

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 8-K

CURRENT REPORT  
PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): July 28, 2005

PC Connection, Inc.

-----  
(Exact name of registrant as specified in charter)

Delaware

0-23827

02-0513618

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(State or other juris-  
diction of incorporation)

(Commission  
File Number)

(IRS Employer  
Identification No.)

Rt. 101A, 730 Milford Road  
Merrimack, NH

03054

-----  
(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (603) 683-2000

N/A

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(Former name or former address, if changed since last report)

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition

On July 28, 2005, PC Connection, Inc. announced its financial results for the quarter ended June 30, 2005. The full text of the press release issued in connection with the announcement is furnished as Exhibit 99.1 to this Current Report on Form 8-K.

The information in this Form 8-K (including Exhibit 99.1) shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 (the "Exchange Act") or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, except as expressly set forth by specific reference in such a filing.

Item 9.01. Financial Statements and Exhibits

(c) Exhibits

The following exhibit relating to Item 2.02 shall be deemed to be furnished, and not filed:

99.1 Press Release issued by PC Connection, Inc. on  
July 28, 2005.



SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: July 28, 2005

PC CONNECTION, INC.

By: /s/ Jack Ferguson

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Jack Ferguson  
Treasurer and  
Interim Chief Financial Officer

EXHIBIT INDEX

Exhibit No.  
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99.1

Description  
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Press release issued by PC Connection, Inc. on  
July 28, 2005.

PC Connection, Inc. Reports Second  
Quarter Results; Company Experiences Year-over-Year and Sequential  
Sales Growth in All Business Segments

MERRIMACK, N.H.--(BUSINESS WIRE)--July 28, 2005--PC Connection, Inc. (NASDAQ: PCCC), a leading direct marketer of information technology products and solutions, today announced results for the quarter ended June 30, 2005. Net sales for the three months ended June 30, 2005 increased by \$15.4 million, or 4.6%, to \$350.7 million from \$335.3 million for the three months ended June 30, 2004. Net income for the quarter ended June 30, 2005 was \$1.7 million, or \$.07 per share, compared to \$2.3 million, or \$.09 per share for the three months ended June 30, 2004. Net sales for the six months ended June 30, 2005 increased by \$11.6 million, or 1.7%, to \$674.6 million from \$663.0 million for the six months ended June 30, 2004. Net income for the six months ended June 30, 2005 was \$2.7 million, or \$.11 per share, compared to \$3.4 million, or \$.14 per share for the six months ended June 30, 2004.

Net sales for the small- and medium-sized business (SMB) segment increased by 6.8% from the second quarter of 2004 to \$207.3 million and increased sequentially by 3.5% over the immediately preceding quarter. Sales to large account customers increased by 0.7% over the second quarter of 2004 to \$78.5 million and increased by 2.7% over the first quarter of 2005. Sales to government and education customers (the Company's public sector segment) increased for the quarter by 2.6% to \$65.0 million compared to the second quarter of 2004.

Patricia Gallup, Chairman and Chief Executive Officer of PC Connection, Inc., said, "We are encouraged by our overall second quarter results, having experienced both year-over-year and sequential sales growth in our SMB, large account, and public sector segments. We expect the year-over-year trend to continue for all three business segments. In the public sector, which is entering the historically strongest purchasing period, we are positioned to expand our current GSA schedule, secure new contracts, and increase market share."

Notebooks and PDAs continued to be the Company's largest product category, accounting for 18.1% of net sales in the second quarter of 2005 compared to 20.1% for the corresponding period a year ago. Desktop computers and servers accounted for 14.8% of net sales in the second quarter of 2005 compared to 13.8% of net sales for the corresponding period a year ago. The Company experienced double-digit year-over-year growth in several product categories. Sales of desktops and servers, net/com products, and accessories/other increased 11.9%, 17.5%, and 17.1%, respectively, in the second quarter of 2005.

