suppliers by discounting their invoices to the financial institutions. We do not pay any interest or discount fees on such inventory. At September 30, 2015 and December 31, 2014, accounts payable included \$32,554 and \$17,638, respectively, owed to these financial institutions.

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

*Our management's discussion and analysis of our financial condition and results of operations include the identification of certain trends and other statements that may predict or anticipate future business or financial results that are subject to important factors that could cause our actual results to differ materially from those indicated. See Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014 on file with the SEC.*

**OVERVIEW**

We are a national 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 providers. We operate through three sales segments, which serve primarily: (a) small- to medium-sized businesses, or SMBs, through our PC Connection Sales subsidiary, (b) large enterprise customers, in our Large Account segment, through our MoreDirect subsidiary, and (c) federal, state, and local governmental and educational institutions, in our Public Sector segment, through our GovConnection subsidiary.

We generate sales primarily through outbound telemarketing and field sales contacts by account managers focused on the business, education, and government markets, our websites, and inbound calls from customers responding to our catalogs and other 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 ProConnection services 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 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.

[Table of Contents](#)

To support future growth, we are expanding our IT solution 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 may increase significantly 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 decline.

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 more heavily in our own IT development to meet these new demands. This investment includes significant planned expenditures to update our websites, as buying trends change and electronic commerce continues to grow.

Our investments in IT infrastructure are designed to enable us to operate more efficiently and provide our customers enhanced functionality. While we have not yet finalized our decisions regarding the areas of future investment in our IT infrastructure, we expect to increase our capital investments in our IT infrastructure in the next three to five years, which will also likely increase SG&A expenses as assets are placed into service and depreciated.

## 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:

September 30,	Three Months Ended		Nine Months Ended	
	2015	2014	2015	2014
Net sales ( <i>in millions</i> )	\$ 680.8	\$ 639.6	\$1,889.7	\$1,832.6
Gross margin	13.0%	13.1%	13.2%	13.1%
Selling, general and administrative expenses	9.8%	9.9%	10.2%	10.3%
Income from operations	3.2%	3.2%	3.0%	2.8%

Net sales in the third quarter of 2015 increased year over year by \$41.2 million, or 6.4%, compared to the third quarter of 2014, due to increased sales in our SMB and Large Account segments. Net sales of notebooks/mobility products increased as mobility continued in the third quarter to be a strategic focus for customers in all three segments. Our investments in advanced solution sales also led to increased sales of software and net/com products. SG&A expenses increased in dollars, but decreased as a percentage of net sales due to higher net sales in the third quarter of 2015, compared to the prior year quarter. Operating income in the third quarter of 2015 increased year over year in dollars, but was unchanged as a percentage of net sales due to higher sales of lower-margin products compared to the prior year period.

[Table of Contents](#)**Net Sales Distribution**

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

<b>September 30,</b> <i>Segment</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
SMB	39%	40%	41%	42%
Large Account	36	31	36	34
Public Sector	25	29	23	24
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
<i>Product Mix</i>				
Notebooks/Mobility	24%	22%	23%	22%
Software	15	16	16	16
Servers/Storage	11	12	13	12
Net/Com Products	9	9	8	9
Other Hardware/Services	41	41	40	41
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

**Gross margin**

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

<b>September 30,</b> <i>Segment</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
SMB	15.1%	14.9%	15.4%	15.0%
Large Account	11.9	13.1	12.1	12.5
Public Sector	11.2	10.4	11.0	10.6
Total	<u>13.0%</u>	<u>13.1%</u>	<u>13.2%</u>	<u>13.1%</u>

**Operating Expenses**

The following table reflects our SG&A expenses for the periods indicated (dollars in millions):

<b>September 30,</b>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Personnel costs	\$ 51.2	\$ 48.1	\$ 147.7	\$ 142.4
Advertising	3.5	3.4	11.5	11.6
Facilities operations	3.3	2.9	9.6	9.0
Professional fees	1.8	1.5	5.5	5.4
Credit card fees	1.9	2.0	5.2	5.8
Depreciation and amortization	2.2	2.1	6.6	6.0
Other, net	2.8	3.2	7.4	8.7
Total	<u>\$ 66.7</u>	<u>\$ 63.2</u>	<u>\$ 193.5</u>	<u>\$ 188.9</u>
Percentage of net sales	<u>9.8%</u>	<u>9.9%</u>	<u>10.2%</u>	<u>10.3%</u>

