



PC Connection, Inc. Reports First Quarter Results; Company Achieves 17.5% Year-Over-Year Sales Growth, Including 9.1% Organic Growth; Public Sector Sales Increase 12.4% Year Over Year

MERRIMACK, N.H.--(BUSINESS WIRE)--April 27, 2006--PC Connection, Inc. (NASDAQ:PCCC), a leading direct marketer of information technology products and solutions, today announced results for the quarter ended March 31, 2006. Net sales for the three months ended March 31, 2006 increased by \$56.6 million, or 17.5%, to \$380.5 million from \$323.9 million for the three months ended March 31, 2005. Approximately \$27.3 million of this growth, or 8.4%, was attributable to the October 2005 acquisition of key assets of Amherst Technologies, reported previously. Net income for the quarter ended March 31, 2006 was \$1.7 million, or \$.07 per share, compared to \$0.9 million, or \$.04 per share for the three months ended March 31, 2005.

The three-month period ended March 31, 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 March 31, 2006 would have been \$2.2 million, or \$.09 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 small- and medium-sized business (SMB) segment increased by 9.4% to \$219.1 million compared to the first quarter of 2005. Sales to large account customers increased by 41.9% over the first quarter of 2005 to \$108.4 million, due in large part to the Amherst acquisition. Sales to government and education customers (the Company's public sector segment) increased for the quarter by 12.4% to \$53.0 million compared to the first quarter of 2005.

"We are pleased with our overall performance," said Patricia Gallup, Chairman and Chief Executive Officer. "PC Connection achieved record Q1 sales levels this quarter, and experienced year-over-year sales growth in all three business segments. We are particularly encouraged with the progress of our public sector business and our continuing success integrating the Amherst Technologies assets and operations that we acquired last quarter."

Notebooks and PDAs continued to be the Company's largest product category, accounting for 17.0% of net sales in the first quarter of 2006 compared to 18.8% for the corresponding period a year ago. Desktop computers and servers accounted for 14.9% of net sales in the first 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 4.9% in the first quarter compared to the corresponding period a year ago, and decreased 1.1% compared to the fourth quarter of 2005. Sales of accessories and other companion products increased 26.0% year over year, partly due to the high sales of Apple music players and related products. Software and Video, Imaging and Sound product lines each increased 25% over the first quarter of 2005.

Gross profit margin, as a percentage of net sales, was 12.2% in the first quarter of 2006 compared to 11.5% in the first quarter of 2005 and 11.0% in the fourth quarter of 2005. Gross margin improved in all three segments, due to increased vendor consideration received in the quarter, larger net service revenue and to stronger product 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.

Consolidated annualized productivity increased in the first quarter of 2006 by 8.2% compared to the first quarter of 2005, even though the total number of sales representatives increased by 64 to 650 as of March 31, 2006 from 586 as of March 31, 2005.

Total selling, general, and administrative ("SG&A") expenses for the quarter increased year over year by \$6.5 million, or 18.5%, over the first quarter of 2005, but was sequentially largely unchanged from the fourth quarter of 2005. The year-over-year dollar increase resulted from the Amherst transaction, variable compensation from our organic growth, and increased professional fees relating primarily to enhancements to our sales systems and service levels. 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, "The investments we made over the past year, and our efforts to improve the effectiveness of our sales organizations, are producing results. Overall, we believe PC Connection is well positioned to continue to

gain market share and enhance long-term shareholder value."

About PC Connection, Inc.

PC Connection, Inc., a Fortune 1000 company, operates three sales subsidiaries, PC Connection Sales Corporation of Merrimack, NH, GovConnection, Inc. of Rockville, MD, and MoreDirect, Inc. of Boca Raton, FL. All three subsidiaries can deliver custom-configured computer systems overnight.

PC Connection Sales Corporation (1-800-800-5555) 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 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.

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.

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.

A live webcast of PC Connection management's discussion of the first 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 11:00 a.m. 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, the Company's success at integrating the acquired assets of Amherst Technologies into its businesses, the impact of the costs of acquisition and integration, the ability of the Company to hire and retain Amherst Technologies sales representatives and other essential personnel, and other risks detailed under the caption "Factors That May Affect Future Results and Financial Condition" in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2005. 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.

CONSOLIDATED SELECTED FINANCIAL HIGHLIGHTS

At or for the
Three Months Ended March 31, 2006 2005

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

	% of Net Sales	% of Net Sales	% Change
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Operating Data:

Net sales	\$380,478	\$323,851	17.5%
Diluted earnings per share	\$0.07	\$0.04	

Gross profit margin	12.2%	11.5%
Operating margin	0.9	0.6
Return on equity (1)	4.0	2.3

Catalogs distributed	3,600,000	8,461,000	(57.5)%
Orders entered (2)	383,000	358,000	7.0
Average order size (2)	\$1,147	\$1,048	9.4

Inventory turns (1)	20	16
Days sales outstanding	45	43

Product Mix:

Notebooks & PDAs	\$64,543	17.0%	\$60,850	18.8%	6.1%
Desktops/Servers	56,495	14.9	47,957	14.8	17.8
Storage Devices	33,918	8.9	28,861	8.9	17.5
Software	47,923	12.6	38,254	11.8	25.3
Net/Com Products	29,853	7.8	24,871	7.7	20.0
Printers & Printer Supplies	40,034	10.5	34,418	10.6	16.3
Video, Imaging, & Sound	46,868	12.3	37,565	11.6	24.8
Memory & System Enhancements	18,856	5.0	17,747	5.5	6.2
Accessories/Other	41,988	11.0	33,328	10.3	26.0
	<u>\$380,478</u>	<u>100.0%</u>	<u>\$323,851</u>	<u>100.0%</u>	<u>17.5%</u>

