

-----  
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): April 24, 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 April 24, 2003, PC Connection, Inc. announced its financial results for the quarter ended March 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: April 24, 2003

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 April 24, 2003



## PC Connection, Inc. Reports First Quarter Results

MERRIMACK, N.H.--(BUSINESS WIRE)--April 24, 2003--

## FIRST QUARTER HIGHLIGHTS:

- 20% growth in net sales
- \$.06 earnings per share
- 93 basis point improvement in gross margins

PC Connection, Inc. (NASDAQ: PCCC), a leading direct marketer of information technology products and solutions, today announced results for the quarter ended March 31, 2003. Net sales for the three months ended March 31, 2003 increased by \$46.4 million, or 20%, to \$283.5 million from \$237.1 million for the three months ended March 31, 2002. Net income for the quarter was \$1.6 million, or \$.06 per share, compared to a net loss of \$2.1 million, or \$.09 per share, for the three months ended March 31, 2002. The Company's most recent acquisition, MoreDirect, reported \$52.3 million in net sales for the first quarter of 2003. The Company acquired MoreDirect during April 2002, and therefore, MoreDirect's results were not included in the Company's financial results for the first quarter of 2002.

Net sales for the small- and medium-sized business (SMB) segment million declined by 4.8% from the first quarter of 2002 to \$178.6 but increased sequentially by 6.5% over the immediately preceding quarter. Sales productivity for the SMB segment improved by 14.7% over the first quarter of 2002 to \$2.2 million per sales representative and also improved sequentially this quarter by 10.0% over the immediately preceding quarter. Sales to government and education customers (the Company's Public Sector segment) grew for the quarter by 6.4% over the first quarter of 2002 to \$52.6 million, but were down sequentially by 37.7% from the immediately preceding quarter. The sequential decline in net sales this quarter was consistent with the historical seasonality in the Company's federal government sales. However, sales to state, local, and education customers grew sequentially this quarter by 1.3% and rose year-over-year by 17.2%. Sales to large account customers declined sequentially in the quarter by 25.3% to \$52.3 million. Sales to large account customers had a slower start to the year than anticipated. Management believes that large customers have delayed purchasing information technology equipment due to the uncertainty surrounding the events that occurred in Iraq.

Patricia Gallup, President and Chief Executive Officer, said, "We are encouraged by recent improvements in the productivity of the sales representatives in our SMB segment. Generating higher sales productivity is the key to leveraging our expense structure and driving future profitability improvements. Now that we have seen enhanced sales productivity over the past year, our goal is to increase the total number of sales representatives in all of our operating segments from 505 to 555, or 10%, by the end of the year."

Notebook computer systems continued to be the Company's largest product category, accounting for 17.9% of net sales in the first quarter of 2003 compared to 15.6% of net sales for the corresponding period a year ago. Desktop and server computer systems accounted for 14.8% of net sales in the first quarter of 2003, compared to 14.6% for the corresponding 2002 period. The average selling prices of computer systems increased 1% in the first quarter compared to the corresponding period a year ago, but decreased 1% compared to the fourth quarter of 2002.

Gross profit margin as a percentage of net sales was 11.5% in the first quarter of 2003, compared to 11.1% in the fourth quarter of 2002, and 10.5% in the first quarter of 2002. This represents a 93 basis point year-over-year improvement. Gross margins were higher due to an improvement in product mix and selling margins. 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 were 10.5% in the first quarter of 2003, compared to 11.6% in the corresponding period a year ago. This decline was due primarily to increased sales relating to the April 2002 acquisition of MoreDirect. 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, "Due to profitability improvements achieved during the first quarter, we are optimistic that the Company will see continued financial improvement throughout the remainder of 2003. The strongest quarters of the public sector are still ahead of us. And,

with less uncertainty regarding the deployment of U.S. troops overseas, we believe our customers will resume normal buying patterns."

