

## PC Connection, Inc. Reports Second Quarter Results; Company Achieves Record Quarterly Sales; Earnings Per Share Doubles Year Over Year

MERRIMACK, N.H., Jul 27, 2006 (BUSINESS WIRE) -- PC Connection, Inc. (NASDAQ: PCCC), a leading direct marketer of information technology products and solutions, today announced results for the quarter ended June 30, 2006. Net sales for the three months ended June 30, 2006 increased by \$57.4 million, or 16.4%, to \$408.1 million from \$350.7 million for the three months ended June 30, 2005. Net income for the quarter ended June 30, 2006 was \$3.1 million, or \$.12 per share, compared to \$1.6 million, or \$.06 per share for the three months ended June 30, 2005.

The three-month period ended June 30, 2006 included special charges that reduced earnings and earnings per share. Had these charges not been incurred, pro forma net income for the quarter ended June 30, 2006 would have been \$3.4 million, or \$.13 per share. 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, 2006 increased by \$114.0 million, or 16.9%, to \$788.6 million from \$674.6 million for the six months ended June 30, 2005. The three- and six-month periods ended June 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 six months ended June 30, 2006 was \$4.8 million, or \$.19 per share, compared to \$2.5 million, or \$.10 per share for the six months ended June 30, 2005. The six-month period ended June 30, 2006 included 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, 2006 would have been \$5.6 million, or \$.22 per share.

Net sales for the small- and medium-sized business (SMB) segment increased by 3.8% to \$215.1 million compared to the second quarter of 2005. Sales to large account customers increased by 63.6% to \$128.3 million compared to the second quarter of 2005, due in part to the Amherst transaction referred to above. Sales to government and education customers (the Company's public sector segment) decreased for the quarter by 0.5% to \$64.7 million compared to the second quarter of 2005.

"We are aggressively executing our business strategies, and experiencing positive returns on our investments," said Patricia Gallup, Chairman and Chief Executive Officer of PC Connection, Inc. "The Company achieved record sales of \$408 million and our earnings per share doubled year over year. In addition, gross margins improved in all three of our business segments, and total gross profit dollars increased 25.7% year over year."

Notebooks and PDAs continued to be the Company's largest product category, accounting for 18.0% of net sales in the second quarter of 2006 compared to 18.1% for the corresponding period a year ago. Desktop computers and servers accounted for 13.7% of net sales in the second quarter of 2006 compared to 14.8% of net sales for the corresponding period a year ago. The average sales price for computer systems decreased 3.2% in the second quarter compared to the corresponding period a year ago, and decreased 4.0% compared to the first quarter of 2006. Sales of accessories and other products increased 26.8% year over year due to higher attachment sales of services and companion products. Software and Video, Imaging and Sound product lines each increased 19% or more compared to the second quarter of 2005.

Gross profit margin, as a percentage of net sales, increased 90 basis points to 12.4% in the second quarter of 2006 from 11.5% in the second quarter of 2005. Gross margin improved in all three segments, due to greater vendor consideration received in the quarter and increased service revenues and software referral fees. 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.

Consolidated annualized productivity increased in the second quarter of 2006 by 5.6% compared to the second quarter of 2005. The total number of sales representatives increased by 57 to 659 as of June 30, 2006 from 602 as of June 30, 2005.

Total selling, general, and administrative ("SG&A") expenses for the quarter increased year over year by \$7.2 million, or 19.1%, over the second quarter of 2005. The year-over-year dollar increase resulted from the additional operating expenses related to the Amherst transaction, increased variable compensation associated with higher gross profit dollars, and increased investments in our services business. The Company expects that its SG&A expenses, 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, "We are pleased with our second quarter performance. Our strong financial results demonstrate that the PC Connection team is working harder and smarter to provide enhanced IT solutions to our customers, improve operating

efficiency, and increase 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.

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](http://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](http://www.macconnection.com).

MoreDirect, Inc. (561-237-3300), [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 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](http://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 March 31, 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.

