

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

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): October 23, 2014

PC Connection, Inc.

(Exact name of registrant as specified in charter)

Delaware
(State or other juris-
diction of incorporation)

0-23827
(Commission
File Number)

02-0513618
(IRS Employer
Identification No.)

Rt. 101A, 730 Milford Road
Merrimack, NH
(Address of principal executive offices)

03054
(Zip Code)

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

N/A

(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 October 23, 2014, PC Connection, Inc. announced its financial results for the quarter ended September 30, 2014. 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

(d) 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 October 23, 2014.

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: October 23, 2014

PC CONNECTION, INC.

By: /s/ Joseph Driscoll
Joseph Driscoll
Senior Vice President, Treasurer and
Chief Financial Officer

EXHIBIT INDEX

Exhibit No.

Description

99.1

Press release issued by PC Connection, Inc. on October 23, 2014.

PC Connection, Inc. Reports Record Third Quarter 2014 Results

THIRD QUARTER SUMMARY:

- **Net income up 15% year over year**
- **Net sales: \$639.6 million, up 10.2% year over year**
- **Diluted EPS: \$0.46, up 15% year over year**

MERRIMACK, N.H.--(BUSINESS WIRE)--October 23, 2014--PC Connection, Inc. (NASDAQ: PCCC), a national provider of a full range of information technology (IT) solutions to business, government, healthcare, and education markets, today announced results for the quarter ended September 30, 2014. Net sales for the third quarter of 2014 increased by 10.2% to \$639.6 million, compared to \$580.4 million for the prior year quarter. Net income for the quarter ended September 30, 2014 increased by 15.0% to \$12.2 million, or \$0.46 per diluted share, compared to net income of \$10.6 million, or \$0.40 per diluted share for the prior year quarter. Sales, net income, and earnings per share amounts represent quarterly records for the Company.

Net sales for the nine months ended September 30, 2014 were \$1,832.6 million, an increase of \$189.5 million or 11.5%, compared to \$1,643.1 million for the nine months ended September 30, 2013. Net income for the nine months ended September 30, 2014 increased by 18.9% to \$30.7 million, or \$1.16 per diluted share, compared to net income of \$25.8 million, or \$0.98 per diluted share, for the nine months ended September 30, 2013. Earnings before interest, taxes, depreciation and amortization, adjusted for stock-based compensation expense ("Adjusted EBITDA") totaled \$76.7 million for the twelve months ended September 30, 2014, compared to \$65.6 million for the twelve months ended September 30, 2013.

Quarterly Sales by Segment:

- Net sales for the SMB segment increased by 8.1% to \$254.4 million in the third quarter of 2014, compared to the prior year quarter. Sales of notebooks and desktop/server products each grew at double-digit rates.
 - Net sales for the Large Account segment increased by 4.6% to \$202.0 million in the third quarter of 2014, compared to the prior year quarter. Software and desktop/server sales were strong in this segment with an increase of 31.4% and 11.2%, respectively. Commercial sales, which consists of SMB and Large Account sales, increased by 6.5% from the prior year quarter.
 - Net sales to the Public Sector segment (government and education customers) increased by 20.5% to \$183.2 million in the third quarter of 2014, compared to the prior year quarter. Sales to state and local government and educational institutions increased by 29.8%, compared to the prior year quarter, while sales to the federal government decreased by 2.6%.
-

Quarterly Sales by Product Mix:

- Notebook/tablet sales, the Company's largest product category, increased by 24% year over year and accounted for 22% of net sales in the third quarter of 2014 compared to 20% of net sales in the prior year quarter. Continued corporate refresh activity and increased demand for Chromebooks resulted in strong year-over-year growth in this category in both SMB and Public Sector segments.
- Desktop/Server sales increased by 13% year over year and accounted for 16% of net sales in the third quarter of 2014 and 2013. We experienced significant sales growth in both our SMB and Large Account segments in this product category.
- Software sales increased by 15% year over year and accounted for 16% of net sales in the third quarter of 2014 compared to 15% of net sales in the prior year quarter. We experienced strong growth in security, office productivity, and operating system software, including cloud-based offerings.

Overall gross profit dollars increased by \$7.1 million, or 9.3%, in the third quarter of 2014, compared to the prior year quarter. Consolidated gross margin, as a percentage of net sales, slightly decreased to 13.1% in the third quarter of 2014, compared to 13.2% in the prior year quarter as a result of increased demand in notebooks and desktops that generate relatively lower margins.

