

PC Connection, Inc. Reports Second Quarter Results

Company Announces Continued Increases in Revenue and Earnings Per Share

MERRIMACK, N.H., Jul 26, 2007 (BUSINESS WIRE) --

SECOND QUARTER HIGHLIGHTS:

- Record net sales: \$441.1 million, up 8% year over year
- Operating income: \$9.0 million, up 57% year over year
- Net income: \$5.8 million, up 85% year over year
- Diluted earnings per share: \$.21, up from \$.12 last year

PC Connection, Inc. (NASDAQ: PCCC), a leading direct marketer of information technology (IT) products and services, today announced results for the quarter ended June 30, 2007. Net sales for the three months ended June 30, 2007 increased by \$33.0 million, or 8.1%, to \$441.1 million from \$408.1 million for the three months ended June 30, 2006. Net income for the quarter was \$5.8 million, or \$.21 per share, compared to \$3.1 million, or \$.12 per share, for the corresponding prior year quarter.

"We are pleased with the solid overall year-over-year sales growth of PC Connection, Inc. GovConnection, our Public Sector business, led the way with a 17% increase in revenue," said Patricia Gallup, Chairman and Chief Executive Officer. "We also achieved strong growth in earnings with a 57% increase in operating income and a 75% increase in earnings per share over the second quarter of 2006."

Net sales for the six months ended June 30, 2007 increased by \$50.7 million, or 6.4%, to \$839.3 million from \$788.6 million for the six months ended June 30, 2006. Net income for the six months ended June 30, 2007 was \$9.1 million, or \$.34 per share, compared to \$4.8 million, or \$.19 per share, for the six months ended June 30, 2006.

Quarterly Sales Growth by Business Segment:

- Net sales for the SMB segment increased by 7.8% to \$231.9 million compared to the second quarter of 2006. Corporate outbound sales within the segment grew 14.0% year over year.
- Net sales for the Large Account segment increased by 4.1% to \$133.6 million compared to the second quarter of 2006.
- Net sales for the Public Sector segment increased by 16.9% to \$75.6 million compared to the second quarter of 2006. Revenues increased primarily due to sales made under recently awarded federal and state government contracts, as well as the acquisition of new accounts.

Quarterly Sales Growth By Product Mix:

- Desktop computers and servers increased 11.8% year over year, accounting for 14.2% of net sales in the second quarter of 2007 compared to 13.7% of net sales for the corresponding prior year quarter.
- Video, Imaging, and Sound increased 15.1% year over year, accounting for 13.4% of net sales in the second quarter of 2007 compared to 12.6% of net sales for the corresponding prior year quarter.
- Notebooks and PDAs, our largest product category, accounted for 16.4% of net sales in the second quarter of 2007 compared to 18.0% for the corresponding prior year quarter.
- Software represented 12.7% of net sales in the second quarter of 2007 compared to 12.6% of net sales for the corresponding prior year quarter.

Gross profit was \$54.0 million for the second quarter of 2007 compared to \$50.7 million for the second quarter of 2006. Gross profit margin, as a percentage of net sales, was 12.3% in the second quarter of 2007 compared to 12.4% in the second quarter of 2006. As noted in our first quarter 2007 earnings release, we recorded substantially all vendor consideration as a reduction to cost of inventory purchases, pursuant to Issue No. 02-16 of the Emerging Issues Task Force. Accordingly, this additional consideration accounted for a 22 basis-point increase in gross margin compared to the second quarter of 2006. Offsetting this increase were slightly lower customer invoice margins and additional costs associated with certain customer rebate programs.

Overall annualized sales productivity increased 12% in the second quarter of 2007 compared to the second quarter of 2006. Sales productivity in our Large Account segment increased 21% in the second quarter of 2007 compared to the second quarter of 2006. For our SMB and Public Sector segments, productivity increased 12% and 10%, respectively. On a consolidated basis, the total number of sales representatives was 625 as of June 30, 2007, compared to 659 sales representatives at June 30, 2006.

Selling, general and administrative expenses ("SG&A") totaled \$45.0 million for the second quarter of 2007 compared to \$44.5 million for the second quarter of 2006. SG&A improved as a percentage of net sales to 10.3% for the second quarter of 2007 compared to 10.9% for the second quarter of 2006.

Ms. Gallup concluded, "Our record results show we remain focused on the IT needs of our customers in our target markets. We continue to invest in expanding and refining our core competencies, while reducing operating costs wherever possible. PC Connection, Inc. has a strong management team in place focused on improving the Company's results and building long-term value for our shareholders."

