
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 23, 2003

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
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 July 23, 2003, PC Connection, Inc. announced its financial results for the quarter ended June 30, 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: July 23, 2003

PC CONNECTION, INC.

By: /s/ MARK A. GAVIN

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

PC Connection, Inc. Reports Second Quarter Results

MERRIMACK, N.H.--(BUSINESS WIRE)--July 23, 2003--PC Connection, Inc. (NASDAQ: PCCC)--

SECOND QUARTER HIGHLIGHTS:

- 10.4% growth in net sales
- 8% sequential growth in sales representatives
- 6% growth in active customers

PC Connection, Inc. (NASDAQ: PCCC), a leading direct marketer of information technology products and solutions, today announced results for the quarter ended June 30, 2003.

Net sales for the three months ended June 30, 2003 increased by \$30.4 million, or 10.4%, to \$321.6 million from \$291.2 million for the quarter ended June 30, 2002. Net income for the quarter ended June 30, 2003, on a generally accepted accounting principles (GAAP) basis, was \$1.4 million, or \$.06 per share, compared to \$0.3 million, or \$.01 per share, for the quarter ended June 30, 2002.

Net sales for the six months ended June 30, 2003 were \$605.1 million compared to \$528.3 million for the corresponding period a year ago. Net income for the six months ended June 30, 2003, on a GAAP basis, was \$3.0 million, or \$.12 per share, compared to a net loss of \$(1.8) million, or \$(.07) per share, for the corresponding period a year ago. MoreDirect, Inc., the Company's large account subsidiary, was acquired in April 2002.

All above reported periods 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, 2003 would have been \$1.6 million, or \$.07 per share, compared to \$0.3 million, or \$.01 per share, for the quarter ended June 30, 2002. Pro forma net income for the six months ended June 30, 2003 would have been \$3.2 million, or \$.13 per share, compared to a loss of \$(1.3) million, or \$(.05) per share, for the corresponding same period a year ago. A reconciliation between net income (loss) on a GAAP basis and pro forma net income (loss) is provided in a table immediately following the Consolidated Statements of Operations.

Net sales for the small- and medium-sized business (SMB) segment increased by 7.5% from the second quarter of 2002 to \$186.6 million and increased sequentially by 4.4% over the immediately preceding quarter. This is the first quarter since the fourth quarter of 2000 that the SMB segment grew over the prior year period. Sales to government and education customers grew for the quarter by 17.8% over the second quarter of 2002 to \$75.0 million, and increased sequentially by 42.5% from the immediately preceding quarter. Sales to the federal government grew sequentially by 40.0% and rose year-over-year by 19.3%. Sales to state, local, and education customers grew sequentially this quarter by 44.5% and rose year-over-year by 16.7%. Sales to large corporate account customers increased by 11.4% from the second quarter of 2002 to \$60.0 million and increased sequentially by 14.8% over the immediately preceding quarter.

Patricia Gallup, Chairman and Chief Executive Officer, said, "We are pleased with the performance of all three PC Connection, Inc. sales subsidiaries during the second quarter of 2003. We improved sales productivity on an annualized basis, grew the total number of sales representatives, and increased the number of active customers." Sales productivity improved by 11% over the second quarter of 2002 to \$2.4 million per sales representative. The total number of sales representatives increased sequentially by 8% to 546 from 505 as of March 31, 2003. In addition, the number of active customers, or customers who have previously purchased from the Company, increased by 6% over the second quarter of 2002 to 483,000 and increased sequentially by 5% over the immediately preceding quarter.

Notebook computer systems and PDAs continued to be the Company's largest product category, accounting for 21% of net sales in the second quarter of 2003 compared to 17% of net sales for the corresponding period a year ago. Desktop and server computer systems accounted for 14% of net sales in the second quarter of 2003, compared to 15% for the corresponding 2002 period. The average selling prices of computer systems decreased 15% in the second quarter compared to the corresponding period a year ago, and decreased 5% compared to the first quarter of 2003.

