

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

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) October 21, 2004

PC Connection, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of Incorporation)

0-23827

02-0513618

(Commission File Number)

(IRS Employer Identification No.)

Rt. 101A, 730 Milford Road Merrimack, NH

03054

(Address of Principal Executive Offices)

(Zip Code)

(603) 683-2000

(Registrant's Telephone Number, Including Area Code)

Not Applicable

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

Written communications pursuant to Rule 425 under the Securities Act
(17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act
(17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

1

Item 2.02. Results of Operations and Financial Condition

On October 21, 2004, PC Connection, Inc. announced its financial results for the quarter ended September 30, 2004. The full text of the press release issued in connection with the announcement is furnished as Exhibit 99.1 to this Current Report on Form 8-K.

The information in this Form 8-K (including Exhibit 99.1) 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.

Item 9.01. Financial Statements and Exhibits

(c) Exhibits

The following exhibit relating to Item 2.02 shall be deemed to be furnished, and not filed:

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: October 21, 2004

REGISTRANT

PC CONNECTION, INC.

By: Patricia Gallup

Patricia Gallup
President and Chief Executive Officer

EXHIBIT INDEX

Exhibit	Description
----- 99.1	----- Press Release issued by PC Connection, Inc. on October 21, 2004.

PC Connection, Inc. Reports Third Quarter Results

22% Growth in Earnings Per Share

17% Net Sales Growth in Large Corporate Accounts

Chief Financial Officer Resigns

MERRIMACK, N.H.--(BUSINESS WIRE)--Oct. 21, 2004--PC Connection, Inc. (NASDAQ:PCCC), a leading direct marketer of information technology products and solutions, today announced results for the quarter ended September 30, 2004. Net sales for the three months ended September 30, 2004 increased by \$1.9 million, or 0.5%, to \$351.3 million from \$349.4 million for the quarter ended September 30, 2003. Net income for the quarter ended September 30, 2004, on a generally accepted accounting principles (GAAP) basis, was \$2.8 million, or \$.11 per share, compared to \$2.2 million, or \$.09 per share, for the quarter ended September 30, 2003.

The three-month period ended September 30, 2004 included special charges that reduced earnings and earnings per share. Had these charges not been recorded, pro forma net income for the quarter ended September 30, 2004 would have been \$3.9 million, or \$.16 per share, compared to \$2.2 million, or \$.09 per share, for the quarter ended September 30, 2003, a 78% increase. The three-month period ended September 30, 2003 did not include any special charges. 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 nine months ended September 30, 2004 increased by \$59.7 million, or 6.3%, to \$1,014.2 million from \$954.5 million for the corresponding period a year ago. Net income for the nine months ended September 30, 2004, on a GAAP basis, was \$6.2 million, or \$.25 per share, compared to \$5.2 million, or \$.21 per share, for the corresponding period a year ago. The nine-month periods ended September 30, 2004 and 2003 included special charges that reduced earnings and earnings per share. Had these charges not been recorded, pro forma net income for the nine months ended September 30, 2004 would have been \$8.5 million, or \$.33 per share, compared to \$5.4 million, or \$.22 per share, for the comparable period a year ago. 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.

The Company also announced that Mark Gavin resigned as CFO effective today, and a search for his replacement has been initiated. On an interim basis, Jack Ferguson, Treasurer, will assume the duties of CFO, and Stephen Baldrige, Vice President of Finance and Corporate Controller, will oversee the Company's investor communication activities. Patricia Gallup, Chairman and Chief Executive Officer, said, "Jack and Steve are experienced members of our financial team, and we expect a smooth transition of Mark's duties."

Consolidated gross margins, as a percentage of net sales, improved year over year in the third quarter of 2004 by 90 basis points. Gross profit margin as a percentage of net sales was 11.2% in the third quarter of 2004, compared to 10.8% in the second quarter of 2004, and 10.3% in the third quarter of 2003. The Company has, for the third quarter of 2004, revised its estimates relating to vendor consideration in Issue No. 02-16 of the Emerging Issues Task Force (EITF) and has reclassified additional advertising reimbursements from vendors in excess of advertising costs incurred of \$1.2 million from selling, general, and administrative (SG&A) expenses to cost of goods sold and inventory. Such excess advertising reimbursements had been recorded as an offset to SG&A expenses, and this reclassification resulted in an increase in gross margin of 0.2% for the third quarter of 2004. 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.