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.pconnection.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 services. It offers more than 150,000 brand-name products through its staff of technically trained sales account managers and catalog telesales representatives, catalogs, and publications, and its website at www.pconnection.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 provider of IT products and services to federal, state, and local government agencies and educational institutions through specialized account managers, catalogs, and publications, and online at www.govconnection.com.

pccc-g

"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 March 31, 2007. More specifically, the statements in this release concerning the Company's outlook for 2007 and the statements concerning the Company's gross margin percentage, productivity, and selling and administrative costs and other statements of a non-historical basis 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 June 30, 2007 2006

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

% of % of %
Net Net Change
Sales Sales

Operating Data:

Net sales	\$ 441,122		\$ 408,094		8.1%
Diluted earnings per share	\$.21		\$.12		
Gross profit margin	12.3%		12.4%		
Operating margin	2.0		1.4		
Return on equity (1)	11.2		7.2		
Catalogs distributed	3,404,000		3,645,000		-6.6%
Orders entered (2)	365,240		359,200		1.7%
Average order size (2)	\$ 1,396		\$ 1,322		5.6%
Inventory turns (1)	22		23		
Days sales outstanding	42		44		

Product Mix:

Notebooks & PDAs	\$ 72,374	16.4%	\$ 73,377	18.0%	-1.4%
Desktops/Servers	62,479	14.2	55,893	13.7	11.8
Storage Devices	39,649	9.0	34,170	8.4	16.0
Software	56,205	12.7	51,656	12.6	8.8
Net/Com Products	35,630	8.1	32,946	8.1	8.1
Printers & Printer Supplies	41,743	9.5	40,684	10.0	2.6
Video, Imaging & Sound	59,146	13.4	51,403	12.6	15.1
Memory & System Enhancements	24,032	5.4	19,892	4.9	20.8
Accessories/Other	49,864	11.3	48,073	11.7	3.7
	-----	-----	-----	-----	-----
	\$ 441,122	100.0%	\$ 408,094	100.0%	8.1%
	=====	=====	=====	=====	=====

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

\$ 144,552	32.8%	\$ 125,562	30.8%	15.1%
=====		=====		

Stock Performance

Indicators:

Actual shares outstanding	26,824	25,323
Total book value per		

share	\$	7.80	\$	6.98
Tangible book value per share	\$	5.54	\$	4.54
Closing price	\$	13.24	\$	5.85
Market capitalization	\$	355,150	\$	148,140
Trailing price/earnings ratio (3)		19		22

- (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 June 30,	2007		2006	
(Dollars in thousands)	Net Sales	Gross Margin (%)	Net Sales	Gross Margin (%)
PC Connection Sales Corporation (SMB)	\$231,935	13.3%	\$215,108	13.8%
MoreDirect (Large Account)	133,602	11.3	128,333	10.7
GovConnection (Public Sector)	75,585	10.8	64,653	11.3
Total	\$441,122	12.3%	\$408,094	12.4%

CONSOLIDATED INCOME STATEMENTS

Three Months Ended June 30,	2007		2006	
(Amounts in thousands, except per share data)	Amount	% of Net Sales	Amount	% of Net Sales
Net sales	\$441,122	100.0%	\$408,094	100.0%
Cost of sales	387,082	87.7	357,351	87.6
Gross Profit	54,040	12.3	50,743	12.4
Selling, general and administrative expenses	45,005	10.3	44,534	10.9
Special charges	-	0.0	450	0.1
Income From Operations	9,035	2.0	5,759	1.4
Interest expense	(242)	(0.1)	(437)	(0.1)
Other, net	260	0.1	(15)	-
Income tax provision	(3,300)	0.7	(2,196)	(0.5)
Net Income	\$ 5,753	1.3%	\$ 3,111	0.8%

Weighted average common shares outstanding:

Basic	26,798	25,283
-------	--------	--------

	=====	=====
Diluted	26,995	25,396
	=====	=====
Earnings per common share:		
Basic	\$ 0.21	\$ 0.12
	=====	=====
Diluted	\$ 0.21	\$ 0.12
	=====	=====

CONSOLIDATED INCOME STATEMENTS

Six Months Ended June 30,	2007		2006	
(Amounts in thousands, except per share data)	Amount	% of Net Sales	Amount	% of Net Sales
Net sales	\$839,302	100.0%	\$788,572	100.0%
Cost of sales	735,347	87.6	691,411	87.7
Gross Profit	103,955	12.4	97,161	12.3
Selling, general and administrative expenses	89,198	10.6	86,489	10.9
Special charges	-	0.0	1,341	0.2
Income From Operations	14,757	1.8	9,331	1.2
Interest expense	(450)	(0.1)	(1,081)	(0.2)
Other, net	461	0.1	(4)	-
Income tax provision	(5,630)	0.7	(3,429)	(0.4)
Net Income	\$ 9,138	1.1%	\$ 4,817	0.6%

Weighted average common shares outstanding:

Basic	26,740	25,271
	=====	=====
Diluted	27,002	25,372
	=====	=====
Earnings per common share:		
Basic	\$ 0.34	\$ 0.19
	=====	=====
Diluted	\$ 0.34	\$ 0.19
	=====	=====

CONSOLIDATED BALANCE SHEETS

June 30, December 31,

(amounts in thousands) 2007 2006

ASSETS

Current Assets:

Cash and cash equivalents	\$ 17,466	\$ 17,582
Accounts receivable, net	169,303	170,222

Inventories-merchandise	75,242	69,407
Deferred income taxes	4,493	3,837
Income taxes receivable	797	627
Prepaid expenses and other current assets	3,642	3,882
	-----	-----
Total current assets	270,943	265,557
Property and equipment, net	19,749	19,542
Goodwill	56,867	56,867
Other intangibles, net	3,827	4,363
Other assets	390	355
	-----	-----
Total Assets	\$351,776	\$346,684
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:

Current maturities of capital lease obligations:		
To affiliate	\$ 490	\$ 464
To third party	182	395
Accounts payable	100,809	110,977
Accrued expenses and other liabilities	19,028	17,389
Accrued payroll	7,838	9,367
	-----	-----
Total current liabilities	128,347	138,592
Capital lease obligations, less current maturities:		
To affiliate	4,585	4,836
Other liabilities	2,488	-
Deferred income taxes	7,087	6,352
	-----	-----
Total Liabilities	142,507	149,780

Stockholders' Equity:

Common stock	272	269
Additional paid-in capital	93,107	89,537
Retained earnings	118,113	109,321
Treasury stock at cost	(2,223)	(2,223)
	-----	-----
Total Stockholders' Equity	209,269	196,904
	-----	-----
Total Liabilities and Stockholders' Equity	\$351,776	\$346,684
	=====	=====

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Six months ended June 30, 2007 (amounts in thousands)

	Common Stock		Additional	Retained	Treasury			
	Shares	Amount	Paid-In	Earnings	Shares	Amount	Total	
	-----	-----	-----	-----	-----	-----	-----	-----
Balance -								
January								
01, 2007	26,862	\$ 269	\$89,537	\$109,321	(352)	(\$2,223)	\$196,904	

Cumulative
effect of

change in accounting principle	-	-	-	(346)	-	-	(346)
Stock compen- sation expense	-	-	(23)	-	-	-	(23)
Exercise of stock options, including income tax benefits	304	3	3,459	-	-	-	3,462
Issuance of stock under Employee Stock Purchase Plan	10	-	134	-	-	-	134
Net income	-	-	-	9,138	-	-	9,138

Balance - June 30, 2007	27,176	\$ 272	\$93,107	\$118,113	(352)	(\$2,223)	\$209,269
	=====						

CONSOLIDATED STATEMENTS OF CASH FLOWS

Six Months Ended June 30, (Amounts in thousands) 2007 2006

Cash Flows from Operating Activities:

Net income	\$ 9,138	\$ 4,817
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,472	3,456
Provision for doubtful accounts	894	1,752
Deferred income taxes	79	1,267
Loss on disposal of fixed assets	8	63
Stock compensation expense	(23)	202
Gross excess tax benefit from exercise of stock options	(358)	-
Income tax benefits from exercise of stock options	918	17
Changes in assets and liabilities:		
Accounts receivable	25	(1,142)
Inventories	(5,835)	7,721
Prepaid expenses and other current assets	70	799
Other non-current assets	(35)	7
Accounts payable	(10,168)	(17,723)
Accrued expenses and other liabilities	2,252	4,185

Net cash provided by operating activities	437	5,421
	-----	-----
Cash Flows from Investing Activities:		
Purchases of property and equipment	(3,151)	(4,647)
Proceeds from sale of property and equipment	-	20
	-----	-----
Net cash used for investing activities	(3,151)	(4,627)
	-----	-----
Cash Flows from Financing Activities:		
Proceeds from short-term borrowings	1,461	244,402
Repayment of short-term borrowings	(1,461)	(246,377)
Repayment of capital lease obligations	(438)	(406)
Exercise of stock options	2,544	227
Gross excess tax benefit from exercise of stock options	358	-
Issuance of stock under Employee Stock Purchase Plan	134	120
	-----	-----
Net cash provided by (used for) financing activities	2,598	(2,034)
	-----	-----
Decrease in cash and cash equivalents	(116)	(1,240)
Cash and cash equivalents, beginning of period	17,582	9,770
	-----	-----
Cash and cash equivalents, end of period	\$ 17,466	\$ 8,530
	=====	=====

pccc-g

SOURCE: PC Connection, Inc.

PC Connection, Inc.
Stephen Baldrige, 603-683-2322
VP of Finance & Corporate Controller

Copyright Business Wire 2007

News Provided by COMTEX