
FORM 8-K

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

Date of Report (Date of earliest event reported): January 29, 2004

PC Connection, Inc.

(Exact name of registrant as specified in charter)

Delaware

0-23827

02-0513618

(State or other juris-
diction of incorporation)

(Commission
File Number)

(IRS Employer
Identification No.)

Rt. 101A, 730 Milford Road 03054
Merrimack, NH

03054

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (603) 423-2000

N/A

(Former name or former address, if changed since last report)

Item 9. Regulation FD Disclosure (Information furnished pursuant to Item 12, "Disclosure of Results of Operations and Financial Condition").

On January 29, 2004, PC Connection, Inc. announced its financial results for the quarter ended December 31, 2003. The full text of the press release issued in connection with the announcement is attached as Exhibit 99.1 to this Current Report on Form 8-K.

In accordance with the procedural guidance in SEC Release No. 33-8216, the information in this Form 8-K and the Exhibit attached hereto is being furnished under "Item 9. Regulation FD Disclosure" rather than under "Item 12. Disclosure of Results of Operations and Financial Condition." The information shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 (the "Exchange Act") or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, except as expressly set forth by specific reference in such a filing.

SIGNATURE

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 hereunto duly authorized.

Date: January 29, 2004

PC CONNECTION, INC.

By: /s/ MARK A. GAVIN

Mark A. Gavin
Senior Vice President of Finance and Chief
Financial Officer

EXHIBIT INDEX

Exhibit No.

Description

99.1

Press release dated January 29, 2004

PC Connection, Inc. Reports Fourth Quarter and Year-End Results

MERRIMACK, N.H.--(BUSINESS WIRE)--Jan. 29, 2004--

FOURTH QUARTER HIGHLIGHTS:

- 11% growth in net sales
- 11% growth in sales representatives
- 6% growth in active customers

PC Connection, Inc. (NASDAQ: PCCC), a leading direct marketer of information technology (IT) products and solutions, today announced results for the quarter and year ended December 31, 2003. Net sales for the three months ended December 31, 2003 increased by \$36.2 million, or 11.2%, to \$358.4 million from \$322.2 million for the three months ended December 31, 2002. Net income for the quarter ended December 31, 2003, on a generally accepted accounting principles (GAAP) basis, was \$0.7 million, or \$.03 per share, compared to \$2.9 million, or \$0.12 per share for the three months ended December 31, 2002.

The three-month period ended December 31, 2003 included special charges that reduced earnings and earnings per share. Had these charges not been incurred, pro forma net income for the quarter ended December 31, 2003 would have been \$1.7 million, or \$.07 per share. A reconciliation between net income on a GAAP basis and pro forma net income is provided in a table immediately following the Consolidated Income Statements.

Net sales for the year ended December 31, 2003 were \$1.31 billion, compared to \$1.19 billion for the corresponding period a year ago. Net income for the year ended December 31, 2003, on a GAAP basis, was \$5.9 million, or \$.23 per share, compared to net income of \$3.2 million, or \$.13 per share for the corresponding period a year ago. MoreDirect, Inc., the Company's large account subsidiary, was acquired in April 2002 and included in 2002 results only from that date forward. The twelve-month periods ended December 31, 2003 and 2002 included charges related to workforce reductions and other special charges that reduced earnings and earnings per share. Had these charges not been incurred, pro forma net income for the twelve months ended December 31, 2003 would have been \$7.1 million, or \$.28 per share, compared to \$4.3 million, or \$.17 per share, for the corresponding period a year ago.

Net sales for the small- and medium-sized business (SMB) segment increased in this quarter by 19.0% from the fourth quarter of 2002 to \$199.6 million and increased sequentially by 11.2% over the immediately preceding quarter. Sales to government and education customers (the Company's Public Sector segment) increased year-over-year by 5.8%, but decreased by 13.7% over the immediately preceding quarter to \$89.4 million. More specifically, sales to state, local, and education customers decreased sequentially this quarter by 25.7% but grew year-over-year by 29.4%. Sales to the federal government decreased sequentially by 1.8% and decreased year-over-year by 7.1%. Sales to large corporate account customers increased 4.7% from the third quarter of 2003 to \$69.4 million but remained flat with the corresponding period a year ago.

Patricia Gallup, Chairman and Chief Executive Officer of PC Connection, Inc., said, "We are pleased with our Company's overall performance during the fourth quarter of 2003. Our continued efforts to improve our business processes and overall efficiency have helped us compete effectively during this period, especially in sales to our small- and medium-sized business customers."

