

PC Connection, Inc. Reports Third Quarter Results

Company Continues Record Quarterly Sales; Earnings Per Share Double

MERRIMACK, N.H., Oct 26, 2006 (BUSINESS WIRE) -- PC Connection, Inc. (NASDAQ: PCCC)

THIRD QUARTER HIGHLIGHTS:

- Net sales: \$415 million, 11.9% growth year over year
- Gross profit margin: 12.3%, up in all business segments
- Net income: \$4.4 million, 128% increase year over year
- Diluted earnings per share: \$.17, compared to \$.08 in Q3 2005

PC Connection, Inc. (NASDAQ: PCCC) achieved record quarterly sales and increased earnings per share 112% year over year in the quarter ended September 30, 2006.

Net sales for the three months ended September 30, 2006 increased by \$44.1 million, or 11.9%, to \$415.2 million from \$371.1 million for the three months ended September 30, 2005. Net income for the quarter was \$4.4 million, or \$.17 per share, compared to \$1.9 million, or \$.08 per share, for the corresponding prior year quarter. Changes in the Company's income tax filing status in certain states decreased tax expense and increased net income by \$0.3 million.

"We are pleased with our strong financial results for the third quarter of 2006. PC Connection, Inc. continues to grow through profitable customer acquisition strategies implemented across all of our business segments," said Patricia Gallup, Chairman and Chief Executive Officer of PC Connection, Inc. "In addition, gross margins improved in all of our business segments for the third consecutive quarter, and total gross profit dollars increased 21.5% year over year."

The three-month periods ended September 30, 2006 and 2005 included special charges that reduced earnings and earnings per share. The Company's subsidiary, GovConnection, Inc., has reached a tentative settlement with the Department of Justice on the 2003 GSA audit matter reported previously and has accrued \$1.05 million in the three-month period ended September 30, 2006 in addition to the \$1.5 million that had been accrued in prior periods. GovConnection disputed the claims but has agreed to settle the matter without any admission of wrongdoing or fault to avoid the expense and diversion of litigation. GovConnection was awarded a new GSA contract in August 2004.

Had these charges not been incurred, pro forma net income for the quarter ended September 30, 2006 would have been \$5.0 million, or \$.20 per share, compared to \$2.5 million, or \$.10 per share, for the quarter ended September 30, 2005. 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, 2006 increased by \$158.1 million, or 15.1%, to \$1,203.8 million from \$1,045.7 million for the nine months ended September 30, 2005. The three- and nine-month periods ended September 30, 2006 included revenue generated by former sales representatives of Amherst Technologies who joined the Company after our purchase of Amherst assets in October 2005. Net income for the nine months ended September 30, 2006 was \$9.2 million, or \$.36 per share, compared to \$4.4 million, or \$.18 per share, for the nine months ended September 30, 2005. The nine-month periods ended September 30, 2006 and 2005 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, 2006 would have been \$10.6 million, or \$.42 per share, compared to \$5.0 million, or \$.20 per share, for the nine months ended September 30, 2005.

Business Segments:

- Net sales for the small- and medium-sized business (SMB) segment increased by 8.8% to \$221.3 million compared to the third quarter of 2005.
- Net sales to large account customers increased by 41.4% to \$113.7 million compared to the third quarter of 2005, due in part

to the Amherst transaction referred to above.

-- Net sales to government and education customers (the Company's public sector segment) decreased for the quarter by 8.1% to \$80.2 million compared to the third quarter of 2005, as a result of management's decision to focus on higher margin sales opportunities.

Product Mix:

-- Notebooks and PDAs continued to be the Company's largest product category, accounting for 17.4% of net sales in the third quarter of 2006 compared to 19.4% for the corresponding period a year ago.

-- Desktop computers and servers accounted for 13.6% of net sales in the third quarter of 2006 compared to 13.9% of net sales for the corresponding period a year ago.

-- Video, Imaging, and Sound accounted for 13.8% of net sales in the third quarter of 2006 compared to 11.8% of net sales for the corresponding period a year ago, representing a 30.8% year-over-year growth.

