
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): July 22, 2004

PC Connection, Inc.

(Exact name of registrant as specified in charter)

Delaware

0-23827

02-0513618

(State or other jurisdiction
of incorporation

(Commission
File Number)

(IRS Employer
Identification No.)

Rt. 101A, 730 Milford Road
Merrimack, NH

03054

(Address of principal executive offices)

(Zip Code)

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

N/A

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

Item 12. Disclosure of Results of Operations and Financial Condition.

On July 22, 2004, PC Connection, Inc. announced its financial results for the three and six-month periods ended June 30, 2004. 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.

The information in this Form 8-K 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: July 22, 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 July 22, 2004

PC Connection, Inc. Reports Second Quarter Results; Second Quarter
 Highlights: 50% Growth in Earnings Per Share; 50 Basis Point
 Improvement in Gross Margin; 30% Net Sales Growth in
 Large Corporate Account Segment

MERRIMACK, N.H.--(BUSINESS WIRE)--July 22, 2004--PC Connection, Inc. (NASDAQ:PCCC), a leading direct marketer of information technology products and solutions, today announced results for the quarter ended June 30, 2004. Net sales for the three months ended June 30, 2004 increased by \$13.7 million, or 4.3%, to \$335.3 million from \$321.6 million for the quarter ended June 30, 2003. Net income for the quarter ended June 30, 2004, on a generally accepted accounting principles (GAAP) basis, was \$2.3 million, or \$.09 per share, compared to \$1.4 million, or \$.06 per share, for the quarter ended June 30, 2003.

The three-month periods ended June 30, 2004 and 2003 included charges related to workforce reductions and other special charges that reduced earnings and earnings per share. Had these charges not been recorded, pro forma net income for the quarter ended June 30, 2004 would have been \$2.7 million, or \$.11 per share, compared to \$1.6 million, or \$.07 per share, for the quarter ended June 30, 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.

Net sales for the six months ended June 30, 2004 increased by \$57.9 million, or 9.6%, to \$663.0 million from \$605.1 million for the corresponding period a year ago. Net income for the six months ended June 30, 2004, on a GAAP basis, was \$3.4 million, or \$.14 per share, compared to \$3.0 million, or \$.12 per share, for the corresponding period a year ago. The six-month periods ended June 30, 2004 and 2003 included charges related to workforce reductions and other special charges that reduced earnings and earnings per share. Had these charges not been recorded, pro forma net income for the six months ended June 30, 2004 would have been \$4.5 million, or \$.18 per share, compared to \$3.2 million, or \$.13 per share, for the comparable period a year ago.

Consolidated gross margins, as a percentage of net sales, improved in the second quarter of 2004 by 50 basis points over the second quarter a year ago. Gross profit margin as a percentage of net sales was 10.8% in the second quarter of 2004, compared to 10.4% in the first quarter of 2004, and 10.3% in the second quarter of 2003. 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, "I am encouraged by our second quarter results, which showed increasing sales, rising gross margins, and growth in earnings per share. Our first quarter initiatives to improve gross margins along with our increase in net sales produced the strong earnings per share growth in the second quarter. As the results show, we are working harder and smarter to both better serve our customers and run our business more efficiently."

Net sales for the small- and medium-sized business (SMB) segment increased by 4.0% from the second quarter of 2003 to \$194.1 million but decreased sequentially by 6.4% over the immediately preceding quarter. Sales to government and education customers (Public Sector segment) declined for the quarter by 15.6% over the second quarter of 2003 to \$63.3 million, but increased sequentially by 17.6% from the immediately preceding quarter. Sales to the federal government declined sequentially by 24.0% and declined year-over-year by 65.0%. However, sales to state, local, and education customers grew sequentially this quarter by 32.9% and rose year-over-year by 20.2%. Gross margins for both the SMB and the Public Sector segments improved in the quarter by 1.0% and 1.2%, respectively, over the year ago quarter. Sales to large corporate account customers increased by 30.0% from the second quarter of 2003 to \$77.9 million and increased sequentially by 17.5% over the immediately preceding quarter.

Consolidated annualized sales productivity was equal to the second quarter of 2003 at \$2.4 million per sales representative. The total number of sales representatives increased to 570 at June 30, 2004 from 558 at March 31, 2004 and 546 at June 30, 2003.

Total selling, general, and administrative expenses (SG&A) as a percentage of sales were 9.4% in the second quarter of 2004, compared to 9.3% 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.

Notebook computer systems and PDAs continued to be the Company's largest product category, accounting for 20.1% of net sales in the second quarter of 2004 compared to 20.6% of net sales for the corresponding period a year ago. Desktop and server computer systems accounted for 13.8% of net sales in the second quarter of 2004, compared to 14.1% for the corresponding 2003 period. The average selling prices of computer systems decreased 3.7% in the second quarter of 2004 compared to the corresponding period a year ago, and decreased 3.3% compared to the first quarter of 2004.

Ms. Gallup concluded, "With the continuation of our gross margin initiatives, and with the traditionally strong quarters for our business still ahead of us, we are optimistic that the Company will continue to experience improved results for the second half of 2004. It is anticipated our new General Services Administration ("GSA") schedule will be forthcoming; this will help us to expand our sales to the federal government. Overall, we believe PC Connection remains in a strong position 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 second 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 March 31, 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 put in place a new GSA schedule, 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.

