PC Connection, Inc.

PC Connection, Inc. Reports First Quarter Results

Company Significantly Increases Net Income and Earnings per Share

FIRST QUARTER HIGHLIGHTS:
-- Operating income: $5.7 million, up 60% year over year
-- Net income: $3.4 million, virtually doubled year over year
-- Diluted earnings per share: $.13, up from $.07 last year

MERRIMACK, N.H., Apr 26, 2007 (BUSINESS WIRE) -- PC Connection, Inc. (NASDAQ: PCCC), a leading direct marketer of information technology (IT) products and services, today announced results for the quarter ended March 31, 2007. Net sales for the three months ended March 31, 2007 increased by $17.7 million, or 4.7%, to $398.2 million from $380.5 million for the three months ended March 31, 2006. Net income for the quarter was $3.4 million, or $.13 per share, compared to $1.7 million, or $.07 per share, for the corresponding prior year quarter.

"PC Connection, Inc. experienced solid overall growth year over year, with the small- and medium-sized business (SMB) segment leading the way at 6.8%," said Patricia Gallup, Chairman and Chief Executive Officer. "We achieved a 60% increase in operating income and virtually doubled our earnings over the first quarter of 2006, demonstrating that our strategies are working."

Quarterly Sales Growth By Business Segment:

-- Net sales for the SMB segment increased by 6.8% to $233.9 million compared to the first quarter of 2006. Corporate outbound sales within the segment grew 11.3% year over year.

-- Net sales for the Large Account segment increased by 1.8% to $110.3 million compared to the first quarter of 2006. The growth rate that we experienced was the result of pent-up demand in the first quarter of 2006 attributable to the Amherst Technologies acquisition.

-- Net sales to government and education customers (Public Sector segment) increased by 1.8% to $53.9 million compared to the first quarter of 2006. This modest level of growth was due to our decision to focus on more profitable sales, and drive net agency sales.

Quarterly Sales Growth By Product Mix:

-- Notebooks and PDAs, the Company's largest product category, grew 14.1% year over year, accounting for 18.5% of net sales in the first quarter of 2007 compared to 17.0% for the corresponding period a year ago.

-- Desktop computers and servers accounted for 14.5% of net sales in the first quarter of 2007 compared to 14.9% of net sales for the corresponding period a year ago.

-- Software accounted for 12.1% of net sales in the first quarter of 2007 compared to 12.6% of net sales for the corresponding period a year ago.

-- Sales of accessories and other products increased 5.7% year over year to 11.1% of net sales.

Gross profit margin, as a percentage of net sales, increased year over year by 34 basis points to 12.5% in the first quarter of 2007 compared to the first quarter of 2006. As advertising programs we develop with our vendor partners have become more comprehensive, it is more practical to record 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, we recorded approximately $1.9 million of additional consideration as a reduction to cost of sales in the first quarter of 2007, accounting for a 48 basis-point increase in gross margin compared to the first quarter of 2006.

Overall annualized sales productivity increased 2% in the first quarter of 2007 compared to the first quarter of 2006. Sales productivity in our Large Account segment increased 19% in the first quarter of 2007 compared to the first quarter of 2006 due to a decrease in headcount of sales representatives. For our SMB and Public Sector segments, productivity was flat and down 3%, respectively, due to new hires. However, if you remove the effect of our recently opened Texas call center, SMB productivity increased 11% year over year in Q1 2007. On a consolidated basis, the total number of sales representatives at 640 as of March 31, 2007 was down slightly compared to March 31, 2006.

Total selling, general and administrative expenses ("SG&A") for the quarter increased year over year by $2.2 million, or 5.3%, and increased as a percentage of net sales to 11.1% for the first quarter of 2007 from 11.0% for the first quarter of 2006. The year-over-year dollar increase was primarily attributable to the recording of additional vendor consideration discussed above, which increased SG&A expenses by approximately $1.9 million, accounting for a 48 basis-point increase in SG&A as a percentage of net sales. Incremental operating expenses associated with our recently opened Texas sales office were generally offset by lower bad debt expense and professional fees in Q1 2007 compared to Q1 2006.