PC Connection, Inc., a Fortune 1000 company, has 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.pconnection.com](http://www.pconnection.com), and [www.macconnection.com](http://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, web site [www.govconnection.com](http://www.govconnection.com)). MoreDirect, Inc. ([www.moredirect.com](http://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 350,000 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 first quarter will be available on the Company's Web site at [www.pconnection.com](http://www.pconnection.com) and on [www.streetevents.com](http://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 Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2002. 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 regain its model of profitable growth and the expected benefits of the Company's electronic commerce strategy) 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  
(Dollars and shares in thousands, except operating data, price/earnings ratio and per share data)

At or for the Three Months Ended March 31, 2003	2002	% of Net Sales	2002	% of Net Sales	%
					Change
<b>Operating Data:</b>					
Net sales growth	19.6%		(21.8)%		
Diluted earnings per share change	166.7		(190.0)		
Gross profit margin	11.5		10.5		
Operating margin	1.0		(1.4)		
Return on equity(2)	4.2		(5.8)		
Catalogs distributed	6,631,000		8,415,000		(21.2)%
Orders entered(1)	324,000		315,000		2.9
Average order size(1)	\$1,058		\$894		18.3
Inventory turns(2)	19		16		
Days sales outstanding	51		52		
<b>Product Mix:</b>					
Notebooks	\$ 50,605	17.9%	\$ 36,969	15.6%	36.9%

Desktops/Servers	41,920	14.8	34,594	14.6	21.2
Storage Devices	28,091	9.9	24,404	10.3	15.1
Software	32,686	11.5	33,669	14.2	(2.9)
Networking communications	22,814	8.1	20,899	8.8	9.2
Printers	24,518	8.6	20,819	8.8	17.8
Videos & Monitors	26,873	9.5	22,779	9.6	18.0
Memory	10,247	3.6	7,475	3.1	37.1
Accessories/Other	45,773	16.1	35,512	15.0	28.9
	\$ 283,527	100.0%	\$ 237,120	100.0%	19.6%

Net Sales of Enterprise Server and Networking Products (included in the above Product Mix):	\$ 65,519	23.1%	\$ 49,935	21.1%	31.2%
---	-----------	-------	-----------	-------	-------

Stock Performance Indicators:

Actual shares outstanding	24,660		24,555	
Total book value per share	\$6.16		\$5.90	
Tangible book value per share	\$4.64		\$5.54	
Closing price	\$5.25		\$10.56	
Market capitalization	\$129,465		\$259,301	
Trailing price/earnings ratio (3)	19		96	

- (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 March 31,

(Dollars in Thousands)	2003		2002	
	Net Sales	Gross Margin(%)	Net Sales	Gross Margin(%)
PC Connection Sales Corporation (SMB)	\$178,640	11.8%	\$187,643	10.9%
GovConnection (Public Sector)	52,632	9.5	49,477	8.9
MoreDirect (Large Account)	52,255	12.3	-	-
Total	\$283,527	11.5%	\$237,120	10.5%

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except per share data)

Three Months Ended March 31,	2003		2002	
	Amount	% of Net Sales	Amount	% of Net Sales
Net sales	\$283,527	100.00%	\$237,120	100.00%
Cost of sales	251,052	88.55	212,170	89.48
Gross Profit	32,475	11.45	24,950	10.52
Selling, general and administrative expenses	29,639	10.45	27,478	11.59
Restructuring costs and other special charges	-	-	813	.34
Income (Loss) From Operations	2,836	1.00	(3,341)	(1.41)
Interest expense	(303)	(.11)	(242)	(.10)
Other, net	44	.02	195	.08
Income tax (provision) credit	(1,002)	(.35)	1,288	.54
Net Income (Loss)	\$ 1,575	.56%	\$ (2,100)	(.89)%

Weighted average common shares outstanding:

Basic	24,651		24,551	
Diluted	24,920		24,551	
Earnings (loss) per common share:				
Basic	\$ .06		\$ (.09)	
Diluted	\$ .06		\$ (.09)	