**Year-Over-Year Comparisons**

***Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014***

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

	Three Months Ended September 30,		Three Months Ended September 30,		% Change
	2015	% of Net Sales	2014	% of Net Sales	
	Amount		Amount		
<b>Sales:</b>					
SMB	\$ 268.7	39.4%	\$ 254.4	39.8%	5.6%
Large Account	242.8	35.7	202.0	31.6	20.2
Public Sector	169.3	24.9	183.2	28.6	(7.6)
Total	<u>\$ 680.8</u>	<u>100.0%</u>	<u>\$ 639.6</u>	<u>100.0%</u>	6.4%
<b>Gross Profit:</b>					
SMB	\$ 40.7	15.1%	\$ 38.1	14.9%	6.9%
Large Account	28.9	11.9	26.5	13.1	9.1
Public Sector	19.0	11.2	19.1	10.4	(0.6)
Total	<u>\$ 88.6</u>	<u>13.0%</u>	<u>\$ 83.7</u>	<u>13.1%</u>	5.9%

*Net sales* increased in the third quarter of 2015 compared to the third quarter of 2014, as explained below:

- Net sales for the SMB segment increased due to higher sales of notebook/mobility and net/com products. Mobility continued in the third quarter to be a strategic focus for SMB customers. Our investments in advanced solution sales including customer-facing personnel also led to higher net sales of net/com products.
- Net sales for the Large Account segment increased due to our focus on growing advanced solution sales. Net sales of notebooks/mobility products increased as mobility continued in the third quarter to be a strategic focus for this segment's customers. Software and other hardware product sales in this segment each increased year over year by double-digit percentages, due to our investments in advanced solution sales including customer-facing personnel.
- Net sales to the Public Sector segment decreased by 7.6%, or \$13.9 million. Sales to state and local government and educational institutions decreased by 8.1% due to lower sales to K-12 education customers. Sales to the federal government decreased by 5.7% due to lower sales made under federal government contracts. Sales of net/com, software, and servers/storage in this segment each decreased year over year by double-digit percentages.

*Gross profit* for the third quarter of 2015 increased year over year in dollars, but decreased as a percentage of net sales (gross margin), as explained below:

- Gross profit for the SMB segment increased primarily due to higher net sales. Gross margin increased due to a shift in both client and product mix, including increased sales of higher-margin net/com products.
- Gross profit for the Large Account segment increased due to higher net sales. Gross margin decreased due to lower invoice selling margins (116 basis points) associated with increased sales of lower-margin notebooks/mobility products.
- Gross profit for the Public Sector segment decreased due to lower net sales. Invoice selling margins increased by 88 basis points due to a shift in both product and customer mix, offset partially by a decrease in vendor early-payment discounts (6 basis points).

[Table of Contents](#)

*Selling, general and administrative expenses* increased in dollars, but decreased as a percentage of net sales in the third quarter of 2015 compared to the prior year quarter. SG&A expenses attributable to our three segments and the remaining unallocated Headquarters/Other group expenses are summarized below (dollars in millions):

	<b>Three Months Ended September 30,</b>				
	<b>2015</b>		<b>2014</b>		<b>% Change</b>
	<b>Amount</b>	<b>% of Segment Net Sales</b>	<b>Amount</b>	<b>% of Segment Net Sales</b>	
SMB	\$ 30.2	11.2%	\$ 30.9	12.1%	
Large Account	17.9	7.4	15.6	7.8	14.7
Public Sector	15.4	9.1	14.4	7.8	6.9
Headquarters/Other	3.2		2.3		39.1
<b>Total</b>	<b>\$ 66.7</b>	<b>9.8%</b>	<b>\$ 63.2</b>	<b>9.9%</b>	<b>5.5%</b>

- SG&A expenses for the SMB segment decreased in dollars and as a percentage of net sales due to reductions in advertising expense, lower credit card fees, and lower usage of headquarters services.
- SG&A expenses for the Large Account segment increased in dollars, but decreased as a percentage of net sales. The dollar increase was attributable to investments in solution sales and services and incremental variable compensation associated with higher gross profits. SG&A as a percentage of net sales decreased due to the leveraging of fixed costs over larger net sales.
- SG&A expenses for the Public Sector segment increased in dollars and as a percentage of net sales. The increase in SG&A dollars and as a percentage of net sales was due to increased usage of headquarter personnel and related costs.
- SG&A expenses for the Headquarters/Other group increased due to an increase in unallocated personnel and related costs. 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 above represent the remaining unallocated costs.

*Income from operations* for the third quarter of 2015 increased to \$21.9 million, compared to \$20.4 million for the third quarter of 2014, due to the increase in net sales. Income from operations as a percentage of net sales remained unchanged at 3.2% for the third quarter of 2015 and for the prior year quarter.