Gross profit margin as a percentage of net sales was 10.3% in the second quarter of 2003, compared to 10.8% in the second quarter of

2002. Gross margins were lower as a result of winning more competitively priced deals and increasing our overall market share. 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 (SG&A) as a percentage of sales were 9.3% in the second quarter of 2003, compared to 10.5% 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. The improvement in our SG&A rates, compared to the corresponding quarter a year ago, was due to higher sales volumes and continued profit improvement initiatives.

Ms. Gallup concluded, "The investments we are making to increase sales and improve efficiency are producing positive results. We believe PC Connection is in a strong position to gain market share and enhance long-term shareholder value."

PC Connection, Inc., a Fortune 1000 company, operates through 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 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 outbound sales account managers and catalog telesales representatives, its comprehensive web sites at www.pcconnection.com and www.macconnection.com, and its catalogs PC Connection (1-800-800-5555) and MacConnection (1-800-800-2222). GovConnection, Inc. is a rapid-response provider of IT products and solutions, offering more than 100,000 brand-name products to federal, state and local government agencies, and educational institutions (1-800-800-0019). MoreDirect, Inc. 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 am 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 2002 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission for the period ended March 31, 2003. More specifically, the statements in this release concerning the Company's outlook for the balance of 2003 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 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 June 30,
(Dollars and shares in thousands, except operating data,
price/earnings ratio and per share data)

| 2003 | 2002 | | | |
|-----------|-----------|--------|--------|--------|
| ---- | ---- | % | % | % |
| % | % | % | % | % |
| Net Sales | Net Sales | Change | Change | Change |

Operating Data:

| | | |
|-----------------------------------|-------|--------|
| Net sales growth | 10.4% | (1.8)% |
| Diluted earnings per share change | 500.0 | (83.3) |
| Gross profit margin | 10.3 | 10.8 |
| Operating margin | 0.8 | 0.2 |
| Return on equity(2) | 3.7 | 0.8 |

| | | | |
|---------------------------|-----------|-----------|-------|
| Catalogs distributed | 7,910,000 | 5,318,000 | 48.7% |
| Orders entered(1) | 335,900 | 304,500 | 10.3 |
| Average order size(1) | \$1,110 | \$1,127 | (1.5) |
| Inventory turns(2) | 20 | 22 | |
| Days sales outstanding(3) | 45 | 48 | |
| Active customers(4) | 483,000 | 457,000 | |

Product Mix:

| | | | | | |
|------------------------------|------------|--------|------------|--------|--------|
| Notebooks & PDAs | \$ 66,269 | 20.6% | \$ 50,403 | 17.3% | 31.5% |
| Desktops/Servers | 45,364 | 14.1 | 42,960 | 14.8 | 5.6 |
| Storage Devices | 28,582 | 8.9 | 27,865 | 9.6 | 2.6 |
| Software | 30,370 | 9.5 | 40,506 | 13.9 | (25.0) |
| Net/Comm Products | 26,129 | 8.1 | 24,198 | 8.3 | 8.0 |
| Printers & Printer Supplies | 39,341 | 12.2 | 34,193 | 11.7 | 15.1 |
| Video, Imaging & Sound | 38,242 | 11.9 | 31,794 | 10.9 | 20.3 |
| Memory & System Enhancements | 18,248 | 5.7 | 16,620 | 5.7 | 9.8 |
| Accessories/Other | 29,023 | 9.0 | 22,649 | 7.8 | 28.1 |
| | ----- | ----- | ----- | ----- | ----- |
| | \$ 321,568 | 100.0% | \$ 291,188 | 100.0% | 10.4% |
| | ----- | ----- | ----- | ----- | ----- |

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

| | | | | | |
|--|-----------|-------|-----------|-------|-------|
| | \$ 71,491 | 22.2% | \$ 66,882 | 23.0% | 6.9% |
| | ----- | ----- | ----- | ----- | ----- |