- -0-

*T

 CONSOLIDATED SELECTED FINANCIAL HIGHLIGHTS

At or for the Three Months

Ended June 30,	2004	2003
----------------	------	------

(Dollars and shares in thousands, except operating data, price/

%	%	%
---	---	---

except per share data)	Sales		Sales	
Net sales	\$335,335	100.00%	\$321,568	100.00%
Cost of sales	299,173	89.22	288,611	89.75
Gross Profit	36,162	10.78	32,957	10.25
Selling, general and administrative expenses	31,483	9.39	30,018	9.34
Restructuring costs and other special charges	753	.22	397	.12
Income From Operations	3,926	1.17	2,542	.79
Interest expense	(341)	(.10)	(276)	(.08)
Other, net	54	.02	54	.02
Income tax provision	(1,383)	(.41)	(917)	(.29)
Net Income	\$2,256	.67%	\$1,403	.44%
Weighted average common shares outstanding:				
Basic	25,008		24,665	
Diluted	25,225		25,013	
Earnings per common share:				
Basic	\$.09		\$.06	
Diluted	\$.09		\$.06	

CONSOLIDATED INCOME STATEMENTS

Six Months Ended June 30,	2004		2003	
(Amounts in thousands, except per share data)	Amount	% of Net Sales	Amount	% of Net Sales
Net sales	\$662,970	100.00%	\$605,095	100.00%
Cost of sales	592,883	89.43	539,663	89.19
Gross Profit	70,087	10.57	65,432	10.81
Selling, general and administrative expenses	62,173	9.38	59,657	9.85
Restructuring costs and other special charges	1,783	.27	397	.07
Income From Operations	6,131	.92	5,378	.89
Interest expense	(725)	(.11)	(579)	(.10)
Other, net	101	.02	98	.02
Income tax provision	(2,093)	(.32)	(1,919)	(.32)
Net Income	\$ 3,414	.51%	\$ 2,978	.49%
Weighted average common shares outstanding:				
Basic	25,003		24,658	
Diluted	25,295		24,960	
Earnings per common share:				
Basic	\$.14		\$.12	
Diluted	\$.14		\$.12	

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 June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
GAAP net income	\$ 2,256	\$ 1,403	\$ 3,414	\$ 2,978
Restructuring costs and other special charges (after tax):				
Workforce reduction	16	240	356	241
GSA review and other	451	-	749	-
	467	240	1,105	241
Pro forma net income	\$ 2,723	\$ 1,643	\$ 4,519	\$ 3,219

CONSOLIDATED BALANCE SHEETS	June 30,	December 31,
(Amounts in thousands)	2004	2003

ASSETS

Current Assets:		
Cash and cash equivalents	\$ 1,456	\$ 2,977
Restricted cash(1)	-	5,000
Accounts receivable, net	119,820	144,337
Inventories - merchandise	80,372	80,140
Deferred income taxes	1,972	1,732
Income taxes receivable	868	2,190
Prepaid expenses and other current assets	4,066	3,649
Total current assets	208,554	240,025
Property and equipment, net	18,034	20,396
Goodwill, net	44,766	45,264
Other intangibles, net	3,217	3,393
Other assets	206	208
Total assets	\$274,777	\$309,286

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:		
Current maturities of capital lease obligation to affiliate	\$ 352	\$ 334
Note payable - bank	-	5,614
Accounts payable	88,962	112,538
Accrued expenses and other liabilities	15,901	13,063
Acquisition earn-out obligation	-	11,593
Total current liabilities	105,215	143,142
Capital lease obligation to affiliate, less current maturities	5,907	6,088
Deferred income taxes	2,704	2,867
Total liabilities	113,826	152,097
Stockholders' Equity:		
Common stock	254	253
Additional paid-in capital	76,775	76,428
Retained earnings	86,208	82,794
Treasury stock at cost	(2,286)	(2,286)
Total stockholders' equity	160,951	157,189
Total liabilities and stockholders' equity	\$274,777	\$309,286

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

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Six Months Ended June 30, 2004 (Amounts in thousands)

	Common Shares	Stock Amount	Additional Paid In Capital	Retained Earnings	Treasury Shares	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	28	1	142	-	-	-	143
Issuance of stock under employee stock purchase plan	37	-	205	-	-	-	205
Net income	-	-	-	3,414	-	-	3,414
Balance - June 30, 2004	25,407	\$254	\$76,775	\$86,208	(362)	\$(2,286)	\$160,951

CONSOLIDATED STATEMENTS OF CASH FLOWS

Six Months Ended June 30, (Amounts in thousands) 2004 2003

Cash Flows from Operating Activities:

Net income	\$3,414	\$2,978
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,539	4,408
Deferred income taxes	(403)	(829)
Provision for doubtful accounts	2,076	1,294
Loss on disposal of fixed assets	1	-
Changes in assets and liabilities:		
Accounts receivable	22,441	12,010
Inventories	(232)	(9,696)
Prepaid expenses and other current assets	905	(2,869)
Other non-current assets	2	146
Accounts payable	(23,576)	4,844
Income tax benefits from exercise of stock options	85	110
Accrued expenses and other liabilities	2,838	1,166
Net cash provided by operating activities	11,090	13,562

Cash Flows from Investing Activities:

Purchases of property and equipment	(1,002)	(1,325)
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	(7,097)	(7,125)

Cash Flows from Financing Activities:

Proceeds from short-term borrowings	174,121	76,465
Repayment of short-term borrowings	(179,735)	(76,465)
Repayment of capital lease obligation to affiliate	(163)	(92)
Exercise of stock options	58	42
Issuance of stock under employee stock purchase plan	205	212
Net cash provided by (used for) financing activities	(5,514)	162

Increase (decrease) in cash and cash equivalents	(1,521)	6,599
Cash and cash equivalents, beginning of period	2,977	1,797
	-----	-----
Cash and cash equivalents, end of period	\$ 1,456	\$ 8,396
	=====	=====

*T

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