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

	<u>\$108,671</u>	28.6%	<u>\$94,912</u>	29.3%	14.5%
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Stock Performance Indicators:

Actual shares outstanding	25,259	25,136
Total book value per share	\$6.86	\$6.66
Tangible book value per share	\$4.40	\$4.48
Closing price	\$5.76	\$5.87
Market capitalization	\$145,492	\$147,548
Trailing price/earnings ratio (3)	27	18

(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 March 31, 2006 2005

(Dollars in thousands) Net Gross Net Gross
Sales Margin(%) Sales Margin(%)

PC Connection Sales Corporation (SMB)	\$219,121	13.4%	\$200,325	12.3%
MoreDirect (Large Account)	108,362	10.5	76,366	10.5
GovConnection (Public Sector)	52,995	10.7	47,160	10.1

Total	\$380,478	12.2%	\$323,851	11.5%
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CONSOLIDATED INCOME STATEMENTS

Three Months Ended March 31,	2006		2005	
(Amounts in thousands, except per share data)	Amount	% of Net Sales	Amount	% of Net Sales
Net sales	\$380,478	100.0%	\$323,851	100.0%
Cost of sales	334,060	87.8	286,517	88.5
Gross Profit	46,418	12.2	37,334	11.5
Selling, general, and administrative expenses	41,955	11.0	35,416	10.9
Special charges	891	0.3	-	-
Income From Operations	3,572	0.9	1,918	0.6
Interest expense	(644)	(0.2)	(272)	(0.1)
Other, net	11	0.0	(25)	0.0
Income tax provision	(1,233)	(0.3)	(673)	(0.2)
Net Income	\$1,706	0.4%	\$948	0.3%

Weighted average common shares outstanding:

Basic	25,259	25,127
Diluted	25,636	25,362
Earnings per common share:		
Basic	\$0.07	\$0.04
Diluted	\$0.07	\$0.04

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.

	Three Months Ended March 31,	
(Amounts in thousands)	2006	2005
GAAP net income	\$1,706	\$948
Special charges (after tax):		
Management restructuring	535	-
Pro forma net income	\$2,241	\$948

CONSOLIDATED BALANCE SHEETS	March 31,	December 31,
(Amounts in thousands)	2006	2005
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ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 8,202	\$ 9,770
Accounts receivable, net	150,957	162,525
Inventories - merchandise	61,085	75,374
Deferred income taxes	3,318	3,769
Income taxes receivable	1,545	1,742
Prepaid expenses and other current assets	4,911	4,219
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Total current assets	230,018	257,399
Property and equipment, net	17,761	17,700
Goodwill, net	56,867	56,820
Other intangibles, net	5,166	5,427
Other assets	360	359
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Total assets	\$ 310,172	\$ 337,705
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LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of capital lease obligations:		
To affiliate	\$ 427	\$ 416
To third party	417	412
Note payable - bank	15,149	19,975
Accounts payable	89,635	114,413
Accrued expenses and other liabilities	21,363	21,290
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Total current liabilities	126,991	156,506
Capital lease obligations, less current maturities:		
To affiliate	5,189	5,299
To third party	289	396
Deferred income taxes	4,458	4,105
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Total liabilities	136,927	166,306
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Stockholders' Equity:		
Common stock	256	256
Additional paid-in capital	78,024	77,884
Retained earnings	97,251	95,545
Treasury stock at cost	(2,286)	(2,286)
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Total stockholders' equity	173,245	171,399
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Total liabilities and stockholders' equity	\$ 310,172	\$ 337,705
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CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Three months ended March 31, 2006 (Amounts in thousands)

	Common Stock		Additional		Treasury Shares		
	Shares	Amount	Paid-In Capital	Retained Earnings	Shares	Amount	Total
Balance - December 31, 2005	25,622	\$256	\$77,884	\$95,545	(362)	(\$2,286)	\$171,399
Stock compensation expense	-	-	140	-	-	-	140
Net income	-	-	-	1,706	-	-	1,706
Balance - March 31, 2006	25,622	\$256	\$78,024	\$97,251	(362)	(\$2,286)	\$173,245

CONSOLIDATED STATEMENTS OF CASH FLOWS

Three Months Ended March 31,
(Amounts in thousands)

	2006	2005
Cash Flows from Operating Activities:		
Net income	\$ 1,706	\$ 948
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,698	1,714
Provision for doubtful accounts	894	878
Deferred income taxes	804	353
Loss on disposal of fixed assets	14	41
Stock compensation expense	140	-
Changes in assets and liabilities:		
Accounts receivable	10,674	774
Inventories	14,289	5,879
Prepaid expenses and other current assets	(495)	(839)
Other non-current assets	(1)	(34)
Accounts payable	(24,778)	(4,685)
Income tax benefits from exercise of stock options	-	49
Accrued expenses and other liabilities	73	(1,407)
Net cash provided by operating activities	5,018	3,671
Cash Flows from Investing Activities:		
Purchases of property and equipment	(1,579)	(773)
Proceeds from sale of property and equipment	20	13
Net cash used for investing activities	(1,559)	(760)

Cash Flows from Financing Activities:

Proceeds from short-term borrowings	125,911	50,560
Repayment of short-term borrowings	(130,737)	(53,947)
Repayment of capital lease obligations	(201)	(218)
Exercise of stock options	-	201
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Net cash used for financing activities	(5,027)	(3,404)
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Decrease in cash and cash equivalents	(1,568)	(493)
Cash and cash equivalents, beginning of period	9,770	6,829
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Cash and cash equivalents, end of period	\$ 8,202	\$ 6,336
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SOURCE: PC Connection, Inc.