Stock Performance

Indicators:

| | | |
|-----------------------------------|-----------|-----------|
| Actual shares outstanding | 24,731 | 24,559 |
| Total book value per share | \$6.21 | \$5.90 |
| Tangible book value per share | \$4.70 | \$4.81 |
| Closing price | \$6.89 | \$4.10 |
| Market capitalization | \$170,397 | \$100,692 |
| Trailing price/earnings ratio (5) | 21 | 68 |

- (1) Does not reflect cancellations or returns
- (2) Annualized
- (3) Represents the balance of customer receivables at the end of the period, divided by the average daily open account sales for the period.
- (4) All customers included in the Company's mailing list who made a purchase within the last twelve-month period.
- (5) Earnings is based on the last four quarters

SELECTED SEGMENT INFORMATION
For the Three Months Ended June 30
(Dollars in thousands)

| | | | | |
|--|-----------|-----------------|-----------|-----------------|
| | 2003 | | 2002 | |
| | ---- | | ---- | |
| | Net Sales | Gross Margin(%) | Net Sales | Gross Margin(%) |
| | ----- | ----- | ----- | ----- |

| | | | | |
|----------------------------------|------------|-------|------------|-------|
| Sales Corporation (SMB) | \$ 186,576 | 10.7% | \$ 173,635 | 11.6% |
| GovConnection (Public Sector) | 75,023 | 7.9 | 63,704 | 8.8 |
| MoreDirect (Large Account) | 59,969 | 11.7 | 53,849 | 10.4 |
| | ----- | ---- | ----- | ----- |
| Total | \$ 321,568 | 10.3% | \$ 291,188 | 10.8% |
| | ----- | ---- | ----- | ----- |

CONSOLIDATED STATEMENTS OF OPERATIONS
Three Months Ended June 30,
(Amounts in thousands, except per share data)

| | 2003 ---- | | 2002 ---- | |
|---|-----------------|----------------------------|-----------------|----------------------------|
| | Amount ----- | % of Net Sales ----- | Amount ----- | % of Net Sales ----- |
| Net sales | \$ 321,568 | 100.00% | \$ 291,188 | 100.00% |
| Cost of sales | 288,611 | 89.75 | 259,864 | 89.24 |
| | ----- | ----- | ----- | ----- |
| Gross Profit | 32,957 | 10.25 | 31,324 | 10.76 |
| | ----- | ----- | ----- | ----- |
| Selling, general and administrative expenses | 30,018 | 9.34 | 30,609 | 10.51 |
| Restructuring costs and other special charges | 397 | .12 | 105 | .04 |
| | ----- | ----- | ----- | ----- |
| Income From Operations | 2,542 | .79 | 610 | .21 |
| | ----- | ----- | ----- | ----- |
| Interest expense | (276) | (.08) | (296) | (.10) |
| Other, net | 54 | .02 | 132 | .05 |
| Income tax provision | (917) | (.29) | (169) | (.06) |
| | ----- | ----- | ----- | ----- |
| Net Income | \$ 1,403 | .44% | \$ 277 | .10% |
| | ----- | ----- | ----- | ----- |
| Weighted average common shares outstanding: | | | | |
| Basic | 24,665 | | 24,553 | |
| | ----- | | ----- | |
| Diluted | 25,013 | | 24,833 | |
| | ----- | | ----- | |
| Earnings per common share: | | | | |
| Basic | \$.06 | | \$.01 | |
| | ----- | | ----- | |
| Diluted | \$.06 | | \$.01 | |
| | ----- | | ----- | |

