PC Connection, Inc. Reports Fourth Quarter and Full-Year Results

MERRIMACK, N.H.--(BUSINESS WIRE)--Jan. 26, 2006--PC Connection, Inc. (NASDAQ: PCCC), a leading direct marketer of information technology products and solutions, today announced results for the quarter ended December 31, 2005. Net sales for the quarter ended December 31, 2005 increased by $59.0 million, or 17.4%, to $398.6 million from $339.6 million for the quarter ended December 31, 2004. Fourth quarter 2005 sales included $25.2 million from the Amherst Technologies asset acquisition in October 2005. Net income for the quarter ended December 31, 2005 was at essentially break even, compared to $2.1 million, or $.08 per share, for the prior year quarter.

The quarters ended December 31, 2005 and 2004 included charges relating to our Amherst Technologies transaction, management restructuring, and other special charges that reduced earnings and earnings per share. Had these charges not been recorded, pro forma net income for the quarter ended December 31, 2005 would have been $0.8 million, or $.03 per share, compared to $3.1 million, or $.12 per share, for the quarter ended December 31, 2004. 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 year ended December 31, 2005 increased by $90.5 million, or 6.7%, to $1,444.3 million from $1,353.8 million for the year ended December 31, 2004. Net income for the year ended December 31, 2005 was $4.4 million, or $.18 per share, compared to $8.3 million, or $.33 per share for the year ended December 31, 2004. The years ended December 31, 2005 and 2004 included charges related to our Amherst Technologies acquisition, management restructuring, and other special charges that reduced earnings and earnings per share. Had these charges not been recorded, pro forma net income for the year ended December 31, 2005 would have been $5.7 million, or $.23 per share, compared to $11.5 million, or $.46 per share, for the prior year.

Patricia Gallup, Chairman and Chief Executive Officer of PC Connection, Inc., said, "As we indicated in our press release on January 19th, the fourth quarter 2005 was an investment quarter for the Company. In addition to the transitional costs related to the purchase of Amherst Technologies assets, our fourth quarter results were affected by the Company's increased investments in customer acquisition programs and other marketing initiatives. We also experienced lower than anticipated gross margins due primarily to product mix, and our targeting of high-value customers."

Net sales for the small- and medium-sized business (SMB) segment increased this quarter by 9.1% from the fourth quarter of 2004 to $223.5 million, and increased sequentially by 9.8% over the immediately preceding quarter. Sales to large account customers increased by 46.4% over the fourth quarter of 2004 to $112.3 million and increased by 39.7% over the third quarter of 2005, largely due to additional sales generated in the quarter from the Amherst Technologies acquisition referred to earlier and their inclusion in this segment. Sales to government and education customers increased by 8.2% for this quarter to $62.8 million compared to the fourth quarter of 2004.

Notebooks and PDAs continued to be the Company's largest product category, but decreased to 17.3% of net sales in the fourth quarter of 2005 compared to 18.9% for the corresponding period a year ago. Desktop computers and servers accounted for 14.4% of net sales in the fourth quarter of 2005 compared to 15.1% for the corresponding period a year ago.

Gross profit margin, as a percentage of net sales, was 11.0% in the fourth quarter of 2005 compared to 12.5% in the fourth quarter of 2004, and compared to 11.3% in the third quarter of 2005. The Company expects that its gross profit margin as a percentage of net sales may continue to vary by quarter based upon vendor support programs, product and customer mix, pricing strategies, market conditions, and other factors.

Consolidated annualized sales productivity increased sequentially by 6.0% in the fourth quarter of 2005 compared to the third quarter of 2005, and increased 11.4% compared to the fourth quarter of 2004. The total number of sales representatives as of December 31, 2005 increased to 618 from 585 as of September 30, 2005, and increased from 581 as of December 31, 2004.

Total selling, general, and administrative expenses for the quarter increased year over year by $3.9 million, or 10.2%, over the fourth quarter of 2004, and sequentially by $4.1 million, or 11.0%, over the third quarter of 2005, primarily as the result of the Amherst Technologies acquisition and our increased investments in systems improvements, customer acquisition and sales training programs, and in our services business. However, selling, general, and administrative expenses, as a percentage of sales, decreased to 10.5% in the fourth quarter of 2005 compared to 11.1% in the corresponding period a year ago. The Company expects that its selling, general, and administrative 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 continue to make strategic decisions that we believe will enable the Company to improve profitability and increase long-term shareholder value. We launched our new "Core 1" sales training program in this quarter with the goal of improving retention and productivity. We are on-target to open our new sales call center in Texas next month. We expect this call center to give us better coverage in the western part of the country for our SMB segment as well as access to an additional large and talented workforce. We believe our balance sheet is healthy, and we intend to maintain this strong financial position while continuing to invest for the future."