The Company's largest sales subsidiary, PC Connection Sales Corporation, which targets the SMB segment, achieved the highest year-over-year growth since the third quarter of 2000. During 2003, the consolidated company improved overall sales productivity by 2%, to \$2.5 million per sales representative on an annualized basis. During the same period, the consolidated company increased the number of sales representatives by 11%. The total number of sales representatives as of December 31, 2003 increased to 567 from 512 as of December 31, 2002. In addition, the number of active customers, or customers who have purchased from the Company within the last twelve months, increased 6% over the fourth quarter of 2002.

Notebooks and PDAs continued to be the Company's largest product category, accounting for 19.0% of net sales in the fourth quarter of 2003 compared to 16.4% for the corresponding period a year ago. Desktop computers and servers accounted for 15.8% of net sales in the fourth quarter of 2003 compared to 15.5% of net sales for the corresponding period a year ago. The average sales price for computer systems decreased 1.1% in the fourth quarter compared to the corresponding period a year ago, but increased 2.4% compared to the third quarter of 2003.

Gross profit margin as a percentage of net sales was 10.1% in the fourth quarter of 2003, compared to 11.1% in the fourth quarter of 2002. Gross profit margins were lower as a result of more competitive pricing in all three sales subsidiaries. As previously stated, the Company expects that its gross profit margin as a percentage of net sales may vary by quarter based upon vendor support programs, product mix, pricing strategies, market conditions, and other factors.

Total selling, general and administrative expenses, as a percentage of sales, decreased to 9.2% in the fourth quarter of 2003, compared to 9.7% in the corresponding period a year ago. The Company expects that its SG&A, as a percentage of net sales, may vary by quarter depending on changes in sales volume, as well as the levels of continuing investments in key growth initiatives.

Ms. Gallup concluded, "The results from 2003 are encouraging. Our overall sales are up to their highest level since 2000, the peak year for us during the last technology-buying boom. Also, the process improvement initiatives we have engaged in to improve overall efficiency have kept our business competitive and our balance sheet sound. Based on the growing number of customers and the accelerating sales productivity we currently see at PC Connection, we believe our Company is in a strong position in 2004 to gain market share and enhance long-term shareholder value."

PC Connection, Inc., a Fortune 1000 company, operates three sales subsidiaries, PC Connection Sales Corporation of Merrimack, NH, GovConnection, Inc. of Rockville, MD, and MoreDirect, Inc. of Boca Raton, FL. PC Connection Sales Corporation (1-800-800-5555) is a rapid-response provider of information technology (IT) products and solutions offering more than 100,000 brand-name products to businesses through its staff of technically trained sales account managers and catalog telesales representatives, catalogs and publications, and its web site at www.pcconnection.com. The subsidiary serves the Apple/Macintosh community through its MacConnection division (1-800-800-2222), which also publishes specialized catalogs and is online at www.macconnection.com. GovConnection, Inc. (1-800-800-0019) is a rapid-response provider of IT products and solutions to federal, state, and local government agencies and educational institutions through specialized account managers, catalogs and publications, and online at www.govconnection.com. MoreDirect, Inc. (www.moredirect.com) provides corporate technology buyers with a comprehensive web-based e-procurement solution and in-depth IT supply-chain expertise, serving as a one-stop source by aggregating more than 300,000 products from the inventories of leading IT wholesale distributors and manufacturers. All three subsidiaries can deliver custom-configured computer systems overnight.

A live webcast of PC Connection management's discussion of the fourth quarter results will be available on the Company's Web site at www.pcconnection.com and on www.streetevents.com. The webcast will begin today at 10:00 am ET.

"Safe Harbor" Statement Under the Private Securities Litigation Reform Act of 1995: This release contains forward-looking statements that are subject to risks and uncertainties, including, but not limited to, the impact of changes in market demand and the overall level of economic activity, or in the level of business investment in information technology products, competitive products and pricing, product availability and market acceptance, new products, fluctuations in operating results and other risks detailed under the caption "Factors That May Affect Future Results and Financial Condition" in the Company's 2003 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission for the period ended September 30, 2003. More specifically, the statements in this release concerning the Company's outlook for 2004 and the statements concerning the Company's gross margin percentage and selling and administrative costs and other statements of a non-historical basis (including statements regarding implementing strategies for future growth, the ability of the Company to improve sales productivity and increase its active customers) are forward-looking statements that involve certain risks and uncertainties. Such risks and uncertainties include the ability to realize market demand for and competitive pricing pressures on the products and services marketed by the Company, the continued acceptance of the Company's distribution channel by vendors and customers, continuation of key vendor and customer relationships and support programs and the ability of the Company to hire and retain qualified sales representatives and other essential personnel.