Total selling, general and administrative dollars increased in the third quarter of 2014 to \$63.2 million from \$59.0 million in the prior year quarter, but decreased as a percentage of net sales from 10.2% to 9.9% due to leveraging our fixed costs over higher net sales. As noted in previous releases, approximately \$0.5 million of this increase in SG&A was due to depreciation expense related to the Customer Master Data Management software project that was placed into service in late 2013. Also, variable SG&A increased year over year due to the higher levels of sales and gross profit achieved in the third quarter. We continue to invest in technical solution sales capabilities and expect SG&A expenses to rise accordingly. However, we are highly focused on improving efficiencies and streamlining wherever possible.

The Company generated significant cash flow during the nine months ended September 30, 2014. Total cash was \$66.4 million at September 30, 2014, compared to \$42.5 million at December 31, 2013. Days sales outstanding were 36 days at September 30, 2014, and inventory turns were 24 turns in the third quarter of 2014.

"We are encouraged with PC Connection's strong performance this quarter. We had solid execution across all three of our sales segments, reinforcing the strength and diversity of our business model," said Timothy McGrath, President and Chief Executive Officer. "As a National Solutions Provider, PC Connection's goal is to consistently invest in more complex solutions capabilities while delivering solid financial performance; we were able to accomplish that goal in Q3 with a 10% sales increase and a 15% increase in earnings. In a rapidly changing industry, we believe the team and the strategies we have in place position PC Connection well to gain market share and increase long-term shareholder value."

Non-GAAP Financial Information

Adjusted EBITDA is a non-GAAP financial measure. This information is included to provide information with respect to the Company's operating performance and earnings.

About PC Connection, Inc.

PC Connection, Inc., a Fortune 1000 company, has three wholly owned 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 from our ISO 9001:2008 certified technical configuration lab at our distribution center in Wilmington, OH. Investors and media can find more information about PC Connection, Inc. at <http://ir.pcconnection.com>.

PC Connection Sales Corporation (800-800-5555), the original business of PC Connection, Inc. serving primarily the small- and medium-sized business sector, is a rapid-response provider of IT products and services. It offers more than 300,000 brand-name products through its staff of technically trained sales account managers, catalogs, publications, and its website at www.pcconnection.com. This company also serves consumer and small office users and is, under its MacConnection brand (800-800-2222), one of Apple's largest authorized online resellers at www.macconnection.com.

MoreDirect, Inc. (561-237-3300), www.moredirect.com, provides corporate technology buyers with best-in-class IT solutions, in-depth IT supply-chain expertise, and access to over 300,000 products and 1,600 vendors through TRAXX™, our proprietary cloud-based eProcurement system. Backed by over 500 technical certifications, MoreDirect's team of engineers, software licensing specialists, and project managers help reduce the cost and complexity of buying hardware, software, and services throughout the entire IT lifecycle.

GovConnection, Inc. (800-800-0019) is a rapid-response provider of IT products and services to federal, state, and local government agencies and educational institutions through specialized account managers, catalogs, publications, and online at www.govconnection.com.

pccc-g

###

“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 and environment, 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 manage costs in response to fluctuations in revenue, and other risks that could cause actual results to differ materially from expectations, including those 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, 2013. More specifically, the statements in this release concerning the Company’s outlook for selling, general, and administrative expenses in 2014, the Company’s efforts in improving efficiencies and streamlining its business, the Company’s anticipated product growth categories and areas of future investments it plans to make in its business, and other statements of a non-historical basis (including statements regarding the Company’s ability to increase market share and enhance long-term shareholder value) 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, the ability of the Company to gain or maintain market share, and the ability of the Company to hire and retain qualified sales representatives and other essential personnel. The Company disclaims any 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.

CONSOLIDATED SELECTED FINANCIAL INFORMATION

At or for the Three Months Ended September 30,

	2014		2013		% Change
		% of Net Sales		% of Net Sales	
<i>(Amounts and shares in thousands, except operating data, P/E ratio, and per share data)</i>					
Operating Data:					
Net sales	\$ 639,570		\$ 580,356		10%
Diluted earnings per share	\$ 0.46		\$ 0.40		15%
Gross margin		13.1%		13.2%	
Operating margin		3.2%		3.0%	
Return on equity (1)		12.2%		11.5%	
Inventory turns		24		27	
Days sales outstanding		36		37	
Product Mix:					
Notebook/Tablet	\$ 143,722	22%	\$ 116,176	20%	24%
Desktop/Server	105,310	16	93,440	16	13%
Software	100,819	16	87,519	15	15%
Net/Com Product	58,922	9	58,920	10	0%
Video, Imaging & Sound	55,201	9	51,948	9	6%
Storage	38,209	6	37,206	6	3%
Printer & Printer Supplies	38,261	6	37,649	7	2%
Memory & System Enhancement	18,256	3	19,275	3	(5)%
Accessory/Services/Other	80,870	13	78,223	14	3%
Total Net Sales	\$ 639,570	100%	\$ 580,356	100%	10%

