

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) January 27, 2005

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))

Item 2.02. Results of Operations and Financial Condition

On January 27, 2005, PC Connection, Inc. announced its financial
results for the quarter ended December 31, 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:

99.1 Press Release issued by PC Connection, Inc. on
January 27, 2005.

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 27, 2005

REGISTRANT

PC CONNECTION, INC.

By: /s/ Jack L. Ferguson

Jack L. Ferguson
Interim Chief Financial Officer

EXHIBIT INDEX

Exhibit

Description

99.1	Press Release issued by PC Connection, Inc. on January 27, 2005
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PC Connection, Inc. Reports Fourth Quarter and Year-end Results; Gross Margin Rates Improve across All Sales Segments; 10.5% Annual Growth in Large Corporate Account Sales

MERRIMACK, N.H.--(BUSINESS WIRE)--Jan. 27, 2005--PC Connection, Inc. (NASDAQ: PCCC), a leading direct marketer of information technology products and solutions, today announced results for the quarter ended December 31, 2004. Net sales for the three months ended December 31, 2004 decreased by \$18.8 million, or 5.2%, to \$339.6 million from \$358.4 million for the quarter ended December 31, 2003. Net income for the quarter ended December 31, 2004, on a generally accepted accounting principles (GAAP) basis, was \$2.1 million, or \$.08 per share, compared to \$0.7 million, or \$.03 per share, for the quarter ended December 31, 2003. Net income for the quarter included \$0.4 million, resulting from a reduction in the estimate for certain state income tax contingencies. Net sales for the year ended December 31, 2004 increased by \$40.9 million, or 3.1%, to \$1.35 billion from \$1.31 billion for the year ended December 31, 2003. Net income for the year ended December 31, 2004, on a GAAP basis, was \$8.3 million, or \$.33 per share, compared to \$5.9 million, or \$.23 per share, for the corresponding period a year ago.

The three-month and twelve-month periods ended December 31, 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 quarter ended December 31, 2004 would have been \$3.1 million, or \$.12 per share, compared to \$1.7 million, or \$.07 per share, for the quarter ended December 31, 2003, an 82.4% increase. Likewise, pro forma net income for the year ended December 31, 2004 would have been \$11.5 million, or \$.46 per share, compared to \$7.1 million, or \$.28 per share, for the year ended December 31, 2003. 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.

Consolidated gross margins, as a percentage of net sales, improved year over year in the fourth quarter of 2004 by 203 basis points, including a reclassification described below. Gross margin rates were 12.2% in the fourth quarter of 2004 compared to 10.1% in the fourth quarter of 2003. As announced in October, the Company revised its estimates relating to vendor consideration in Issue No. 02-16 of the Emerging Issues Task Force (EITF) and reclassified additional advertising reimbursements from vendors in excess of advertising costs incurred of \$3.0 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 0.9% for the fourth quarter of 2004. The remaining increase was attributable to the margin enhancement programs initiated in the first quarter of 2004. These initiatives and the increased agency revenue in our federal government business accounted for the margin rate increase in our Public Sector. Gross margin rates increased year over year in all three business segments, as shown in the table on page 3. 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.

Patricia Gallup, Chairman and Chief Executive Officer, said, "Our initiatives to improve gross profit margins continues to be the key driver behind our growth in earnings per share. We were pleased that all three business segments were able to achieve gross margin rate improvements, both sequentially and year over year."

Net sales for the small- and medium-sized business (SMB) segment in the fourth quarter of 2004 increased by 2.6% from the fourth quarter of 2003 to \$204.9 million and increased sequentially by 4.6% over the immediately preceding quarter. Sales to government and education customers (Public Sector segment) declined for the fourth quarter of 2004 by 35.1% from the fourth quarter of 2003 to \$58.0 million. Within this segment, sales to the federal government declined year over year by 58.3%, primarily as a result of the 2003 loss of our GSA contract. Although it was replaced with a new GSA contract in August of 2004, it was too late for GovConnection to take full advantage of the annual federal buying season. Sales to state, local, and education customers declined year over year by 4.5% from the fourth quarter of 2003. Sales to large corporate account customers increased by 10.5% from the fourth quarter of 2003 to \$76.7 million but decreased sequentially by 1.0% from the immediately preceding quarter.