Ms. Gallup concluded, "Our first quarter results showed increasing sales, rising operating margins, and growth in earnings per share. We achieved these results while continuing to invest in our Company's infrastructure, and while maintaining a healthy balance sheet. Our performance reflects a great team effort to run our business more effectively and efficiently while continuing to offer the best customer service in our marketplace. We believe we have the right strategies, resources, and talent to continue 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 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 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 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. # # #

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"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 Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2006. 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 (including statements regarding implementing strategies for future growth, the ability of the Company to improve sales productivity and increase its market share) 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.

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CONSOLIDATED SELECTED FINANCIAL HIGHLIGHTS
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At or for the Three
 Months Ended
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March 31, (Dollars and shares in thousands, except operating data, price/earnings ratio, and per share data)	2007	% of Net Sales	2006	% of Net Sales	% Change
Operating Data:					
Net sales	$398,180		$380,478		4.7%
Diluted earnings per share	$.13		$.07		
Gross profit margin	12.5%		12.2%		
Operating margin	1.4		0.9		
Return on equity (1)	6.8		4.0		
Catalogs distributed	3,638,000		3,600,000		1.1%
Orders entered (2)	384,000		383,500		0.1%
Average order size (2)	$1,190		$1,147		3.7%
Inventory turns (1)	21		20		
Days sales outstanding	42		45		
Product Mix:					
Notebooks & PDAs	$73,643	18.5%	$64,543	17.0%	14.1%
Desktops/Servers	57,528	14.5	56,495	14.9	1.8
Storage Devices	34,808	8.7	33,918	8.9	2.6
Software	48,286	12.1	47,923	12.6	0.8
Net/Com Products	29,819	7.5	29,853	7.8	(0.1)
Printers & Printer Supplies	41,653	10.5	40,034	10.5	4.0
Video, Imaging & Sound	48,101	12.1	46,868	12.3	2.6
Memory & System Enhancements	19,949	5.0	18,856	5.0	5.8
Accessories/Other	44,393	11.1	41,988	11.0	5.7
	$398,180	100.0%	$380,478	100.0%	4.7%

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

	$122,832	30.9%	$108,671	28.6%	13.0%

	2007	2006
Stock Performance Indicators:		
Actual shares outstanding	26,802	25,259
Total book value per		

share	$7.59	$6.86
Tangible book value per share	$5.31	$4.40
Closing price	$14.30	$5.76
Market capitalization	$383,269	$145,492
Trailing price/earnings ratio (3)	24	27

(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, (Dollars in thousands)	2007 Net Sales	2007 Gross Margin (%)	2006 Net Sales	2006 Gross Margin (%)
PC Connection Sales Corporation (SMB)	$233,933	13.5%	$219,121	13.4%
MoreDirect (Large Account)	110,315	10.8	108,362	10.5
GovConnection (Public Sector)	53,932	11.8	52,995	10.7
Total	$398,180	12.5%	$380,478	12.2%

CONSOLIDATED INCOME STATEMENTS

Three Months Ended March 31, (Amounts in thousands, except per share data)	2007 Amount	2007 % of Net Sales	2006 Amount	2006 % of Net Sales
Net sales	$398,180	100.0%	$380,478	100.0%
Cost of sales	348,265	87.5	334,060	87.8
Gross Profit	49,915	12.5	46,418	12.2
Selling, general and administrative expenses	44,193	11.1	41,955	11.0

Special charges	-	-	891	0.3
Income From Operations	5,722	1.4	3,572	0.9
Interest expense	(208)	(0.1)	(644)	(0.2)
Other, net	201	0.1	11	-
Income tax provision	(2,330)	(0.5)	(1,233)	(0.3)
Net Income	$3,385	0.9%	$1,706	0.4%
Weighted average common shares outstanding:				
Basic	26,680		25,259	
Diluted	27,005		25,299	
Earnings per common share:				
Basic	$0.13		$0.07	
Diluted	$0.13		$0.07	