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 fourth 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 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission for the quarter ended September 30, 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 December 31,	2005		2004	
(Dollars and shares in thousands,		% of		% of

except operating data, price/earnings ratio, and per share data)		Net Sales		Net Sales	% Change
Operating Data:					
Net sales	$398,612		$339,599		17.4%
Diluted earnings per share	$.00		$.08		
Gross profit margin	11.0%		12.5%		
Operating margin	0.2		0.9		
Return on equity (1)	0.0		5.1		
Catalogs distributed	6,284,000		10,868,000		(42.2)%
Orders entered (2)	380,000		332,000		14.5
Average order size (2)	$1,195		$1,132		5.6
Inventory turns (1)	20		14		
Days sales outstanding	47		42		
Product Mix:					
Notebooks & PDAs	$69,139	17.3%	$64,164	18.9%	7.8%
Desktops/Servers	57,189	14.4	51,212	15.1	11.7
Storage Devices	33,641	8.4	29,594	8.7	13.7
Software	48,266	12.1	39,892	11.7	21.0
Net/Com Products	32,383	8.1	24,861	7.3	30.3
Printers & Printer Supplies	38,677	9.7	35,523	10.5	8.9
Video, Imaging, & Sound	54,552	13.7	42,265	12.4	29.1
Memory & System Enhancements	22,110	5.6	17,952	5.3	23.2
Accessories/Other	42,655	10.7	34,136	10.1	25.0
	$398,612	100.0%	$339,599	100.0%	17.4%

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

	$116,705	29.3%	$95,697	28.2%	22.0%
Stock Performance Indicators:					
Actual shares outstanding	25,259		25,100		
Total book value per share	$6.79		$6.62		
Tangible book value per share	$4.32		$4.44		
Closing price	$5.38		$9.52		
Market capitalization	$135,895		$238,952		
Trailing price/earnings ratio (3)	30		29		

(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 December 31,	2005		2004	
(Dollars in thousands)	Net Sales	Gross Margin (%)	Net Sales	Gross Margin (%)
PC Connection Sales Corporation (SMB)	$223,504	12.2%	$204,878	14.0%
GovConnection (Public Sector)	62,805	9.6	58,022	9.8
MoreDirect (Large Account)	112,303	9.3	76,699	10.7
Total	$398,612	11.0%	$339,599	12.5%

CONSOLIDATED INCOME STATEMENTS

Three Months Ended December 31,	2005		2004	
(Amounts in thousands, except per share data)	Amount	% of Net Sales	Amount	% of Net Sales
Net sales	$398,612	100.0%	$339,599	100.0%
Cost of sales	354,794	89.0	297,038	87.5
Gross Profit	43,818	11.0	42,561	12.5
Selling, general, and administrative expenses	41,655	10.5	37,791	11.1
Special charges	1,274	0.3	1,649	0.5
Income From Operations	889	0.2	3,121	0.9
Interest expense	(601)	(0.1)	(326)	(0.1)
Other, net	39	0.0	16	0.0
Income tax provision	(316)	(0.1)	(738)	(0.2)
Net Income	$11	0.0%	$2,073	0.6%
Earnings per common share:				
Basic	$.00		$.08	
Diluted	$.00		$.08	
Weighted average common shares outstanding:				
Basic	25,226		25,057	
Diluted	25,290		25,271	

CONSOLIDATED INCOME STATEMENTS

Twelve Months Ended December 31,	2005		2004	
(Amounts in thousands, except per share data)	Amount	% of Net	Amount	% of Net Sales

		Sales		
Net sales	$1,444,297	100.0%	$1,353,834	100.0%
Cost of sales	1,280,701	88.7	1,201,780	88.8
Gross Profit	163,596	11.3	152,054	11.2
Selling, general, and administrative expenses	151,981	10.5	132,729	9.8
Special charges	2,127	0.1	5,232	0.4
Income From Operations	9,488	0.7	14,093	1.0
Interest expense	(1,447)	(0.1)	(1,385)	(0.1)
Other, net	89	0.0	152	0.0
Income tax provision	(3,683)	(0.3)	(4,556)	(0.3)
Net Income	$4,447	0.3%	$8,304	0.6%
Earnings per common share:				
Basic	$.18		$.33	
Diluted	$.18		$.33	
Weighted average common shares outstanding:				
Basic	25,184		25,028	
Diluted	25,281		25,269	