Our effective tax rate was 40.4% for the third quarter of 2015, compared to 40.3% for the third quarter of 2014. Our tax rate will vary based on income apportionment to certain jurisdictions, valuation reserves, and accounting for uncertain tax positions. We do not expect these variations to be significant in 2015.

*Net income* for the third quarter of 2015 increased to \$13.0 million, compared to \$12.2 million for the third quarter of 2014, due to the increase in operating income.

***Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014***

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

	<b>Nine Months Ended September 30,</b>				
	<b>2015</b>		<b>2014</b>		<b>% Change</b>
	<b>Amount</b>	<b>% of Net Sales</b>	<b>Amount</b>	<b>% of Net Sales</b>	
<b>Sales:</b>					
SMB	\$ 778.0	41.2%	\$ 776.0	42.3%	0.3%
Large Account	684.0	36.2	625.2	34.1	9.4
Public Sector	427.7	22.6	431.4	23.6	(0.9)
Total	<u>\$1,889.7</u>	<u>100.0%</u>	<u>\$1,832.6</u>	<u>100.0%</u>	3.1%
<b>Gross Profit:</b>					
SMB	\$ 119.5	15.4%	\$ 116.7	15.0%	2.3%
Large Account	82.8	12.1	78.0	12.5	6.2
Public Sector	46.9	11.0	45.6	10.6	2.9
Total	<u>\$ 249.2</u>	13.2%	<u>\$ 240.3</u>	13.1%	3.7%

*Net sales* increased for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014, as explained below:

- Net sales for the SMB segment increased due to higher notebooks/mobility sales. Sales of desktops in the nine months ended September 30, 2014 were high due to the expiration of support for Windows XP software in April 2014. Increased sales of notebooks/mobility, servers/storage, and net/com products for this segment offset the decline in desktops year over year.
- Net sales for the Large Account segment increased due to our focus on growing advanced solution sales. Servers/storage and software product sales for this segment increased year over year by 19% and 18%, respectively, due to our investment in advanced solution sales and the expiration in July 2015 of support for Windows Server 2003 software.
- Net sales to the Public Sector segment decreased by 0.9% or \$3.8 million. Sales to the federal government increased by 11.3% due to higher sales made under federal government contracts, while sales to state and local government and educational institutions decreased by 4.5% due to lower sales to K-12 customers. Sales of notebooks/mobility increased in this segment, offset by decreased sales of net/com products.

*Gross profit* for the nine months ended September 30, 2015 increased year over year in dollars and as a percentage of net sales (gross margin), as explained below:

- Gross profit for the SMB segment increased due to an increase in both net sales and gross margin. Gross margin increased year over year due to higher invoice selling margins (9 basis points) associated with increased sales in 2015 of higher-margin servers/storage and net/com products, as well as an increase in vendor early-payment discounts (8 basis points).
- Gross profit for the Large Account segment increased due to higher net sales. Gross margin decreased year over year due to lower invoice selling margins (53 basis points), offset by higher agency revenues (17 basis points).
- Gross profit for the Public Sector segment increased despite lower net sales. Invoice selling margins increased by 25 basis points due to increased demand for higher-margin products such as storage and servers.



[Table of Contents](#)

*Selling, general and administrative expenses* increased in dollars, but decreased as a percentage of net sales in the nine months ended September 30, 2015 compared to the prior year period. SG&A expenses attributable to our three segments and the remaining unallocated Headquarters/Other group expenses are summarized below (dollars in millions):

	Nine Months Ended September 30,				
	2015		2014		% Change
	Amount	% of Segment Net Sales	Amount	% of Segment Net Sales	
SMB	\$ 88.8	11.4%	\$ 92.2	11.9%	(3.7)%
Large Account	51.9	7.6	49.0	7.8	5.9
Public Sector	43.4	10.1	41.0	9.5	5.9
Headquarters/Other	9.4		6.7		40.3
Total	\$ 193.5	10.2%	\$ 188.9	10.3%	2.4%

- SG&A expenses for the SMB segment decreased in dollars and as a percentage of net sales. The dollar decrease was attributable to lower credit card fees and lower usage of headquarters services. The decrease in SG&A as a percentage of net sales was due to the leveraging of fixed costs over larger net sales.
- SG&A expenses for the Large Account segment increased in dollars, but decreased as a percentage of net sales due to the leveraging of fixed costs over larger net sales. The dollar increase was attributable to investments in solution sales and services and incremental variable compensation associated with higher gross profits.
- SG&A expenses for the Public Sector segment increased in dollars and as a percentage of net sales. The increase in SG&A dollars and as a percentage of net sales was due to increased usage of headquarter personnel and related costs such as our technical solutions group.
- SG&A expenses for the Headquarters/Other group increased due to an increase in unallocated personnel and related costs. 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 above represent the remaining unallocated costs.