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CONSOLIDATED BALANCE SHEETS (Amounts in thousands)	March 31, 2007	December 31, 2006
ASSETS		
Current Assets:		
Cash and cash equivalents	$24,668	$17,582
Accounts receivable, net	146,334	170,222
Inventories - merchandise	67,407	69,407
Deferred income taxes	4,007	3,837
Income taxes receivable	1,996	627
Prepaid expenses and other current assets	3,967	3,882
Total current assets	248,379	265,557
Property and equipment, net	19,390	19,542
Goodwill	56,867	56,867
Other intangibles, net	4,095	4,363
Other assets	347	355
Total Assets	$329,078	$346,684
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of capital lease obligations:		
To affiliate	$477	$464
To third party	289	395
Accounts payable	89,067	110,977
Accrued expenses and other liabilities	17,080	17,389
Accrued payroll	5,555	9,367
Total current liabilities	112,468	138,592
Capital lease obligations, less current		

maturities:		
To affiliate	4,712	4,836
Other liabilities	1,652	-
Deferred income taxes	6,990	6,352
Total Liabilities	125,822	149,780
Stockholders' Equity:		
Common stock	272	269
Additional paid-in capital	92,847	89,537
Retained earnings	112,360	109,321
Treasury stock at cost	(2,223)	(2,223)
Total Stockholders' Equity	203,256	196,904
Total Liabilities and Stockholders' Equity	$329,078	$346,684

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Three months ended March 31,2007 (Amounts in thousands)

	Common Stock		Additional		Treasury Shares		
	Shares	Amount	Paid-In Capital	Retained Earnings	Shares	Amount	Total
Balance - December 31, 2006	26,862	$269	$89,537	$109,321	(352)	($2,223)	$196,904
Exercise of stock options, including income tax benefits	292	3	3,378	-	-	-	3,381
Stock compen-sation expense	-	-	(68)	-	-	-	(68)
Cumulative effect of change in accounting principal	-	-		(346)	-	-	(346)
Net income	-	-	-	3,385	-	-	3,385
Balance - March 31, 2007	27,154	$272	$92,847	$112,360	(352)	($2,223)	$203,256

CONSOLIDATED STATEMENTS OF CASH FLOWS

Three Months Ended March 31, (Amounts in thousands)	2007	2006
Cash Flows from Operating Activities:		
Net income	$3,385	$1,706
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,888	1,698
Provision for doubtful accounts	337	894
Deferred income taxes	468	804
Loss on disposal of fixed assets	6	14
Stock compensation expense	(68)	140
Gross excess tax benefit from exercise of stock options	(343)	-
Income tax benefits from exercise of stock options	887	-
Changes in assets and liabilities:		
Accounts receivable	23,551	10,674
Inventories	2,000	14,289
Prepaid expenses and other current assets	(1,454)	(495)
Other non-current assets	8	(1)
Accounts payable	(21,910)	(24,778)
Accrued expenses and other liabilities	(2,815)	73
Net cash provided by operating activities	5,940	5,018
Cash Flows from Investing Activities:		
Purchases of property and equipment	(1,474)	(1,579)
Proceeds from sale of property and equipment	-	20
Net cash used for investing activities	(1,474)	(1,559)
Cash Flows from Financing Activities:		
Proceeds from short-term borrowings	-	125,911
Repayment of short-term borrowings	-	(130,737)
Repayment of capital lease obligations	(217)	(201)
Exercise of stock options	2,494	-
Gross excess tax benefit from exercise of stock options	343	-
Net cash provided by (used for) financing activities	2,620	(5,027)
Increase (decrease) in cash and cash equivalents	7,086	(1,568)
Cash and cash equivalents, beginning of period	17,582	9,770
Cash and cash equivalents, end of period	$24,668	$8,202

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SOURCE: PC Connection, Inc.

PC Connection, Inc.
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