-- Net/Com products grew 19.3% in the third quarter of 2006 to 8.3% of net sales due to an increase in infrastructure, switching, and routing solutions sales.

-- Sales of accessories and other products increased 16.3% year over year to 11.1% of net sales due to higher attachment sales of services and companion products.

Gross profit margin, as a percentage of net sales, increased 100 basis points to 12.3% in the third quarter of 2006 from 11.3% in the third quarter of 2005. Gross margin improved in all three business segments due to greater vendor consideration received in the quarter and increased service revenues and software referral fees. Consolidated annualized productivity was largely unchanged in the third quarter of 2006 compared to the third quarter of 2005 despite the increase in current hires. The total number of sales representatives increased by 93 to 678 as of September 30, 2006 from 585 as of September 30, 2005.

Total selling, general and administrative expenses for the quarter increased year over year by \$5.8 million, or 15.3%. The year-over-year dollar increase resulted primarily from the additional operating expenses related to the Amherst transaction, increased variable compensation associated with higher gross profit dollars, and incremental operating expenses associated with our new Texas sales office.

Ms. Gallup concluded, "PC Connection's positive third quarter results demonstrate that our talented and experienced team is focused on successfully executing our business strategies and initiatives. We believe our business is well-positioned to continue to grow market share, and we are committed to making the investments and changes we feel are necessary to improve our operating performance and enhance long-term shareholder value."

About PC Connection, Inc.

PC Connection, Inc., a Fortune 1000 company, owns three sales companies: PC Connection Sales Corporation, MoreDirect, Inc., and GovConnection, Inc., headquartered in Merrimack, NH, Boca Raton, FL, and Rockville, MD, respectively. All three companies can deliver custom-configured computer systems overnight. Investors and media can find more information about PC Connection, Inc. at <http://ir.pcconnection.com>.

PC Connection Sales Corporation (1-800-800-5555), the original business of PC Connection, Inc. serving the small- and medium-sized business sector (SMB), is a rapid-response provider of information technology (IT) products and solutions. It offers more than 130,000 brand-name products 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.

MoreDirect, Inc. (561-237-3300), 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. MoreDirect's TRAXX(R) system is a seamless end-to-end interface that empowers clients to electronically source, evaluate, compare prices, and track related technology product purchases in real-time.

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.

"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 the ability of the Company to hire and retain essential personnel, and other risks detailed under the caption "Risk Factors" in the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission for the quarter ended June 30, 2006. More specifically, the statements in this release concerning the Company's outlook for 2006 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. The Company assumes no obligation to update the information in this press release or revise any forward-looking statements, whether as a result of any new information, future events, or otherwise.

 CONSOLIDATED SELECTED FINANCIAL HIGHLIGHTS

At or for the Three Months Ended September 30,	2006	2005	
		% of Net Sales	% of Net Sales % Change
(Dollars and shares in thousands, except operating data, price/earnings ratio, and per share data)			

Operating Data:			
Net sales	\$415,213	\$371,124	11.9%
Diluted earnings per share	\$0.17	\$0.08	
Gross profit margin	12.3%	11.3%	
Operating margin	1.6	1.0	
Return on equity (1)	9.8	4.6	
Catalogs distributed	3,641,000	5,525,000	-34.1%
Orders entered (2)	381,700	350,600	8.9%
Average order size (2)	\$1,295	\$1,261	2.7%
Inventory turns (1)	22	20	
Days sales outstanding	43	46	

Product Mix:

Notebooks & PDAs	\$72,123	17.4%	\$71,958	19.4%	0.2%
Desktops/Servers	56,545	13.6	51,730	13.9	9.3
Storage Devices	34,508	8.3	32,119	8.7	7.4
Software	51,692	12.4	44,875	12.1	15.2
Net/Com Products	34,610	8.3	29,023	7.8	19.3
Printers & Printer Supplies	43,535	10.5	40,033	10.8	8.7
Video, Imaging, & Sound	57,250	13.8	43,753	11.8	30.8
Memory & System					