CONSOLIDATED STATEMENTS OF OPERATIONS
Six Months Ended June 30,
(Amounts in thousands, except per share data)

| | 2003 ---- | | 2002 ---- | |
|---|-----------------|----------------------------|-----------------|----------------------------|
| | Amount ----- | % of Net Sales ----- | Amount ----- | % of Net Sales ----- |
| Net sales | \$ 605,095 | 100.00% | \$ 528,308 | 100.00% |
| Cost of sales | 539,663 | 89.19 | 472,034 | 89.35 |
| | ----- | ----- | ----- | ----- |
| Gross Profit | 65,432 | 10.81 | 56,274 | 10.65 |
| | ----- | ----- | ----- | ----- |
| Selling, general and administrative expenses | 59,657 | 9.85 | 58,087 | 11.00 |
| Restructuring costs and other special charges | 397 | .07 | 918 | .17 |
| | ----- | ----- | ----- | ----- |
| Income (Loss) From | | | | |

| | | | | |
|---|----------|-------|------------|--------|
| Operations | 5,378 | .89 | (2,731) | (.52) |
| Interest expense | (579) | (.10) | (538) | (.10) |
| Other, net | 98 | .02 | 327 | .06 |
| Income tax (provision) credit | (1,919) | (.32) | 1,119 | .21 |
| | ----- | ----- | ----- | ----- |
| Net Income (Loss) | \$ 2,978 | .49% | \$ (1,823) | (.35)% |
| | ----- | ----- | ----- | ----- |
| Weighted average common shares outstanding: | | | | |
| Basic | 24,658 | | 24,552 | |
| | ----- | | ----- | |
| Diluted | 24,960 | | 24,552 | |
| | ----- | | ----- | |
| Earnings (loss) per common share: | | | | |
| Basic | \$.12 | | \$ (.07) | |
| | ----- | | ----- | |
| Diluted | \$.12 | | \$ (.07) | |
| | ----- | | ----- | |

A RECONCILIATION BETWEEN GAAP AND PRO FORMA NET INCOME (LOSS)

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, | |
|--|-----------------------------|--------|---------------------------|------------|
| | 2003 | 2002 | 2003 | 2002 |
| | ---- | ---- | ---- | ---- |
| GAAP net income (loss) | \$ 1,403 | \$ 277 | \$ 2,978 | \$ (1,823) |
| Restructuring costs and other special charges (after tax) | 240 | 65 | 241 | 569 |
| | ----- | ----- | ----- | ----- |
| Pro forma net income (loss) | \$ 1,643 | \$ 342 | \$ 3,219 | \$ (1,254) |
| | ----- | ----- | ----- | ----- |

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

| | June 30, 2003 ---- | December 31, 2002 ---- |
|--|--------------------------|------------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 8,396 | \$ 1,797 |
| Restricted cash(1) | - | 5,000 |
| Accounts receivable, net | 122,010 | 135,314 |
| Inventories - merchandise | 62,175 | 52,479 |
| Deferred income taxes | 1,042 | 741 |
| Income tax receivable | 2,486 | 1,294 |
| Prepaid expenses and other current assets | 4,955 | 3,278 |
| | ----- | ----- |
| Total current assets | 201,064 | 199,903 |
| Property and equipment, net | 23,056 | 25,995 |
| Goodwill, net | 33,704 | 33,704 |
| Other intangibles, net | 3,570 | 3,746 |
| Restricted cash (1) | 5,000 | 5,000 |
| Other assets | 188 | 334 |
| | ----- | ----- |
| Total assets | \$ 266,582 | \$ 268,682 |
| | ----- | ----- |

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:

| | | |
|--|--------|--------|
| Current maturities of capital lease obligation to affiliate | \$ 270 | \$ 200 |
|--|--------|--------|

| | | |
|--|------------|------------|
| Accounts payable | 90,337 | 85,493 |
| Accrued expenses and other liabilities | 13,255 | 22,921 |
| | ----- | ----- |
| Total current liabilities | 103,862 | 108,614 |
| Capital lease obligation to affiliate, less current maturities | 6,259 | 6,421 |
| Deferred taxes | 2,975 | 3,503 |
| | ----- | ----- |
| Total liabilities | 113,096 | 118,538 |
| | ----- | ----- |
| Stockholders' Equity: | | |
| Common stock | 251 | 250 |
| Additional paid-in capital | 75,637 | 75,274 |
| Retained earnings | 79,884 | 76,906 |
| Treasury stock at cost | (2,286) | (2,286) |
| | ----- | ----- |
| Total stockholders' equity | 153,486 | 150,144 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 266,582 | \$ 268,682 |
| | ----- | ----- |