*Income from operations* for the nine months ended September 30, 2015 increased to \$55.7 million, compared to \$51.4 million for the nine months ended September 30, 2014. Income from operations as a percentage of net sales was 3.0% for the nine months ended September 30, 2015, compared to 2.8% of net sales for the prior year period.

Our effective tax rate was 40.3% for the nine months ended September 30, 2015, compared to 40.1% for the nine months ended September 30, 2014. Our tax rate will vary based on income apportionment to certain jurisdictions, valuation reserves, and accounting for uncertain tax positions. We do not expect these variations to be significant in 2015.

*Net income* for the nine months ended September 30, 2015 increased to \$33.2 million, compared to \$30.7 million for the nine months ended September 30, 2014, principally due to the increase in operating income.

### 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 new businesses.

## [Table of Contents](#)

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. We expect our capital needs for the next twelve months to consist primarily of capital expenditures of \$8.0 to \$10.0 million, and payments on leases and other contractual obligations of approximately \$3.9 million. We have undertaken a comprehensive review and assessment of our entire business software needs, including commercially available software that meets, or can be configured to meet, those needs better than our existing software. While we have not finalized our decisions regarding the areas of future investment in our IT infrastructure, the incremental capital costs of such a project, if fully implemented, would likely exceed \$20.0 million over the next three to five years.

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 on our bank line of credit, as follows:

- *Cash on Hand* . At September 30, 2015, we had approximately \$76.9 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, 2015, no borrowings were outstanding against our \$50.0 million bank line of credit, which is available until February 24, 2017. Accordingly, our entire line of credit was available for borrowing at September 30, 2015. 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 (in millions):

<u>September 30,</u>	<u>Nine Months Ended</u>	
	<u>2015</u>	<u>2014</u>
Net cash provided by operating activities	\$ 25.3	\$ 28.9
Net cash used for investing activities	(10.1)	(5.5)
Net cash provided by financing activities	0.7	0.5
Increase in cash and cash equivalents	<u>\$ 15.9</u>	<u>\$ 23.9</u>

*Cash provided by operating activities* was \$25.3 million in the nine months ended September 30, 2015. Operating cash flow in the nine months ended September 30, 2015 resulted primarily from net income before depreciation and amortization and an increase in accounts payable, partially offset by an increase in accounts receivables and inventory. Accounts receivable increased by \$39.3 million from the prior year-end balance. Days sales outstanding increased to 40 days at September 30, 2015, compared to 36 days at September 30, 2014, due to the increase in sales in the month of September compared to the prior year month. Inventory increased from the prior year-end balance by \$11.7 million due to higher levels of in-transit sales shipped but not received by our customers. Inventory turns decreased to 23 turns for the third quarter of 2015 compared to 24 turns for the prior year quarter.

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[Table of Contents](#)

At September 30, 2015, we had \$161.1 million in outstanding accounts payable. Such accounts are generally paid within 30 days of incurrence, or earlier when favorable cash discounts are offered. This balance will be paid by cash flows from operations or short-term borrowings under the line of credit. This amount includes \$32.5 million payable to two financial institutions under inventory trade credit agreements we use to finance our purchase of certain inventory, secured by the inventory which is financed. We believe we will be able to meet our obligations under our accounts payable with cash flows from operations and our existing line of credit.

*Cash used for investing activities* increased by \$4.6 million in the nine months ended September 30, 2015 compared to the prior year period due to increased purchases of property and equipment. These expenditures were primarily for equipment related to our new distribution center and capitalized internally-developed software in connection with the investments in our IT infrastructure.

*Cash provided by financing activities* increased by \$0.2 million due to higher proceeds from the exercise of equity awards.

#### ***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.

*Bank Line of Credit* . Our bank line of credit extends until February 2017 and is collateralized by our accounts receivables. Our borrowing capacity is up to \$50.0 million at the one-month London Interbank Offered Rate, or LIBOR, plus a spread based on our funded debt ratio, or in the absence of LIBOR, the prime rate (3.25% at September 30, 2015). The one-month LIBOR rate at September 30, 2015 was 0.20%. In addition, we have the option to increase the facility by an additional \$30.0 million to meet additional borrowing requirements. Our credit facility is subject to certain covenant requirements which are described below under “Factors Affecting Sources of Liquidity.” We did not have any borrowings under the credit facility during the quarter ended September 30, 2015.