Consolidated annualized sales productivity decreased to \$2.3 million per sales representative in the fourth quarter of 2004 from \$2.5 million per sales representative in the fourth quarter of 2003, primarily due to the decline in federal government sales. The total number of sales representatives increased to 591 at December 31, 2004

from 571 at September 30, 2004 and from 567 at December 31, 2003.

Total SG&A expenses as a percentage of sales were 10.8% in the fourth quarter of 2004 (including the EITF reclassification referred to above, which increased this rate by 0.9%), 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 18.9% of net sales in the fourth quarter of 2004 compared to 19.0% of net sales for the corresponding period a year ago. Desktop and server computer systems accounted for 15.1% of net sales in the fourth quarter of 2004, compared to 15.8% for the corresponding 2003 period. The average selling prices of computer systems increased 0.2% in the fourth quarter of 2004 compared to the corresponding period a year ago, and increased 3.6% compared to the third quarter of 2004.

Ms. Gallup concluded, "During the last quarter, the Company improved both gross profit and operating margins, grew earnings, and continued our efforts to enhance the efficiency and effectiveness of our sales organizations. Our strong and experienced management team continues to be focused on driving continuous improvement and building long-term value for our shareholders."

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 is 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 web cast of PC Connection management's discussion of the fourth quarter and year will be available on the Company's Web site at www.pcconnection.com and on www.streetevents.com. The web cast 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 September 30, 2004. More specifically, the statements in this release concerning the Company's outlook for 2005 and the statements concerning the Company's gross margin percentage, productivity, 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,

(Dollars and shares in thousands, except operating data, price/earnings ratio and per share data)

2004

% of
Net
Sales

Operating Data:

Net sales growth		(5.2)%
Gross profit margin		12.2
Operating margin		0.9
Return on equity(1)		5.1
Diluted earnings per share	\$.08
Catalogs distributed		10,868,000
Orders entered(2)		332,000
Average order size(2)	\$	1,132
Inventory turns(1)		14
Days sales outstanding		42

Product Mix:

Notebooks & PDAs	\$	64,164	18.9%
Desktop/Servers		51,212	15.1
Storage Devices		29,594	8.7
Software		39,892	11.7
Net/Com Products		24,861	7.3
Printers & Printer Supplies		35,523	10.5
Video, Imaging & Sound		42,265	12.4
Memory & System Enhancements		17,952	5.3
Accessories/Other		34,136	10.1
		-----	-----
	\$	339,599	100.0%
		=====	=====

Stock Performance Indicators:

Actual shares outstanding		25,100
Total book value per share	\$	6.62
Tangible book value per share	\$	4.44
Closing price	\$	9.52
Market capitalization	\$	238,952
Trailing price/earnings ratio (3)		29

At or for the Three Months Ended December 31,

(Dollars and shares in thousands, except operating data, price/earnings ratio and per share data)

2003

% of
Net
Sales % Change

Operating Data:

Net sales growth		11.2%
Gross profit margin		10.1
Operating margin		0.5
Return on equity(1)		1.9
Diluted earnings per share	\$.03
Catalogs distributed		8,726,000
Orders entered(2)		338,000
Average order size(2)	\$	1,202
Inventory turns(1)		17
Days sales outstanding		47

Product Mix:

Notebooks & PDAs	\$	68,001	19.0%	(5.6)%
Desktop/Servers		56,590	15.8	(9.5)
Storage Devices		29,169	8.1	1.5
Software		45,446	12.7	(12.2)
Net/Com Products		27,211	7.6	(8.6)
Printers & Printer Supplies		36,953	10.3	(3.9)
Video, Imaging & Sound		44,251	12.3	(4.5)
Memory & System Enhancements		20,673	5.8	(13.2)
Accessories/Other		30,082	8.4	13.5
		-----	-----	-----
	\$	358,376	100.0%	(5.2)%
		=====	=====	=====