Net sales for the small- and medium-sized business (SMB) segment increased by 9.1% from the third quarter of 2003 to \$195.9 million and increased sequentially by 1.0% over the immediately preceding quarter. Sales to government and education customers (Public Sector segment) declined for the quarter by 24.8% over the third quarter of 2003 to \$77.9 million, but increased sequentially by 22.9% from the immediately preceding quarter. Sales to the federal government increased sequentially by 65.7% but declined year over year by 64.8%. As announced in August, the Company was awarded a new GSA Contract which allows its GovConnection subsidiary to more efficiently market

products and services to a wide variety of U.S. Government agencies. Sales to state, local, and education customers grew sequentially this quarter by 13.9% and year over year by 15.1%. Gross margins for both the SMB and the Public Sector segments improved in the quarter by 1.0% and 1.8%, respectively, over the year ago quarter. Sales to large corporate accounts customers increased by 16.9% from the third quarter of 2003 to \$77.5 million but decreased sequentially by 0.6% from the immediately preceding quarter.

Consolidated annualized sales productivity increased to \$2.5 million per sales representative in the third quarter of 2004 from \$2.4 million per sales representative in the third quarter of 2003. The total number of sales representatives increased to 571 at September 30, 2004 from 570 at June 30, 2004 but decreased from 580 at September 30, 2003.

Total SG&A expenses as a percentage of sales were 9.3% in the third quarter of 2004 (including the EITF reclassification referred to above, which increased this rate by 0.3%), compared to 9.2% in the corresponding period a year ago. The Company expects that its SG&A expenses as a percentage of net sales may vary by quarter depending on changes in sales volume and the effect of any excess vendor advertising reimbursements, as well as the levels of continuing investments in key growth initiatives.

Notebook computer systems and PDAs continued to be the Company's largest product category, accounting for 21.6% of net sales in the third quarter of 2004 compared to 20.9% of net sales for the corresponding period a year ago. Desktop and server computer systems accounted for 13.9% of net sales in the third quarter of 2004, compared to 14.2% for the corresponding 2003 period. The average selling prices of computer systems decreased 0.9% in the third quarter of 2004 compared to the corresponding period a year ago, but increased 4.0% compared to the second quarter of 2004.

Ms. Gallup concluded, "We are encouraged by the progress we have made in improving our overall financial performance and operational effectiveness. We believe that PC Connection is well positioned to gain market share and that we have the strategies and resources needed to deliver enhanced long-term shareholder value."

About PC Connection, Inc.

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 third quarter 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 a.m. Eastern Time.

"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 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission for the quarter ended June 30, 2004. More specifically, the statements in this release concerning the Company's outlook for the remainder of 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 September 30,

	2004	% of Net Sales	2003	% of Net Sales	% Change
(Dollars and shares in thousands, except operating data, price/earnings ratio and per share data)					
Operating Data:					
Net sales growth	0.5%		2.5%		
Diluted earnings per share change	22.2		-		
Gross profit margin	11.2		10.3		
Operating margin	1.4		1.1		
Return on equity (1)	7		5.7		
Catalogs distributed	6,887,000		8,258,000		(16.6)%
Orders entered (2)	310,000		335,000		(7.5)
Average order size (2)	\$1,341		\$1,303		2.9
Inventory turns (1)	16		19		
Days sales outstanding	41		48		
Product Mix:					
Notebooks & PDAs	75,894	21.6	73,012	20.9%	4.0%
Desktop/Servers	48,858	13.9	49,686	14.2	(1.7)
Storage Devices	27,635	7.9	31,099	8.9	(11.1)
Software	41,958	11.9	37,581	10.7	11.7
Net/Com Products	25,703	7.3	27,834	8	(7.7)
Printers & Printer Supplies	37,065	10.6	39,903	11.4	(7.1)
Video, Imaging & Sound Memory & System Enhancements	41,407	11.8	41,003	11.7	1
Accessories/Other	19,068	5.4	19,778	5.7	(3.6)
	33,677	9.6	29,524	8.5	14.1
	351,265	100.0%	349,420	100.0%	0.5