Gross profit margin, as a percentage of net sales, was 11.6% in the second quarter of 2005 compared to 10.8% in the second quarter of 2004, and compared to 11.5% in the first quarter of 2005. The year-over-year increase was attributable to the Company's refinement of its reclassification of certain vendor consideration proceeds from selling, general, and administrative expenses ("SG&A") to cost of sales, as required by issue No. 02-16 of the Emerging Issues Task Force ("EITF 02-16"). During the second quarter of 2005, the Company reclassified an additional \$3.6 million of vendor consideration from SG&A expenses to cost of goods sold, increasing gross profit margins by 103 basis points. Partially offsetting this increase was a 23-basis-point reduction in gross profit margin due to the increased competitive nature of the business during the second quarter. 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 decreased slightly in the second quarter of 2005 by 1.8% compared to the second quarter of 2004 but increased sequentially by 6.4%, as all three segments improved sequentially. The total number of sales representatives as of June 30, 2005 increased by 6.9% to 602 from 586 as of March 31, 2005 and from 563 as of June 30, 2004.

Total selling, general, and administrative expenses, as a percentage of sales, increased to 10.7% in the second quarter of 2005 compared to 9.4% in the corresponding period a year ago, primarily as the result of the EITF 02-16 reclassification referred to earlier. The Company expects that its SG&A, 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.

Earlier this month, the Company hired Kenneth A. Grady as Vice President, General Counsel and Secretary. Grady brings a strong legal and retail background to the organization, having served in legal and operational roles at companies such as KB Toys, Inc., Payless ShoeSource, Inc., and HNI Corporation.

Ms. Gallup concluded, "PC Connection continues to add talent to its already strong and experienced management team. In addition, we believe we have the right product and market strategies, brand recognition, and sharp focus on service to grow our business and enhance long-term shareholder value."

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. 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](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). 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). MoreDirect, Inc. ([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. All three subsidiaries can deliver custom-configured computer systems overnight.

A live webcast of PC Connection management's discussion of the second quarter will be available on the Company's Web site at [www.pcconnection.com](http://www.pcconnection.com) and on [www.streetevents.com](http://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 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 March 31, 2005. More specifically, the statements in this release concerning the Company's outlook for 2005 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 June 30, (Dollars and shares in thousands, except price/earnings ratio and per share data)	2005	2004	% of Net Sales	% of Net Sales	% Change
<b>Operating Data:</b>					
Net sales	\$350,710	\$ 335,335			4.6%
Diluted earnings per share	\$ .07	\$ .09			(22.2)
Gross profit margin	11.6%	10.8%			
Operating margin	0.9	1.2			
Return on equity(1)	4.1	5.7			
Catalogs distributed	7,196,000	7,205,000			(0.1)
Orders entered(2)	351,300	308,700			13.8
Average order size(2)	\$ 1,160	\$ 1,318			(12.0)

Inventory turns(1)	19	16
Days sales outstanding	41	41

Product Mix:

Notebooks & PDAs	\$ 63,615	18.1	\$ 67,413	20.1%	(5.6)%
Desktops/Servers	51,720	14.8	46,228	13.8	11.9
Storage Devices	28,739	8.2	26,710	8.0	7.6
Software	42,557	12.1	39,435	11.8	7.9
Net/Com Products	27,830	7.9	23,680	7.0	17.5
Printers & Printer Supplies	37,696	10.8	39,737	11.8	(5.1)
Video, Imaging & Sound	43,165	12.3	42,157	12.6	2.4
Memory & System Enhancements	17,480	5.0	17,593	5.2	(0.6)
Accessories/Other	37,908	10.8	32,382	9.7	17.1
	-----	-----	-----	-----	-----
	\$ 350,710	100.0%	\$ 335,335	100.0%	4.6%
	=====	=====	=====	=====	=====

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

	\$ 95,066	27.1%	\$ 83,696	25.0%	13.6%
	=====		=====		

Stock Performance

Indicators:

Actual shares outstanding	25,224	25,045
Total book value per share	\$ 6.72	\$ 6.43
Tangible book value per share	\$ 4.55	\$ 4.51
Closing price	\$ 6.21	\$ 6.53
Market capitalization	\$ 156,641	\$ 163,544
Trailing price/earnings ratio(3)	21	25

- (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, (Dollars in thousands)	2005		2004	
	Net Sales	Gross Margin (%)	Net Sales	Gross Margin (%)
PC Connection Sales Corporation (SMB)	\$ 207,296	12.4%	\$ 194,058	11.7%
GovConnection (Public Sector)	64,957	10.4	63,335	9.1
MoreDirect (Large Account)	78,457	10.5	77,942	9.8
	-----	-----	-----	-----
Total	\$ 350,710	11.6%	\$ 335,335	10.8%
	=====	=====	=====	=====

CONSOLIDATED INCOME STATEMENTS

Three Months Ended June 30,

(Amounts in thousands, except per share data)	2005		2004	
	Amount	% of Net Sales	Amount	% of Net Sales
Net sales	\$350,710	100.00%	\$335,335	100.00%
Cost of sales	310,096	88.42	299,173	89.22
	-----	-----	-----	-----
Gross Profit	40,614	11.58	36,162	10.78
Selling, general, and administrative expenses	37,379	10.66	31,483	9.39
Special charges	-	-	753	.22
	-----	-----	-----	-----
Income From Operations	3,235	.92	3,926	1.17

Interest expense	(285)	(.08)	(341)	(.10)
Other, net	50	.01	54	.01
Income tax provision	(1,274)	(.36)	(1,383)	(.41)
	-----	-----	-----	-----
Net Income	\$ 1,726	.49%	\$ 2,256	.67%
	=====	=====	=====	=====

Weighted average common shares  
outstanding:

Basic	25,157	25,008
	=====	=====
Diluted	25,211	25,225
	=====	=====

Earnings per common share:

Basic	\$ .07	\$ .09
	=====	=====
Diluted	\$ .07	\$ .09
	=====	=====

CONSOLIDATED INCOME STATEMENTS

Six Months Ended June 30,  
(Amounts in thousands, except  
per share data)

	2005		2004	
	Amount	% of Net Sales	Amount	% of Net Sales
Net sales	\$674,561	100.00%	\$662,970	100.00%
Cost of sales	596,613	88.45	592,883	89.43
	-----	-----	-----	-----
Gross Profit	77,948	11.55	70,087	10.57
Selling, general, and administrative expenses	72,795	10.79	62,173	9.38
Special charges	-	-	1,783	.27
	-----	-----	-----	-----
Income From Operations	5,153	.76	6,131	.92
Interest expense	(557)	(.08)	(725)	(.11)
Other, net	25	-	101	.02
Income tax provision	(1,947)	(.28)	(2,093)	(.32)
	-----	-----	-----	-----
Net Income	\$ 2,674	.40%	\$ 3,414	.51%
	=====	=====	=====	=====

Weighted average common shares  
outstanding:

Basic	25,142	25,003
	=====	=====
Diluted	25,274	25,295
	=====	=====

Earnings per common share:

Basic	\$ .11	\$ .14
	=====	=====
Diluted	\$ .11	\$ .14
	=====	=====

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

June 30,  
2005

December 31,  
2004

ASSETS

Current Assets:

Cash and cash equivalents	\$ 16,502	\$ 6,829
Accounts receivable, net	123,743	120,752
Inventories - merchandise	61,593	78,390
Deferred income taxes	2,858	3,039
Income taxes receivable	1,621	1,325
Prepaid expenses and other current assets	4,491	3,644
	-----	-----

Total current assets 210,808 213,979

Property and equipment, net	16,406	17,647
Goodwill, net	51,687	51,687
Other intangibles, net	2,864	3,040
Other assets	333	189
	-----	-----