CONSOLIDATED SELECTED FINANCIAL HIGHLIGHTS

At or For the Three

Months Ended December 31, 2003

2002

(Dollars and shares in

thousands, except
operating data,
price/earnings ratio
and per share data)

% of % of %
Net Sales Net Sales Change

Operating Data:

Net sales growth	11.2%	17.7%			
Diluted earnings per share growth	(75.0)	100.0			
Gross profit margin	10.1	11.1			
Operating margin	0.5	1.4			
Return on equity(2)	1.9	7.7			
Catalogs distributed	8,726,000	7,588,000			15.0%
Orders entered(1)	338,000	309,800			9.1
Average order size(1)	\$1,202	\$1,135			5.9
Inventory turns(2)	17	20			(15.0)
Days sales outstanding	47	48			2.1
Active customers	498,746	470,569			6.0

Product Mix:

Notebooks & PDAs	\$ 68,001	19.0%	\$ 52,744	16.4%	28.9%
Desktops/Servers	56,590	15.8	50,051	15.5	13.1
Storage Devices	29,169	8.1	28,295	8.8	3.1
Software	45,446	12.7	34,635	10.7	31.2
Networking Communications Products	27,211	7.6	26,981	8.4	0.9
Printers & Printer Supplies	36,953	10.3	41,602	12.9	(11.2)
Videos, Imaging & Sound	44,251	12.3	36,296	11.3	21.9
Memory & System Enhancements	20,673	5.8	19,451	6.0	6.3
Accessories/Other	30,082	8.4	32,095	10.0	(6.3)

	\$ 358,376	100.0%	\$ 322,150	100.0%	11.2%
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Enterprise Net Sales:
(included in the
above Product Mix)

	\$ 101,908	28.4%	\$ 89,357	27.7%	14.0%
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Stock Performance
Indicators:

Actual shares outstanding	24,980	24,635
Total book value per share	\$6.29	\$6.09
Tangible book value per share	\$4.34	\$4.57
Closing price	\$8.23	\$5.07
Market capitalization	\$205,585	\$124,899
Trailing price/ earnings ratio(3)	34	39

- (1) Does not reflect cancellations or returns
(2) Annualized
(3) Earnings is based on the last four quarters

SELECTED SEGMENT INFORMATION

For the Three Months
Ended December 31,

	2003		2002	
(Dollars in thousands)	Net Sales	Gross Margin(%)	Net Sales	Gross Margin (%)
PC Connection Sales Corporation(SMB)	\$ 199,615	11.1%	\$ 167,749	12.3%
GovConnection (Government & Education)	89,371	8.0	84,492	8.6
MoreDirect (Large Account)	69,390	10.1	69,909	11.1

Total	\$ 358,376	10.1%	\$ 322,150	11.1%
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CONSOLIDATED

INCOME STATEMENTS

Three Months

Ended December 31,

(Amounts in thousands,
except per share data)

	2003		2002	
	Amount	% of Net Sales	Amount	% of Net Sales
Net sales	\$ 358,376	100.00%	322,150	100.00%
Cost of sales	322,055	89.86	286,408	88.91
Gross Profit	36,321	10.14	35,742	11.09
Selling, general and administrative expenses	33,108	9.24	31,252	9.70
Restructuring costs and other special charges	1,532	.43	-	-
Income From Operations	1,681	.47	4,490	1.39
Interest expense	(456)	(.13)	(317)	(.10)
Other, net	(8)	-	92	.03
Income tax provision	(487)	(.14)	(1,401)	(.43)
Net Income	\$ 730	.20%	\$ 2,864	.89%

Weighted average
common shares
outstanding:

Basic	24,792	24,583
Diluted	25,308	24,850
Earnings per common share:		
Basic	\$.03	\$.12
Diluted	\$.03	\$.12

CONSOLIDATED INCOME
STATEMENTSTwelve Months Ended
December 31,(Amounts in
thousands,
except per
share data)

	2003		2002	
	Amount	% of Net Sales	Amount	% of Net Sales
Net sales	\$ 1,312,891	100.00%	\$ 1,191,497	100.00%
Cost of sales	1,175,212	89.51	1,062,311	89.16
Gross Profit	137,679	10.49	129,186	10.84
Selling, general and administrative expenses	124,824	9.51	121,964	10.23
Restructuring costs and other special charges	1,929	.15	1,636	.14
Income From Operations	10,926	.83	5,586	.47
Interest expense	(1,305)	(.10)	(1,152)	(.10)
Other, net	117	.01	513	.04
Income tax provision	(3,850)	(.29)	(1,700)	(.14)
Net Income	\$ 5,888	.45%	\$ 3,247	.27%

Weighted average
common shares
outstanding:

Basic	24,713	24,555
Diluted	25,114	24,860
Earnings per common share:		
Basic	\$.24	\$.13
Diluted	\$.23	\$.13

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A RECONCILIATION BETWEEN GAAP AND PRO FORMA NET INCOME

This information is being provided so as to allow for a comparison of our operating results without workforce reduction and other special charges.