Stock Performance Indicators:

Actual shares outstanding	26,298	26,169
Total book value per share	\$ 13.38	\$ 12.22
Tangible book value per share	\$ 11.34	\$ 10.14
Closing price	\$ 21.47	\$ 15.09
Market capitalization	\$ 564,618	\$ 394,890
Trailing price/earnings ratio	14.0	11.5
LTM Adjusted EBITDA (2)	\$ 76,723	\$ 65,583
Adjusted market capitalization/LTM Adjusted EBITDA (3)	6.5	4.8

(1) Based on last twelve months' net income.

(2) Adjusted EBITDA is defined as EBITDA (earnings before interest, taxes, depreciation and amortization) adjusted for stock-based compensation.

(3) Adjusted market capitalization is defined as gross market capitalization less cash balance.

REVENUE AND MARGIN INFORMATION

For the Three Months Ended September 30,

	2014		2013	
	Net Sales	Gross Margin	Net Sales	Gross Margin
<i>(amounts in thousands)</i>				
SMB	\$ 254,432	14.9%	\$ 235,285	15.6%
Large Account	201,979	13.1	193,124	12.1
Public Sector	183,159	10.4	151,947	10.8
Total	<u>\$ 639,570</u>	<u>13.1%</u>	<u>\$ 580,356</u>	<u>13.2%</u>

CONDENSED CONSOLIDATED STATEMENTS OF INCOME**Three Months Ended September 30,***(amounts in thousands, except per share data)*

	2014		2013	
	Amount	% of Net Sales	Amount	% of Net Sales
Net sales	\$ 639,570	100.0%	\$ 580,356	100.0%
Cost of sales	555,918	86.9	503,803	86.8
Gross profit	83,652	13.1	76,553	13.2
Selling, general and administrative expenses	63,235	9.9	59,043	10.2
Income from operations	20,417	3.2	17,510	3.0
Interest/other expense, net	(36)	-	(39)	-
Income tax provision	(8,204)	(1.3)	(6,882)	(1.2)
Net income	\$ 12,177	1.9%	\$ 10,589	1.8%
Earnings per common share:				
Basic	\$ 0.46		\$ 0.40	
Diluted	\$ 0.46		\$ 0.40	
Shares used in the computation of earnings per common share:				
Basic	26,266		26,169	
Diluted	26,524		26,399	

CONDENSED CONSOLIDATED STATEMENTS OF INCOME**Nine Months Ended September 30,***(amounts in thousands, except per share data)*

	2014		2013	
	Amount	% of Net Sales	Amount	% of Net Sales
Net sales	\$ 1,832,574	100.0%	\$ 1,643,066	100.0%
Cost of sales	1,592,309	86.9	1,425,759	86.8
Gross profit	240,265	13.1	217,307	13.2
Selling, general and administrative expenses	188,900	10.3	174,289	10.6
Income from operations	51,365	2.8	43,018	2.6
Interest/other expense, net	(72)	-	(135)	-
Income tax provision	(20,556)	(1.1)	(17,042)	(1.0)
Net income	\$ 30,737	1.7%	\$ 25,841	1.6%
Earnings per common share:				
Basic	\$ 1.17		\$ 0.99	
Diluted	\$ 1.16		\$ 0.98	
Shares used in the computation of earnings per common share:				
Basic	26,225		26,099	
Diluted	26,498		26,351	

EBITDA AND ADJUSTED EBITDA

A reconciliation of EBITDA and Adjusted EBITDA is detailed below. Adjusted EBITDA is defined as EBITDA (earnings before interest, taxes, depreciation and amortization) adjusted for stock-based compensation. Both EBITDA and Adjusted EBITDA are considered non-GAAP financial measures. Generally, a non-GAAP financial measure is a numerical measure of a company's performance, financial position, or cash flows that either includes or excludes amounts that are not normally included or excluded in the most directly comparable measure calculated and presented in accordance with GAAP. We believe that EBITDA and Adjusted EBITDA provide helpful information with respect to our operating performance including our ability to fund our future capital expenditures and working capital requirements. Adjusted EBITDA also provides helpful information as it is the primary measure used in certain financial covenants contained in our credit agreements.