Stock Performance Indicators:

Actual shares outstanding		24,980
Total book value per share	\$	6.29
Tangible book value per share	\$	4.34
Closing price	\$	8.23
Market capitalization	\$	205,585

- (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

December 31,

	2004		2003	
(Dollars in thousands)	Net Sales	Gross Margin (%)	Net Sales	Gross Margin (%)
PC Connection Sales Corporation (SMB)	\$204,878	13.4%	\$199,615	11.1%
GovConnection (Public Sector)	58,022	9.8	89,371	8.0
MoreDirect (Large Account)	76,699	10.7	69,390	10.1
Total	\$339,599	12.2%	\$358,376	10.1%

CONSOLIDATED INCOME STATEMENTS

Three Months Ended December 31,

	2004		2003	
(Amounts in thousands, except per share data)	Amount	% of Net Sales	Amount	% of Net Sales
Net sales	\$339,599	100.00%	\$358,376	100.00%
Cost of sales	298,253	87.83	322,055	89.86
Gross Profit	41,346	12.17	36,321	10.14
Selling, general, and administrative expenses	36,576	10.77	33,108	9.24
Special charges	1,649	.48	1,532	.43
Income From Operations	3,121	.92	1,681	.47
Interest expense	(326)	(.09)	(456)	(.13)
Other, net	16	-	(8)	-
Income tax provision	(738)	(.22)	(487)	(.14)
Net Income	\$ 2,073	0.61%	\$ 730	.20%

Weighted average common shares outstanding:

Basic	25,057	24,792
Diluted	25,275	25,308

Earnings per common share:

Basic	\$.08	\$.03
Diluted	\$.08	\$.03

CONSOLIDATED INCOME STATEMENTS

Twelve Months Ended

December 31,

	2004		2003	
(Amounts in thousands, except per share data)	Amount	% of Net Sales	Amount	% of Net Sales
Net sales	\$1,353,834	100.00%	\$1,312,891	100.00%
Cost of sales	1,202,995	88.86	1,175,212	89.51
Gross Profit	150,839	11.14	137,679	10.49
Selling, general, and administrative expenses	131,514	9.71	124,824	9.51

Special charges	5,232	.39	1,929	.15
	-----	-----	-----	-----
Income From Operations	14,093	1.04	10,926	.83
Interest expense	(1,385)	(.10)	(1,305)	(.10)
Other, net	152	.01	117	.01
Income tax provision	(4,556)	(.34)	(3,850)	(.29)
	-----	-----	-----	-----
Net Income	\$ 8,304	0.61%	\$ 5,888	.45%
	=====	=====	=====	=====
Weighted average common shares outstanding:				
Basic	25,028		24,713	
	=====		=====	
Diluted	25,272		25,114	
	=====		=====	
Earnings per common share:				
Basic	\$.33		\$.24	
	=====		=====	
Diluted	\$.33		\$.23	
	=====		=====	

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		Twelve Months Ended	
	December 31, 2004	December 31, 2003	December 31, 2004	December 31, 2003
	-----	-----	-----	-----
GAAP net income	\$2,073	\$ 730	\$ 8,304	\$5,888
Special charges (after tax):				
Workforce reduction	172	7	533	247
GSA review and other	850	913	2,711	920
	-----	-----	-----	-----
	1,022	920	3,244	1,167
	-----	-----	-----	-----
Pro forma net income	\$3,095	\$1,650	\$11,548	\$7,055
	=====	=====	=====	=====

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)	December 31, 2004	December 31, 2003
	-----	-----
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 6,829	\$ 2,977
Restricted cash (1)	-	5,000
Accounts receivable, net	120,752	144,337
Inventories - merchandise	78,390	80,140
Deferred income taxes	3,039	3,051
Income taxes receivable	1,325	2,190
Prepaid expenses and other current assets	3,644	3,649
	-----	-----
Total current assets	213,979	241,344
Property and equipment, net	17,647	20,396
Goodwill, net	51,687	45,264
Other intangibles, net	3,040	3,393
Other assets	189	208
	-----	-----
Total assets	\$ 286,542	\$ 310,605
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of capital lease obligations:		
To affiliate	\$ 373	\$ 334