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

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
Six Months Ended June 30, 2003 (Amounts in thousands)

| | Common Stock | | Additional Paid In Capital | Retained Earnings |
|---|--------------|--------|-------------------------------|----------------------|
| | Shares | Amount | | |
| | ----- | ----- | ----- | ----- |
| Balance - December 31, 2002 | \$ 24,997 | \$ 250 | \$ 75,274 | \$ 76,906 |
| Exercise of stock options, including income tax benefits | 46 | - | 152 | - |
| Issuance of stock under employee stock purchase plan | 50 | 1 | 211 | - |
| Net income | - | - | - | 2,978 |
| | ----- | ----- | ----- | ----- |
| Balance - June 30, 2003 | 25,093 | \$ 251 | \$ 75,637 | \$ 79,884 |
| | ----- | ----- | ----- | ----- |

| | Treasury Shares | | |
|---|-----------------|------------|------------|
| | Shares | Amount | Total |
| | ----- | ----- | ----- |
| Balance - December 31, 2002 | (362) | \$ (2,286) | \$ 150,144 |
| Exercise of stock options, including income tax benefits | - | - | 152 |
| Issuance of stock under employee stock purchase plan | - | - | 212 |
| Net Income | - | - | 2,978 |
| | ----- | ----- | ----- |
| Balance - June 30, 2003 | (362) | \$ (2,286) | \$ 153,486 |
| | ----- | ----- | ----- |

| | 2003 ---- | 2002 ---- |
|--|--------------|--------------|
| Cash Flows from Operating Activities: | | |
| Net income (loss) | \$ 2,978 | \$ (1,823) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 4,408 | 3,787 |
| Deferred income taxes | (829) | 96 |
| Provision for doubtful accounts | 1,294 | 3,237 |
| Gain on disposal of fixed assets | - | (2) |
| Changes in assets and liabilities: | | |
| Accounts receivable | 12,010 | 21,253 |
| Inventories | (9,696) | 13,976 |
| Prepaid expenses and other current assets | (2,869) | (2,039) |
| Other non-current assets | 146 | (63) |
| Accounts payable | 4,844 | (8,888) |
| Income tax benefits from exercise of stock options | 110 | 26 |
| Accrued expenses and other liabilities | 1,166 | (2,435) |
| | ----- | ----- |
| Net cash provided by operating activities | 13,562 | 27,125 |
| | ----- | ----- |
| Cash Flows from Investing Activities: | | |
| Purchases of property and equipment | (1,325) | (3,370) |
| Proceeds from sale of property and equipment | - | 9 |
| Payment of acquisition earn-out obligation | (10,800) | - |
| Decrease in restricted cash | 5,000 | - |
| Payments for acquisition, net of cash acquired | - | (22,585) |
| Cash escrow funded for acquisition | - | (10,000) |
| | ----- | ----- |
| Net cash used for investing activities | (7,125) | (35,946) |
| | ----- | ----- |
| Cash Flows from Financing Activities: | | |
| Proceeds from short-term borrowings | 76,465 | 5,521 |
| Repayment of short-term borrowings | (76,465) | (5,521) |
| Repayment of capital lease obligation to affiliate | (92) | (83) |
| Repayment of notes payable | - | (500) |
| Exercise of stock options | 42 | 107 |
| Issuance of stock under employee stock purchase plan | 212 | 313 |
| Purchase of treasury shares | - | (448) |
| | ----- | ----- |
| Net cash provided by (used for) financing activities | 162 | (611) |
| | ----- | ----- |
| Increase (decrease) in cash and cash equivalents | 6,599 | (9,432) |
| Cash and cash equivalents, beginning of period | 1,797 | 35,605 |
| | ----- | ----- |
| Cash and cash equivalents, end of period | \$ 8,396 | \$ 26,173 |
| | ----- | ----- |

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