Net Sales of Enterprise Server and Networking Products
(included in the above Product Mix):

94,935	27.0%	95,730	27.0%	(0.8)%
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Stock Performance

Indicators:

Actual shares outstanding	25,050	24,763
Total book value per share	\$6.54	\$6.30
Tangible book value per share	\$4.63	\$4.80
Closing price	\$6.87	\$9.38
Market capitalization	\$172,094	\$232,277
Trailing price/earnings ratio (3)	25	28

(1) Annualized

(2) Does not reflect cancellations or returns

(3) Earnings is based on the last four quarters

SELECTED SEGMENT INFORMATION

For the Three Months

Ended September 30,	2004		2003	
(Dollars in thousands)	Net Sales	Gross Margin(%)	Net Sales	Gross Margin (%)

PC Connection Sales Corporation (SMB)	195,943	12.2%	179,565	11.2%
GovConnection (Public Sector)	77,864	9.8	103,596	8.0
MoreDirect (Large Account)	77,458	10.2	66,259	11.3
Total	351,265	11.2%	349,420	10.3%

CONSOLIDATED INCOME STATEMENTS

Three Months Ended

	2004		2003	
	Amount	% of Net Sales	Amount	% of Net Sales
September 30, (Amounts in thousands, except per share data)				
Net sales	351,265	100.00%	349,420	100.00%
Cost of sales	311,859	88.78	313,494	89.72
Gross Profit	39,406	11.22	35,926	10.28
Selling, general and administrative expenses	32,765	9.33	32,059	9.17
Restructuring costs and other special charges	1,800	.51	-	-
Income From Operations	4,841	1.38	3,867	1.11
Interest expense	(334)	(.10)	(270)	(.08)
Other, net	35	.01	27	.01
Income tax provision	(1,725)	(.49)	(1,444)	(.42)
Net Income	2,817	.80%	2,180	.62%

Weighted average common shares outstanding:

Basic	25,047	24,741
Diluted	25,215	25,322
Earnings per common share:		
Basic	.11	.09
Diluted	.11	.09

CONSOLIDATED INCOME STATEMENTS

Nine Months Ended

	2004		2003	
	Amount	% of Net Sales	Amount	% of Net Sales
September 30, (Amounts in thousands, except per share data)				
Net sales	1,014,235	100.00%	954,515	100.00%
Cost of sales	904,742	89.20	853,157	89.38
Gross Profit	109,493	10.80	101,358	10.62
Selling, general and administrative expenses	94,938	9.36	91,716	9.61
Restructuring costs and other special charges	3,583	.36	397	0.04
Income From Operations	10,972	1.08	9,245	0.97
Interest expense	(1,059)	(.10)	(849)	(.09)
Other, net	136	.01	125	.01
Income tax provision	(3,818)	(.38)	(3,363)	(.35)
Net Income	6,231	.61%	5,158	.54%

Weighted average common shares outstanding:

Basic	25,018	24,686
Diluted	25,271	25,058

Earnings per common share:

Basic	.25	.21
Diluted	.25	.21

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 special charges.