PC Connection, Inc. -- Second Quarter Earnings -- 07/27/06

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CONSOLIDATED SELECTED FINANCIAL HIGHLIGHTS  
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At or for the Three Months Ended June 30,	2006	2005	
(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	\$ 408,094	\$350,710	16.4%
Diluted earnings per share	\$ 0.12	\$ 0.06	
Gross profit margin	12.4%	11.5%	
Operating margin	1.4	0.9	

Return on equity (1)	7.2	3.7		
Catalogs distributed	3,645,000	7,196,000	(49.3%)	
Orders entered (2)	359,200	351,300	2.2	
Average order size (2)	\$1,322	\$1,160	14.0	
Inventory turns (1)	23	19		
Days sales outstanding	44	41		

Product Mix:

Notebooks & PDAs	\$ 73,377	18.0%	\$ 63,615	18.1%	15.3%
Desktops/Servers	55,893	13.7	51,720	14.8	8.1
Storage Devices	34,170	8.4	28,739	8.2	18.9
Software	51,656	12.6	42,557	12.1	21.4
Net/Com Products	32,946	8.1	27,830	7.9	18.4
Printers & Printer Supplies	40,684	10.0	37,696	10.8	7.9
Video, Imaging, & Sound	51,403	12.6	43,165	12.3	19.1
Memory & System Enhancements	19,892	4.9	17,480	5.0	13.8
Accessories/Other	48,073	11.7	37,908	10.8	26.8
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	\$ 408,094	100.0%	\$350,710	100.0%	16.4%
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Net Sales of Enterprise Server and Networking Products (included in the above Product Mix):

	\$ 125,562	30.8%	\$ 95,066	27.1%	32.1%
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Stock Performance

Indicators:

Actual shares outstanding	25,323	25,224
Total book value per share	\$ 6.98	\$ 6.71
Tangible book value per share	\$ 4.54	\$ 4.55
Closing price	\$ 5.85	\$ 6.21
Market capitalization	\$ 148,140	\$156,641
Trailing price/earnings ratio (3)	22	21

(1) Annualized

(2) Does not reflect cancellations or returns

(3) Earnings is based on the last four quarters

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SELECTED SEGMENT INFORMATION  
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For the Three Months  
Ended June 30,

2006

2005

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Gross

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Gross

(Dollars in thousands)	Net Sales	Margin (%)	Net Sales	Margin (%)
PC Connection Sales Corporation (SMB)	\$215,108	13.8%	\$207,296	12.4%
MoreDirect (Large Account)	128,333	10.7	78,457	10.5
GovConnection (Public Sector)	64,653	11.3	64,957	10.0
<b>Total</b>	<b>\$408,094</b>	<b>12.4%</b>	<b>\$350,710</b>	<b>11.5%</b>

PC Connection, Inc. -- Second Quarter Earnings -- 07/27/06

CONSOLIDATED INCOME STATEMENTS

Three Months Ended June 30,	2006		2005	
(Amounts in thousands, except per share data)	Amount	% of Net Sales	Amount	% of Net Sales
Net sales	\$408,094	100.0%	\$350,710	100.0%
Cost of sales	357,351	87.6	310,346	88.5
Gross Profit	50,743	12.4	40,364	11.5
Selling, general, and administrative expenses	44,534	10.9	37,379	10.6
Special charges	450	0.1	-	-
Income From Operations	5,759	1.4	2,985	0.9
Interest expense	(437)	(0.1)	(285)	(0.1)
Other, net	(15)	-	50	-
Income tax provision	(2,196)	(0.5)	(1,186)	(0.4)
Net Income	\$ 3,111	0.8%	\$ 1,564	0.4%

Weighted average common shares outstanding:

Basic	25,283	25,157
Diluted	25,396	25,211
Earnings per common share:		
Basic	\$ 0.12	\$ 0.06
Diluted	\$ 0.12	\$ 0.06

CONSOLIDATED INCOME STATEMENTS

Six Months Ended June 30,	2006		2005	
(Amounts in thousands, except per share data)	Amount	% of Net Sales	Amount	% of Net Sales
Net sales	\$788,572	100.0%	\$674,561	100.0%
Cost of sales	691,411	87.7	596,863	88.5
Gross Profit	97,161	12.3	77,698	11.5
Selling, general, and administrative expenses	86,489	10.9	72,795	10.8
Special charges	1,341	0.2	-	-
Income From Operations	9,331	1.2	4,903	0.7
Interest expense	(1,081)	(0.2)	(557)	(0.1)
Other, net	(4)	-	25	-
Income tax provision	(3,429)	(0.4)	(1,859)	(0.2)
Net Income	\$ 4,817	0.6%	\$ 2,512	0.4%

Weighted average common shares outstanding:

Basic	25,271	25,142
Diluted	25,372	25,274

Earnings per common share:

Basic	\$ 0.19	\$ 0.10
Diluted	\$ 0.19	\$ 0.10

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.