Total assets \$ 282,098 \$ 286,542

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:

Current maturities of capital lease



obligations:		
To affiliate	\$ 393	\$ 373
To third party	403	391
Note payable - bank	-	4,810
Accounts payable	84,864	79,709
Accrued expenses and other liabilities	17,156	18,138
Acquisition earn-out obligation	-	6,921
	-----	-----
Total current liabilities	102,816	110,342
Capital lease obligation, less current maturities:		
To affiliate	5,513	5,715
To third party	604	841
Deferred income taxes	3,737	3,486
	-----	-----
Total liabilities	112,670	120,384
	-----	-----
Stockholders' Equity:		
Common stock	256	255
Additional paid-in capital	77,686	77,091
Retained earnings	93,772	91,098
Treasury stock at cost	(2,286)	(2,286)
	-----	-----
Total stockholders' equity	169,428	166,158
	-----	-----
Total liabilities and stockholders' equity	\$ 282,098	\$ 286,542
	=====	=====

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
Six months ended June 30, 2005 (Amounts in thousands)

	Common Stock		Additional	Retained
	Shares	Amount	Paid-In	Earnings
			Capital	
Balance - December 31, 2004	25,462	\$ 255	\$ 77,091	\$ 91,098
Exercise of stock options, including income tax benefits	92	1	427	-
Issuance of stock under employee stock purchase plan	32	0	168	-
Net income	-	-	-	2,674
	-----	-----	-----	-----
Balance - June 30, 2005	25,586	\$ 256	\$ 77,686	\$ 93,772
	=====	=====	=====	=====

	Treasury Shares		
	Shares	Amount	Total
Balance - December 31, 2004	(362)	\$ (2,286)	\$ 166,158
Exercise of stock options, including income tax benefits	-	-	428
Issuance of stock under employee stock purchase plan	-	-	168
Net income	-	-	2,674
	-----	-----	-----
Balance - June 30, 2005	(362)	\$ (2,286)	\$ 169,428
	=====	=====	=====

CONSOLIDATED STATEMENTS OF CASH FLOWS

Six Months Ended June 30, (Amounts in thousands) 2005 2004

Cash Flows from Operating Activities:

Net income	\$ 2,674	\$ 3,414
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,586	3,539
Deferred income taxes	432	916
Provision for doubtful accounts	1,805	2,076
Loss on disposal of fixed assets	40	1
Changes in assets and liabilities:		
Accounts receivable	(4,796)	22,441
Inventories	16,797	(232)
Prepaid expenses and other current assets	(1,143)	905
Other non-current assets	(144)	2
Accounts payable	5,155	(23,576)
Income tax benefits from exercise of stock options	80	85
Accrued expenses and other liabilities	(982)	1,519
	-----	-----
Net cash provided by operating activities	23,504	11,090
	-----	-----
Cash Flows from Investing Activities:		
Purchases of property and equipment	(2,222)	(1,002)
Proceeds from sale of property and equipment	13	-
Payment of acquisition earn-out obligation	(6,921)	(11,095)
Cash escrow distributed for acquisition	-	5,000
	-----	-----
Net cash used for investing activities	(9,130)	(7,097)
	-----	-----
Cash Flows from Financing Activities:		
Proceeds from short-term borrowings	125,205	174,121
Repayment of short-term borrowings	(130,015)	(179,735)
Repayment of capital lease obligations	(407)	(163)
Exercise of stock options	348	58
Issuance of stock under employee stock purchase plan	168	205
	-----	-----
Net cash used for financing activities	(4,701)	(5,514)
	-----	-----
Increase (decrease) in cash and cash equivalents	9,673	(1,521)
Cash and cash equivalents, beginning of period	6,829	2,977
	-----	-----
Cash and cash equivalents, end of period	\$16,502	\$1,456
	=====	=====

CONTACT: PC Connection, Inc.  
Stephen Baldrige, 603-683-2052  
VP of Finance & Corporate Controller