Enhancements	19,028	4.6	18,152	4.9	4.8
Accessories/Other	45,922	11.1	39,481	10.6	16.3
	-----	-----	-----	-----	-----
	\$415,213	100.0%	\$371,124	100.0%	11.9%
	=====	=====	=====	=====	=====

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

	\$125,766	30.3%	\$102,502	27.6%	22.7%
	=====		=====		

Stock Performance

Indicators:

Actual shares outstanding	25,695	25,224
Total book value per share	\$7.16	\$6.79
Tangible book value per share	\$4.77	\$4.63
Closing price	\$11.55	\$5.44
Market capitalization	\$296,777	\$137,219
Trailing price/earnings ratio (3)	32	21

- (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,

2006

2005

(Dollars in thousands)	2006		2005	
	Net Sales	Gross Margin (%)	Net Sales	Gross Margin (%)
PC Connection Sales Corporation (SMB)	\$221,330	13.3%	\$203,493	12.9%
MoreDirect (Large Account)	113,690	11.4	80,382	9.8
GovConnection (Public Sector)	80,193	10.8	87,249	9.2
	-----	-----	-----	-----
Total	\$415,213	12.3%	\$371,124	11.3%
	=====	=====	=====	=====

----- CONSOLIDATED INCOME STATEMENTS -----

Three Months Ended September 30,

2006

2005

(Amounts in thousands, except per share data)	Amount	% of Net Sales	Amount	% of Net Sales
Net sales	\$415,213	100.0%	\$371,124	100.0%
Cost of sales	364,070	87.7	329,044	88.7
Gross Profit	51,143	12.3	42,080	11.3
Selling, general and administrative expenses	43,291	10.4	37,531	10.1
Special charges	1,050	0.3	853	0.2
Income From Operations	6,802	1.6	3,696	1.0
Interest expense	(394)	(0.1)	(289)	(0.1)
Other, net	38	-	25	-
Income tax provision	(2,058)	(0.4)	(1,508)	(0.4)
Net Income	\$4,388	1.1%	1,924	0.5%
=====				
Weighted average common shares outstanding:				
Basic	25,446		25,224	
	=====		=====	
Diluted	25,667		25,271	
	=====		=====	
Earnings per common share:				
Basic	\$0.17		\$0.08	
	=====		=====	
Diluted	\$0.17		\$0.08	
	=====		=====	

CONSOLIDATED INCOME STATEMENTS

Nine Months Ended September 30,	2006		2005	
(Amounts in thousands, except per share data)	Amount	% of Net Sales	Amount	% of Net Sales
Net sales	\$1,203,785	100.0%	\$1,045,685	100.0%
Cost of sales	1,055,481	87.7	925,907	88.5
Gross Profit	148,304	12.3	119,778	11.5
Selling, general and administrative expenses	129,780	10.8	110,326	10.6
Special charges	2,391	0.2	853	0.1
Income From Operations	16,133	1.3	8,599	0.8
Interest expense	(1,475)	(0.1)	(846)	(0.1)

Other, net	34	-	50	-
Income tax provision	(5,487)	(0.4)	(3,367)	(0.3)
	-----	-----	-----	-----
Net Income	\$9,205	0.8%	\$4,436	0.4%
	=====	=====	=====	=====

Weighted average common shares
outstanding:

Basic	25,330	25,170
	=====	=====
Diluted	25,459	25,275
	=====	=====

Earnings per common share:

Basic	\$0.36	\$0.18
	=====	=====
Diluted	\$0.36	\$0.18
	=====	=====

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.

September 30,	Three Months Ended		Nine Months Ended	
(Amounts in thousands)	2006	2005	2006	2005
	-----	-----	-----	-----
GAAP net income	\$4,388	\$1,924	\$9,205	\$4,436
Special charges (after tax):				
GSA review	630	-	900	-
Management restructuring	-	554	535	554
	-----	-----	-----	-----
	630	554	1,435	554
	-----	-----	-----	-----
Pro forma net income	\$5,018	\$2,478	\$10,640	\$4,990
	=====	=====	=====	=====

CONSOLIDATED BALANCE SHEETS

September December
30, 31,

(Amounts in thousands) 2006 2005

ASSETS

Current Assets:

Cash and cash equivalents	\$11,819	\$9,770
Accounts receivable, net	159,016	162,525
Inventories - merchandise	68,429	75,374
Deferred income taxes	3,878	3,769
Income taxes receivable	987	1,742

Prepaid expenses and other current assets	3,832	4,219
	-----	-----
Total current assets	247,961	257,399
Property and equipment, net	19,541	17,700
Goodwill, net	56,867	56,820
Other intangibles, net	4,630	5,427
Other assets	323	359
	-----	-----
Total assets	\$329,322	\$337,705
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:

Current maturities of capital lease obligations:		
To affiliate	\$452	\$416
To third party	427	412
Note payable - bank	7,096	19,975
Accounts payable	99,690	114,413
Accrued expenses and other liabilities	26,823	21,290
	-----	-----
Total current liabilities	134,488	156,506
Capital lease obligations, less current maturities:		
To affiliate	4,957	5,299
To third party	73	396
Deferred income taxes	5,750	4,105
	-----	-----
Total liabilities	145,268	166,306

Stockholders' Equity:

Common stock	261	256
Additional paid-in capital	81,329	77,884
Retained earnings	104,750	95,545
Treasury stock at cost	(2,286)	(2,286)
	-----	-----
Total stockholders' equity	184,054	171,399
	-----	-----
Total liabilities and stockholders' equity	\$329,322	\$337,705
	=====	=====

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Nine months ended September 30, 2006 (Amounts in thousands)

	Common Stock	Add'l.	Treasury Shares		
	-----	Paid-In	Retained	-----	
	Shares	Amount	Earnings	Shares	Amount
	Amount	Capital	Shares	Amount	Total
	-----	-----	-----	-----	-----
Balance -					
December 31,					
2005	25,622	\$256	\$77,884	\$95,545	(362)(\$2,286) \$171,399

Exercise of
stock

options, including income tax benefits	413	5	3,048	-	-	-	3,053
Issuance of stock under Employee Stock Purchase Plan	22	-	120	-	-	-	120
Stock compensation expense	-	-	277	-	-	-	277
Net income	-	-	-	9,205	-	-	9,205

Balance - September 30, 2006	26,057	\$261	\$81,329	\$104,750	(362)	(\$2,286)	\$184,054
=====							

CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine Months Ended September 30, (Amounts in thousands)	2006	2005

Cash Flows from Operating Activities:		
Net income	\$9,205	\$4,436
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,227	5,340
Provision for doubtful accounts	2,094	2,790
Deferred income taxes	1,536	40
Loss on disposal of fixed assets	63	41
Stock compensation expense	277	-
Gross excess tax benefit from exercise of stock options	(1)	-
Changes in assets and liabilities:		
Accounts receivable	1,415	(30,679)
Inventories	6,945	11,446
Prepaid expenses and other current assets	1,142	50
Other non-current assets	36	(187)
Accounts payable	(14,723)	16,479
Income tax benefits from exercise of stock options	231	80
Accrued expenses and other liabilities	5,533	752
Net cash provided by operating activities	18,980	10,588

Cash Flows from Investing Activities:

Purchases of property and equipment	(6,401)	(5,060)
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Proceeds from sale of property and equipment	20	13
Payment of acquisition earn-out obligation	-	(6,921)
	-----	-----
Net cash used for investing activities	(6,381)	(11,968)
	-----	-----

Cash Flows from Financing Activities:

Proceeds from short-term borrowings	317,280	180,800
Repayment of short-term borrowings	(330,159)	(178,044)
Repayment of capital lease obligations	(614)	(600)
Exercise of stock options	2,822	348
Gross excess tax benefit from exercise of stock options	1	-
Issuance of stock under Employee Stock Purchase Plan	120	168
	-----	-----
Net cash (used for) provided by financing activities	(10,550)	2,672
	-----	-----
Increase in cash and cash equivalents	2,049	1,292
Cash and cash equivalents, beginning of period	9,770	6,829
	-----	-----
Cash and cash equivalents, end of period	\$11,819	\$8,121
	=====	=====

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SOURCE: PC Connection, Inc.

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