(Amounts in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
GAAP net income	2,817	2,180	6,231	5,158
Restructuring costs and other special charges (after tax):				
Workforce reduction	5	-	361	240
GSA review and other	1,111	-	1,861	-
	1,116	-	2,222	240
Pro forma net income	3,933	2,180	8,453	5,398

CONSOLIDATED BALANCE SHEETS	September 30, 2004	December 31, 2003
ASSETS		
Current Assets:		
Cash and cash equivalents	7,367	2,977
Restricted cash (1)	-	5,000
Accounts receivable, net	123,503	144,337
Inventories - merchandise	77,414	80,140
Deferred income taxes	3,391	1,732
Income taxes receivable	1,047	2,190
Prepaid expenses and other current assets	3,629	3,649
Total current assets	216,351	240,025
Property and equipment, net	17,757	20,396
Goodwill, net	44,766	45,264
Other intangibles, net	3,129	3,393
Other assets	226	208
Total assets	282,229	309,286
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of capital lease obligation to affiliate	362	334
Note payable - bank	-	5,614
Accounts payable	90,557	112,538
Accrued expenses and other liabilities	18,336	13,063
Acquisition earn-out obligation	-	11,593
Total current liabilities	109,255	143,142
Capital lease obligation to affiliate, less current maturities	5,813	6,088
Deferred income taxes	3,370	2,867
Total liabilities	118,438	152,097
Stockholders' Equity:		
Common stock	254	253
Additional paid-in		

capital	76,798	76,428
Retained earnings	89,025	82,794
Treasury stock at cost	(2,286)	(2,286)
	-----	-----
Total stockholders' equity	163,791	157,189
	-----	-----
Total liabilities and stockholders' equity	282,229	309,286
	=====	=====

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

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
Nine Months Ended September 30, 2004 (Amounts in thousands)

	Common Stock		Additional	Retained
	Shares	Amount	Paid In Capital	Earnings
Balance - December 31, 2003	25,342	253	76,428	82,794
Exercise of stock options, including income tax benefits	33	1	165	-
Issuance of stock under employee stock purchase plan	37	-	205	-
Net income	-	-	-	6,231
	-----	-----	-----	-----
Balance - September 30, 2004	25,412	254	76,798	89,025
	=====	=====	=====	=====

	Treasury Shares		
	Shares	Amount	Total
Balance - December 31, 2003	-362	-2,286	157,189
Exercise of stock options, including income tax benefits	-	-	166
Issuance of stock under employee stock purchase plan	-	-	205
Net income	-	-	6,231
	-----	-----	-----
Balance - September 30, 2004	-362	-2,286	163,791
	=====	=====	=====

CONSOLIDATED STATEMENTS OF CASH FLOWS
Nine Months Ended September 30,
(Amounts in thousands)

	2004	2003
Cash Flows from Operating Activities:		
Net income	6,231	5,158
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,340	6,500
Deferred income taxes	(1,156)	(1,867)
Provision for doubtful accounts	3,083	2,323
Loss (gain) on disposal of fixed assets	9	(1)
Changes in assets and liabilities:		
Accounts receivable	17,751	(12,314)
Inventories	2,726	(19,995)
Prepaid expenses and other current assets	1,163	250
Other non-current assets	(18)	147

Accounts payable	(21,981)	32,810
Income tax benefits from exercise of stock options	90	152
Accrued expenses and other liabilities	5,273	2,123
	-----	-----
Net cash provided by operating activities	18,511	15,286
	-----	-----
Cash Flows from Investing Activities:		
Purchases of property and equipment	(2,449)	(1,907)
Proceeds from sale of property and equipment	3	1
Payment of acquisition earn-out obligation	(11,095)	(10,800)
Cash escrow distributed for acquisition	5,000	5,000
	-----	-----
Net cash used for investing activities	(8,541)	(7,706)
	-----	-----
Cash Flows from Financing Activities:		
Proceeds from short-term borrowings	270,686	109,333
Repayment of short-term borrowings	(276,300)	(109,333)
Repayment of capital lease obligation to affiliate	(247)	(140)
Exercise of stock options	76	290
Issuance of stock under employee stock purchase plan	205	212
	-----	-----
Net cash (used for) provided by financing activities	(5,580)	362
	-----	-----
Increase in cash and cash equivalents	4,390	7,942
Cash and cash equivalents, beginning of period	2,977	1,797
	-----	-----
Cash and cash equivalents, end of period	7,367	9,739
	=====	=====

CONTACT: PC Connection, Inc.
Stephen C. Baldrige, 603-683-2502