(Amounts in thousands)	Three Months Ended December 31, 2003	Twelve Months Ended 2003	December 31, 2002
GAAP net income	\$ 730	\$ 5,888	\$ 3,247
Restructuring costs and other special charges (after tax)	920	1,167	1,073

Pro forma net income	\$ 1,650	\$ 7,055	\$ 4,320
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CONSOLIDATED BALANCE SHEETS (Amounts in thousands)	December 31, 2003	December 31, 2002
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 2,977	\$ 1,797
Restricted cash (1)	5,000	5,000
Accounts receivable, net	144,337	135,314
Inventories - merchandise	80,140	52,479
Deferred income taxes	1,732	741
Income tax receivable	2,190	1,294
Prepaid expenses and other current assets	3,649	3,278

Total current assets	240,025	199,903
Property and equipment, net	20,396	25,995
Goodwill, net and other intangibles, net	48,657	37,450
Restricted cash (1)	-	5,000
Other assets	208	334

Total assets	\$ 309,286	\$ 268,682
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LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:		
Current maturities of capital lease obligation to affiliate	\$ 334	\$ 200
Note payable - bank	5,614	-
Accounts payable	112,538	85,493
Accrued expenses and other liabilities	24,656	22,921

Total current liabilities	143,142	108,614
Capital lease obligation to affiliate, less current maturities	6,088	6,421
Deferred taxes	2,867	3,503

Total liabilities	152,097	18,538

Stockholders' Equity:		
Common stock	253	250
Additional paid-in capital	76,428	75,274
Retained earnings	82,794	76,906
Treasury stock at cost	(2,286)	(2,286)

Total stockholders' equity	157,189	150,144

Total liabilities and stockholders' equity	\$ 309,286	\$ 268,682

(1) Cash escrow established for the MoreDirect, Inc. acquisition.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Twelve months ended

December 31, 2003

(Amounts in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid In Capital	Retained Earnings	Treasury Shares	Treasury Shares Amount
Balance - December 31, 2002	24,997	\$ 250	\$ 75,274	\$ 76,906	(362)	\$(2,286)

Exercise of stock options, including income tax benefits	257	2	728	-	-	-
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Issuance of stock under employee stock purchase plan	88	1	426	-	-	-
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Net income	-	-	-	5,888	-	-
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Balance - December 31, 2003	25,342	\$ 253	\$ 76,428	\$ 82,794	(362)	\$(2,286)
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Total

Balance - December 31, 2002	\$ 150,144
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Exercise of stock options, including income tax benefits	730
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Issuance of stock under employee stock purchase plan	427
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Net income	5,888
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Balance - December 31, 2003	\$ 157,189
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CONSOLIDATED STATEMENTS OF CASH FLOWS

Twelve Months Ended

December 31,

(Amounts in

thousands)

Cash Flows from
Operating Activities:

	2003	2002
Net income	\$ 5,888	\$ 3,247
Adjustments to reconcile net income to net cash provided		

by (used for)		
operating activities:		
Depreciation and amortization	8,363	8,145
Deferred income taxes	(1,627)	1,475
Provision for doubtful accounts	2,953	7,238
Loss on disposal of fixed assets	41	1
Changes in assets and liabilities:		
Accounts receivable	(11,976)	(6,478)
Inventories	(27,661)	5,295
Prepaid expenses and other current assets	(1,267)	83
Other non-current assets	126	(48)
Accounts payable	27,045	(12,808)
Income tax benefits from exercise of stock options	349	117
Accrued expenses and other liabilities	1,038	(1,279)
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Net cash provided by operating activities	3,272	4,988
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Cash Flows from Investing Activities:

Purchases of property and equipment	(2,517)	(5,075)
Proceeds from sale of property and equipment	2	17
Payments for acquisition, net of cash acquired	(10,800)	(22,585)
Cash escrow distributed (funded) for acquisition	5,000	(10,000)
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Net cash used for investing activities	(8,315)	(37,643)
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Cash Flows from Financing Activities:

Proceeds from short-term borrowings	238,259	69,836
Repayment of short-term borrowings	(232,645)	(69,836)
Repayment of notes payable	-	(1,000)
Repayment of capital lease obligation to affiliate	(199)	(171)
Exercise of stock options	381	255
Issuance of stock under employee stock purchase plan	427	512
Purchase of treasury shares	-	(749)
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Net cash provided by (used for) financing activities	6,223	(1,153)
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Increase/(decrease) in cash and cash equivalents	1,180	(33,808)
Cash and cash equivalents, beginning of period	1,797	35,605
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Cash and cash equivalents, end of period	\$ 2,977	\$ 1,797
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Supplemental Cash Flow Information:

Interest paid	\$ 899	\$ 901
Income taxes paid	6,065	1,734

CONTACT: PC Connection, Inc.
Mark A. Gavin, 603/683-2451