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 December 31,		Twelve Months Ended December 31,	
(Amounts in thousands)	2005	2004	2005	2004
GAAP net income	$11	$2,073	$4,447	$8,304
Special charges (after tax):				
Management restructuring	131	172	643	533
Amherst Technologies acquisition	633	-	633	-
GSA review and other	-	850	-	2,711
	764	1,022	1,276	3,244
Pro forma net income	$775	$3,095	$5,723	$11,548

CONSOLIDATED BALANCE SHEETS	December 31,	December 31,
(Amounts in thousands)	2005	2004

ASSETS		
Current Assets:		
Cash and cash equivalents	$9,770	$6,829
Accounts receivable, net	162,525	120,752
Inventories - merchandise	75,374	78,390
Deferred income taxes	3,769	3,039
Income taxes receivable	1,742	1,325
Prepaid expenses and other current assets	4,219	3,644
Total current assets	257,399	213,979
Property and equipment, net	17,700	17,647
Goodwill, net	57,220	51,687
Other intangibles, net	5,027	3,040
Other assets	359	189
Total assets	$337,705	$286,542
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of capital lease obligations:		
To affiliate	$416	$373
To third party	412	391
Note payable - bank	19,975	4,810
Accounts payable	114,413	79,709
Accrued expenses and other liabilities	21,290	18,138
Acquisition earn-out obligation	-	6,921
Total current liabilities	156,506	110,342
Capital lease obligations, less current maturities:		
To affiliate	5,299	5,715
To third party	396	841
Deferred income taxes	4,105	3,486
Total liabilities	166,306	120,384
Stockholders' Equity:		
Common stock	256	255
Additional paid-in capital	77,884	77,091
Retained earnings	95,545	91,098
Treasury stock at cost	(2,286)	(2,286)
Total stockholders' equity	171,399	166,158
Total liabilities and stockholders' equity	$337,705	$286,542

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Twelve months ended December 31, 2005 (Amounts in thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Shares		Total
	Shares	Amount			Shares	Amount	
Balance - December							

31, 2004	25,462	$255	$77,091	$91,098	(362)	($2,286)	$166,158
Exercise of stock options, including income tax benefits	96	1	447	-	-	-	448
Issuance of stock under employee stock purchase plan	64	-	312	-	-	-	312
Acceleration of certain stock options	-	-	34	-	-	-	34
Net income	-	-	-	4,447	-	-	4,447
Balance - December 31, 2005	25,622	$256	$77,884	$95,545	(362)	($2,286)	$171,399

CONSOLIDATED STATEMENTS OF CASH FLOWS

Twelve Months Ended December 31, (Amounts in thousands)	2005	2004
Cash Flows from Operating Activities:		
Net income	$4,447	$8,304
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,197	7,127
Provision for doubtful accounts	3,993	4,280
Deferred income taxes	(111)	632
Loss on disposal of fixed assets	43	8
Income tax benefits from exercise of stock options	82	97
Acceleration of certain stock options	34	-
Changes in assets and liabilities:		
Accounts receivable	(45,766)	19,305
Inventories	3,016	1,750
Prepaid expenses and other current assets	(992)	870
Other non-current assets	(170)	19
Accounts payable	34,704	(32,829)
Accrued expenses and other liabilities	3,152	3,755
Net cash provided by operating activities	9,629	13,318
Cash Flows from Investing Activities:		
Purchases of property and equipment	(6,572)	(2,804)
Purchase of intangible asset	(475)	-
Proceeds from sale of property and		

equipment	13	3
Payment for acquisition	(7,779)	-
Payment of acquisition earn-out obligation	(6,921)	(11,095)
Cash escrow distributed for acquisition	-	5,000
Net cash used for investing activities	(21,734)	(8,896)

Cash Flows from Financing Activities:

Proceeds from short-term borrowings	320,379	369,285
Repayment of short-term borrowings	(305,214)	(370,089)
Repayment of capital lease obligations	(797)	(334)
Exercise of stock options	366	163
Issuance of stock under employee stock purchase plan	312	405
Net cash provided by (used for) financing activities	15,046	(570)
Increase in cash and cash equivalents	2,941	3,852
Cash and cash equivalents, beginning of period	6,829	2,977
Cash and cash equivalents, end of period	$9,770	$6,829

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