To third parties	391	-
Note payable - bank	4,810	5,614
Accounts payable	79,709	112,538
Accrued expenses and other liabilities	18,138	14,382
Acquisition earn-out obligation	6,921	11,593
	-----	-----
Total current liabilities	110,342	144,461
Capital lease obligations, less current maturities:		
To affiliate	5,715	6,088
To third parties	841	-
Deferred income taxes	3,486	2,867
	-----	-----
Total liabilities	120,384	153,416
	-----	-----
Stockholders' Equity:		
Common stock	255	253
Additional paid-in capital	77,091	76,428
Retained earnings	91,098	82,794
Treasury stock at cost	(2,286)	(2,286)
	-----	-----
Total stockholders' equity	166,158	157,189
	-----	-----
Total liabilities and stockholders' equity	\$ 286,542	\$ 310,605
	=====	=====

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

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
Twelve Months Ended December 31, 2004 (Amounts in thousands)

	Common Stock		Additional		Treasury		
	Shares	Amount	Paid-In Capital	Retained Earnings	Shares	Amount	Total
	-----	-----	-----	-----	-----	-----	-----
Balance							
- December 31, 2003	25,342	\$253	\$76,428	\$82,794	(362)	\$(2,286)	\$157,189
Exercise of stock options, including income tax benefits	47	1	259	-	-	-	260
Issuance of stock under employee stock purchase plan	73	1	404	-	-	-	405
Net income	-	-	-	8,304	-	-	8,304
	-----	-----	-----	-----	-----	-----	-----
Balance							
- December 31, 2004	25,462	\$255	\$77,091	\$91,098	(362)	\$(2,286)	\$166,158
	=====	=====	=====	=====	=====	=====	=====

CONSOLIDATED STATEMENTS OF CASH FLOWS
Twelve Months Ended December 31, (Amounts in thousands)

	2004	2003
	-----	-----
Cash Flows from Operating Activities:		
Net income	\$ 8,304	\$ 5,888
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,127	8,363
Deferred income taxes	(688)	(888)
Provision for doubtful accounts	4,280	2,953
Loss on disposal of fixed assets	8	41

Changes in assets and liabilities:		
Accounts receivable	19,305	(11,976)
Inventories	1,750	(27,661)
Prepaid expenses and other current assets	870	(1,267)
Other non-current assets	19	126
Accounts payable	(32,829)	27,045
Income tax benefits from exercise of stock options	97	349
Accrued expenses and other liabilities	5,075	328
	-----	-----
Net cash provided by operating activities	13,318	3,301
	-----	-----

Cash Flows from Investing Activities:

Purchases of property and equipment	(2,804)	(2,517)
Proceeds from sale of property and equipment	3	2
Payment of acquisition earn-out obligation	(11,095)	(10,829)
Cash escrow distributed for acquisition	5,000	5,000
	-----	-----
Net cash used for investing activities	(8,896)	(8,344)
	-----	-----

Cash Flows from Financing Activities:

Proceeds from short-term borrowings	369,285	238,259
Repayment of short-term borrowings	(370,089)	(232,645)
Repayment of capital lease obligation to affiliate	(334)	(199)
Exercise of stock options	163	381
Issuance of stock under employee stock purchase plan	405	427
	-----	-----
Net cash (used for) provided by financing activities	(570)	6,223
	-----	-----
Increase in cash and cash equivalents	3,852	1,180
Cash and cash equivalents, beginning of period	2,977	1,797
	-----	-----
Cash and cash equivalents, end of period	\$ 6,829	\$ 2,977
	=====	=====

CONTACT: PC Connection, Inc.
Stephen C. Baldrige, 603-683-2052
VP of Finance and Corporate Controller