(amounts in thousands)

	Three Months Ended September 30,			LTM Ended September 30, ⁽¹⁾		
	2014	2013	% Change	2014	2013	% Change
Net income	\$ 12,177	\$ 10,589		\$ 40,578	\$ 34,710	
Depreciation and amortization	2,133	1,675		8,074	7,055	
Income tax expense	8,204	6,882		27,079	22,796	
Interest/other expense, net	36	39		86	150	
EBITDA	22,550	19,185		75,817	64,711	
Stock-based compensation	215	452		906	872	
Adjusted EBITDA	\$ 22,765	\$ 19,637	16%	\$ 76,723	\$ 65,583	17%

(1) LTM: Last twelve months

	September 30, 2014	December 31, 2013
CONDENSED CONSOLIDATED BALANCE SHEETS		
<i>(amounts in thousands)</i>		
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 66,434	\$ 42,547
Accounts receivable, net	273,938	283,051
Inventories	82,541	79,141
Deferred income taxes	6,382	6,382
Prepaid expenses and other current assets	4,868	5,117
Income taxes receivable	4,607	2,256
Total current assets	438,770	418,494
Property and equipment, net	27,745	27,600
Goodwill	51,276	51,276
Other intangibles, net	2,178	2,854
Other assets	751	720
Total Assets	\$ 520,720	\$ 500,944
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 109,346	\$ 124,821
Accrued expenses and other liabilities	22,524	22,362
Accrued payroll	18,316	14,935
Total current liabilities	150,186	162,118
Deferred income taxes	16,274	16,224
Other liabilities	2,476	2,773
Total Liabilities	168,936	181,115
Stockholders' Equity:		
Common stock	282	281
Additional paid-in capital	106,149	104,932
Retained earnings	261,215	230,478
Treasury stock at cost	(15,862)	(15,862)
Total Stockholders' Equity	351,784	319,829
Total Liabilities and Stockholders' Equity	\$ 520,720	\$ 500,944

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine Months Ended September 30,

(amounts in thousands)

	2014	2013
Cash Flows from Operating Activities:		
Net income	\$ 30,737	\$ 25,841
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,998	5,011
Provision for doubtful accounts	826	727
Deferred income taxes	50	(126)
Stock-based compensation expense	702	753
Excess tax benefit from exercise of equity awards	(503)	(228)
Loss on disposal of fixed assets	-	7
Income tax benefit from stock-based compensation	-	505
Changes in assets and liabilities:		
Accounts receivable	8,287	15,592
Inventories	(3,400)	(6,736)
Prepaid expenses and other current assets	(2,102)	(157)
Other non-current assets	(31)	(17)
Accounts payable	(15,430)	(963)
Accrued expenses and other liabilities	3,749	1,198
Net cash provided by operating activities	<u>28,883</u>	<u>41,407</u>
Cash Flows from Investing Activities:		
Purchases of equipment	(5,522)	(4,943)
Proceeds from sale of equipment	10	-
Net cash used for investing activities	<u>(5,512)</u>	<u>(4,943)</u>
Cash Flows from Financing Activities:		
Exercise of stock options	186	1,654
Issuance of stock under Employee Stock Purchase Plan	360	307
Excess tax benefit from exercise of equity awards	503	228
Payment of payroll taxes on stock-based compensation through shares withheld	(533)	(577)
Repayment of capital lease obligation to affiliate	-	(802)
Net cash provided by financing activities	<u>516</u>	<u>810</u>
Increase in cash and cash equivalents	23,887	37,274
Cash and cash equivalents, beginning of period	42,547	39,907
Cash and cash equivalents, end of period	<u>\$ 66,434</u>	<u>\$ 77,181</u>
Non-cash Investing Activities:		
Accrued capital expenditures	\$ 290	\$ 320
Issuance of nonvested stock from treasury	-	\$ 403
Supplemental Cash Flow Information:		
Income taxes paid	\$ 22,092	\$ 17,075

pccc-g

CONTACT:

PC Connection, Inc.

Joseph Driscoll, 603-683-2322

Senior Vice President

Treasurer and Chief Financial Officer