(Amounts in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
GAAP net income	\$ 3,111	\$1,564	\$ 4,817	\$2,512
Special charges (after tax):				
GSA review	270	-	270	-
Management restructuring	-	-	535	-
	270	-	805	-
Pro forma net income	\$ 3,381	\$1,564	\$ 5,622	\$2,512

PC Connection, Inc. -- Second Quarter Earnings -- 07/27/06

CONSOLIDATED BALANCE SHEETS	June 30,	December 31,
(Amounts in thousands)	2006	2005
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 8,328	\$ 9,770
Accounts receivable, net	161,915	162,525
Inventories - merchandise	67,653	75,374
Deferred income taxes	3,566	3,769
Income taxes receivable	1,369	1,742
Prepaid expenses and other current assets	3,794	4,219
Total current assets	246,625	257,399
Property and equipment, net	19,290	17,700
Goodwill, net	56,867	56,820
Other intangibles, net	4,898	5,427
Other assets	352	359
Total assets	\$ 328,032	\$ 337,705
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Current maturities of capital lease obligations:		
To affiliate	\$ 439	\$ 416
To third party	422	412
Note payable - bank	17,798	19,975
Accounts payable	96,690	114,413
Accrued expenses and other liabilities	25,476	21,290
Total current liabilities	140,825	156,506
Capital lease obligations, less current maturities:		
To affiliate	5,074	5,299
To third party	182	396
Deferred income taxes	5,169	4,105
Total liabilities	151,250	166,306
Stockholders' Equity:		
Common stock	257	256
Additional paid-in capital	78,449	77,884
Retained earnings	100,362	95,545
Treasury stock at cost	(2,286)	(2,286)
Total stockholders' equity	176,782	171,399
Total liabilities and stockholders' equity	\$ 328,032	\$ 337,705

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CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
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Six months ended June 30, 2006	(Amounts in thousands)			
	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings
Balance - December 31, 2005	25,622	\$256	\$77,884	\$95,545
Exercise of stock options, including income tax benefits	41	1	243	
Issuance of stock under Employee Stock Purchase Plan	22	-	120	
Stock compensation expense	-	-	202	-
Net income	-	-	-	4,817
Balance - June 30, 2006	25,685	\$257	\$78,449	\$100,362

Six months ended June 30, 2006	(Amounts in thousands)		
	Treasury Shares Shares	Treasury Shares Amount	Total
Balance - December 31, 2005	(362)	(\$2,286)	\$171,399
Exercise of stock options, including income tax benefits			244
Issuance of stock under Employee Stock Purchase Plan			120
Stock compensation expense	-	-	202
Net income	-	-	4,817
Balance - June 30, 2006	(362)	(\$2,286)	\$176,782

PC Connection, Inc. -- Second Quarter Earnings -- 07/27/06  
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CONSOLIDATED STATEMENTS OF CASH FLOWS  
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Six Months Ended June 30, (Amounts in thousands)	2006	2005

Cash Flows from Operating Activities:

Net income	\$	4,817	\$	2,512
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		3,456		3,586
Provision for doubtful accounts		2,452		1,805
Deferred income taxes		1,267		334
Loss on disposal of fixed assets		63		40
Stock compensation expense		202		-
Changes in assets and liabilities:				
Accounts receivable		(1,842)		(4,796)
Inventories		7,721		16,797
Prepaid expenses and other current assets		798		(1,133)
Other non-current assets		7		(144)
Accounts payable		(17,723)		5,155
Income tax benefits from exercise of stock options		17		80
Accrued expenses and other liabilities		4,186		(732)
Net cash provided by operating activities		5,421		23,504

Cash Flows from Investing Activities:

Purchases of property and equipment		(4,647)		(2,222)
Proceeds from sale of property and equipment		20		13
Payment of acquisition earn-out obligation		-		(6,921)
Net cash used for investing activities		(4,627)		(9,130)

Cash Flows from Financing Activities:

Proceeds from short-term borrowings		244,402		125,205
Repayment of short-term borrowings		(246,579)		(130,015)
Repayment of capital lease obligations		(406)		(407)
Exercise of stock options		227		348
Issuance of stock under employee stock purchase plan		120		168
Net cash used for financing activities		(2,236)		(4,701)
Decrease in cash and cash equivalents		(1,442)		9,673
Cash and cash equivalents, beginning of period		9,770		6,829
Cash and cash equivalents, end of period	\$	8,328	\$	16,502

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SOURCE: PC Connection, Inc.



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