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

	March 31, 2003	December 31, 2002
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 6,271	\$ 1,797
Restricted cash(1)	-	5,000
Accounts receivable, net	121,553	135,314
Inventories - merchandise	56,780	52,479

Deferred income taxes	1,044	741
Income tax receivable	2,171	1,294
Prepaid expenses and other current assets	3,193	3,278
Total current assets	191,012	199,903
Property and equipment, net	24,601	25,995
Goodwill, net	33,704	33,704
Other intangibles, net	3,658	3,746
Restricted cash (1)	5,000	5,000
Other assets	290	334
Total assets	\$ 258,265	\$ 268,682

#### LIABILITIES AND STOCKHOLDERS' EQUITY

##### Current Liabilities:

Current maturities of capital lease obligation to affiliate	\$ 234	\$ 200
Accounts payable	82,574	85,493
Accrued expenses and other liabilities	14,575	22,921
Total current liabilities	97,383	108,614

##### Capital lease obligation to affiliate, less current maturities

	6,341	6,421
Deferred taxes	2,745	3,503
Total liabilities	106,469	118,538

##### Stockholders' Equity:

Common stock	250	250
Additional paid-in capital	75,351	75,274
Retained earnings	78,481	76,906
Treasury stock at cost	(2,286)	(2,286)

Total stockholders' equity 151,796 150,144

Total liabilities and stockholders' equity \$ 258,265 \$ 268,682

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

#### CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Three months ended March 31, 2003 (Amounts in thousands)

	Common Shares	Stock Amount	Additional Paid In Capital	Retained Earnings
Balance - December 31, 2002	24,997	\$ 250	\$ 75,274	\$ 76,906
Exercise of stock options, including income tax benefits	25	--	77	77
Net income	--	--	--	1,575
Balance - March 31, 2003	25,022	\$ 250	\$ 75,351	\$ 78,481

	Treasury Shares	Amount	Total
Balance - December 31, 2002	(362)	\$ (2,286)	\$150,144
Exercise of stock options, including income tax benefits	--	--	--
Net income	--	--	1,575
Balance - March 31, 2003	(362)	\$ (2,286)	\$151,796

#### CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

Three Months Ended March 31, 2003 2002

##### Cash Flows from Operating Activities:

Net income (loss)	\$ 1,575	\$ (2,100)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,230	1,703
Deferred income taxes	(1,061)	200
Provision for doubtful accounts	800	1,684
Gain on disposal of fixed assets	--	(3)
Changes in assets and liabilities:		
Accounts receivable	12,961	15,908

Inventories	(4,301)	12,032
Prepaid expenses and other current assets	(792)	(2,030)
Other non-current assets	44	(336)
Accounts payable	(2,919)	(16,206)
Income tax benefits from exercise of stock options	49	17
Accrued expenses and other liabilities	2,470	(2,039)
Net cash provided by operating activities	11,056	8,830

Cash Flows from Investing Activities:

Purchases of property and equipment	(764)	(2,089)
Proceeds from sale of property and equipment	--	9
Payment of acquisition earn-out obligation	(10,800)	--
Decrease in restricted cash	5,000	--
Net cash used for investing activities	(6,564)	(2,080)

Cash Flows from Financing Activities:

Proceeds from short-term borrowings	43,595	2,847
Repayment of short-term borrowings	(43,595)	(2,847)
Repayment of capital lease obligation to affiliate	(46)	(40)
Repayment of notes payable	--	(500)
Exercise of stock options	28	80
Net cash used for financing activities	(18)	(460)
Increase in cash and cash equivalents	4,474	6,290
Cash and cash equivalents, beginning of period	1,797	35,605
Cash and cash equivalents, end of period	\$ 6,271	\$ 41,895

CONTACT: PC Connection, Inc.  
Mark A. Gavin, 603/423-2451