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.

*Inventory Trade Credit Agreements* . We have additional security agreements with two financial institutions to facilitate the purchase of inventory from various suppliers under certain terms and conditions. These agreements allow a collateralized first position in certain branded products in our inventory that were financed by these two institutions. Although the agreements provide for up to 100% financing on the purchase price of these products, up to an aggregate of \$65.0 million, any outstanding financing must be fully secured by available inventory. We do not pay any interest or discount fees on such inventory. The related costs are borne by the suppliers as an incentive for us to purchase their products. Amounts outstanding under such facilities, which equaled \$32.5 million in the aggregate as of September 30, 2015, are recorded in accounts payable. The inventory financed is classified as inventory on the condensed consolidated balance sheets.

*Operating Leases* . We lease facilities from our principal stockholders and facilities and equipment from third parties under non-cancelable operating leases which have been reported in the “Contractual Obligations” section of our Annual Report on Form 10-K for the year ended December 31, 2014.

*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.

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[Table of Contents](#)

*Contractual Obligations.* The disclosures relating to our contractual obligations in our Annual Report on Form 10-K for the year ended December 31, 2014 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.

*Bank Line of Credit.* Our bank line of credit extends until February 2017 and is collateralized by our accounts receivables. As of September 30, 2015, the entire \$50.0 million facility was available for borrowing. Our credit facility contains certain financial ratios and operational covenants and other restrictions (including restrictions on additional debt, guarantees, and other distributions, investments, and liens) with which we and all of our subsidiaries must comply. Any failure to comply with these covenants would constitute a default and could prevent us from borrowing additional funds under this line of credit. This credit facility contains two financial tests:

- The funded debt ratio (defined as the average outstanding advances under the line for the quarter, divided by the consolidated Adjusted EBITDA for the trailing four quarters) must not be more than 2.0 to 1.0. We did not have any outstanding borrowings under the credit facility during the third quarter of 2015, and accordingly, the funded debt ratio did not limit potential borrowings as of September 30, 2015. Future decreases in our consolidated Adjusted EBITDA, however, could limit our potential borrowings under the credit facility.
- Minimum Consolidated Net Worth must be at least \$250.0 million, plus 50% of consolidated net income for each quarter, beginning with the quarter ended March 31, 2012 (loss quarters not counted). Such amount was calculated as \$322.3 million at September 30, 2015, whereas our actual consolidated stockholders' equity at this date was in compliance at \$388.7 million.

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

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

**SUMMARY 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, 2014. These policies include revenue recognition, accounts receivable, vendor allowances, inventory, and the value of goodwill and long-lived assets, including intangibles.

**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, 2014. No material changes have occurred in our market risks since December 31, 2014.

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

The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of September 30, 2015. 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 a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The Company's disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives as described above. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective at the reasonable assurance level.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended September 30, 2015 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, 2014, which could materially affect our business, financial position, and results of operations. 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, 2014.

**Item 6—Exhibits**

<u>Exhibit Number</u>	<u>Description</u>
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, Treasurer 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, Treasurer 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, 2015 and December 31, 2014, (ii) Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2015 and September 30, 2014, (iii) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and September 30, 2014, and (v) Notes to Unaudited Condensed Consolidated Financial Statements.

**SIGNATURES**

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

**PC CONNECTION, INC.**

Date: November 6, 2015

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

Date: November 6, 2015

By: /s/ JOSEPH DRISCOLL  
Joseph Driscoll  
Senior Vice President, Treasurer and Chief Financial Officer



CERTIFICATION

I, Timothy 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: November 6, 2015

/s/ TIMOTHY MCGRATH

Timothy McGrath

President and Chief Executive Officer

CERTIFICATION

I, Joseph Driscoll, 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: November 6, 2015

/s/ JOSEPH DRISCOLL

Joseph Driscoll

Senior Vice President, Treasurer and Chief Financial Officer

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

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of PC Connection, Inc. (the "Company") for the period ended September 30, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Timothy 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: November 6, 2015

/s/ TIMOTHY MCGRATH

Timothy McGrath  
President and Chief Executive Officer

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

In connection with the Quarterly Report on Form 10-Q of PC Connection, Inc. (the "Company") for the period ended September 30, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Joseph Driscoll, Senior Vice President, Treasurer and Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

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

Date: November 6, 2015

/s/ JOSEPH DRISCOLL

Joseph Driscoll  
Senior Vice President, Treasurer and Chief Financial Officer