

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): February 4, 2010

PC Connection, Inc.

(Exact name of registrant as specified in charter)

Delaware

0-23827

02-0513618

(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

(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))
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Item 2.02. Results of Operations and Financial Condition

On February 4, 2010, PC Connection, Inc. announced its financial results for the quarter and year ended December 31, 2009. 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 February 4, 2010.

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: February 4, 2010

PC CONNECTION, INC.

By: /s/ JACK FERGUSON

Jack Ferguson

Executive Vice President, Treasurer, and
Chief Financial Officer

EXHIBIT INDEX

Exhibit No.

Description

99.1

Press release issued by PC Connection, Inc. on February 4, 2010.

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

MERRIMACK, N.H.--(BUSINESS WIRE)--February 4, 2010--PC Connection, Inc. (NASDAQ: PCCC):

FOURTH QUARTER SUMMARY:

- Net sales: \$463.1 million, up 5% y/y
- Gross margin: 11.3%
- Operating income: \$6.6 million
- Diluted earnings per share: \$0.15 per share

FULL YEAR SUMMARY:

- Net sales: \$1,569.7 million, down 10% y/y
- Gross margin: 11.8%
- Operating loss: \$0.7 million
- Diluted loss per share: \$0.05 per share

PC Connection, Inc. (NASDAQ: PCCC), a leading direct marketer of information technology (IT) products and services, today announced results for the quarter and year ended December 31, 2009. Net sales for the three months ended December 31, 2009 increased by \$24.0 million, or 5.5%, to \$463.1 million from \$439.1 million for the three months ended December 31, 2008. Net income for the quarter was \$4.0 million, or \$0.15 per share, compared to net loss of \$2.7 million, or \$0.10 per share, for the corresponding prior year quarter.

The three months ended December 31, 2009 included an adjustment to special charges that increased earnings and earnings per share, whereas the three months ended December 31, 2008 included a non-cash goodwill impairment charge that reduced earnings and earnings per share. Had these charges not been incurred, pro forma net income for the three months ended December 31, 2009 would have been \$3.9 million, or \$0.14 per share, compared to \$2.7 million, or \$0.10 per share for the three months ended December 31, 2008. A reconciliation between net income (loss) on a GAAP basis and pro forma net income is provided in a table below immediately following the Consolidated Statements of Operations.

Net sales for the year ended December 31, 2009 decreased by \$184.0 million, or 10.5%, to \$1,569.7 million, from \$1,753.7 million for the year ended December 31, 2008. Net loss for the year ended December 31, 2009 was \$1.2 million, or \$0.05 per share, compared to net income of \$10.4 million, or \$0.39 per share, for the year ended December 31, 2008. Both 2009 and 2008 included special charges that reduced earnings and earnings per share. Had these charges not been incurred, pro forma net income for the year ended December 31, 2009 would have been \$6.8 million, or \$0.25 per share, compared to \$16.7 million, or \$0.62 per share, for the year ended December 31, 2008. A reconciliation between net loss (income) on a GAAP basis and pro forma net income is provided in a table below immediately following the Consolidated Statements of Operations.

Quarterly Sales by Business Segment:

- Net sales for the small- and medium-sized business (SMB) segment decreased by 1.9% to \$220.8 million compared to the fourth quarter of 2008. SMB sales however increased on a sequential basis by 21% over the third quarter, reflecting increased seasonal consumer sales and higher enterprise solution sales.
 - Net sales for MoreDirect, Inc., the Company's Large Account segment, increased by 8.9% to \$123.6 million compared to the fourth quarter of 2008. Sales increased from both new and existing customers as large account customers increased their IT spending both sequentially and year over year.
 - Net sales to government and education customers, the Company's Public Sector segment, increased by 18.0% to \$118.7 million compared to the fourth quarter of 2008. Sales to the federal and state governments and education customers increased by double-digits due to increased enterprise sales and continued demand for netbooks, particularly in the K-12 marketplace.
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Quarterly Sales by Product Mix:

- Sales of Notebooks and PDAs increased by 6% year over year and accounted for 15% of net sales in the fourth quarter of 2009 and 2008. Higher unit sales offset lower average selling prices, or ASPs, as the growth of netbook sales continued to impact ASPs.
- Software sales increased by 11% year over year in dollars and accounted for 14% of net sales in the fourth quarter of 2009 compared to 13% of net sales in the fourth quarter of 2008. Strong federal government and large account sales drove the year-over-year growth.
- Desktop/Servers sales increased by 15% year over year and accounted for 13% of net sales in the fourth quarter of 2009 compared to 12% of net sales in the fourth quarter of 2008. Higher unit volumes accounted for this increase year over year, which we attribute to both pent-up demand and technology upgrades.
- Memory & System Enhancements sales increased by 33% year over year, accounting for 5% of net sales in the fourth quarter of 2009 compared to 4% of net sales in the corresponding prior year period. Higher sales of notebooks, desktops, and servers drove growth in this product category.

Gross profit dollars increased by \$0.6 million, or 1.1%, in the fourth quarter of 2009 from the corresponding period a year ago due to increased revenues. Gross profit margin, as a percentage of net sales, declined year over year by 50 basis points to 11.3% in the fourth quarter of 2009. Higher public sector sales and continued aggressive price competition led to lower invoice product margins in the fourth quarter of 2009 compared to the prior year quarter.

Overall annualized sales productivity increased by 22% in the fourth quarter of 2009 compared to the fourth quarter of 2008 due to double-digit productivity increases in all three sales segments. Sales productivity in the Large Account segment increased by 11% year over year due to higher enterprise revenues. Sales productivity in the Public Sector segment increased by 21% year over year due to productivity gains made in both the government and education sectors. Despite lower revenues, sales productivity in the SMB segment increased by 22% year over year. On a consolidated basis, the total number of sales representatives was 589 at December 31, 2009, compared to 712 at December 31, 2008 and 601 at September 30, 2009. The Company reduced both sales representatives and sales support headcount earlier in 2009 consistent with the previous year-over-year declines in revenues.

Total selling, general and administrative expenses for the quarter was largely unchanged year over year but decreased as a percentage of net sales to 9.9% for the fourth quarter of 2009 from 10.5% for the fourth quarter of 2008. The year-over-year decrease as a percentage of net sales was primarily attributable to increased sales levels in the fourth quarter of 2009.

“We are encouraged by the improvement in our overall performance,” said Patricia Gallup, Chairman and Chief Executive Officer. “During the quarter, the Company grew sales and earnings, improved operating margins, and made progress in our efforts to improve the productivity of each of our three sales organizations.”

“Recognizing that we have a loyal following of customers who purchase from us for their personal and home office needs, in January we started a new sales company, PC Connection Express, Inc. This company will focus on the specialized product requirements of the consumer and small office/home office market.” Ms. Gallup concluded, “We will continue to monitor the changing landscape and identify opportunities that allow us to better serve the marketplace and position us well for future success.”

About PC Connection, Inc.

PC Connection, Inc., a Fortune 1000 company, owned three sales companies during the reporting period: 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 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 website 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. (1-561-237-3300), 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™ 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.

“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, the ability of the Company to manage personnel levels in response to fluctuations in revenue, and other risks that could cause actual results to differ materially from these detailed under the caption “Risk Factors” in the Company’s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission for the quarter ended September 30, 2009. More specifically, the statements in this release concerning the Company’s outlook for 2010 and other statements of a non-historical basis (including statements regarding the Company’s ability to grow revenues and increase 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.

CONSOLIDATED SELECTED FINANCIAL RESULTS

At or for the Three Months Ended December 31,

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

	2009		2008		
		% of Net Sales		% of Net Sales	% Change
Operating Data:					
Net sales	\$ 463,121		\$ 439,113		5%
Diluted earnings (loss) per share	\$ 0.15		\$ (0.10)		
Gross profit margin		11.3%		11.8%	
Operating margin		1.4%		(0.7)%	
Catalogs distributed	2,701,000		3,126,000		(14)%
Orders entered ⁽²⁾	348,400		361,800		(4)%
Average order size ⁽²⁾	\$ 1,572		\$ 1,330		18%
Inventory turns ⁽¹⁾	24		20		
Days sales outstanding	47		45		

Product Mix:

Notebooks & PDAs	\$ 70,676	15%	\$ 66,553	15%	6%
Video, Imaging & Sound	68,570	15	68,114	15	1
Software	62,536	14	56,102	13	11
Desktops/Servers	62,035	13	53,736	12	15
Net/Com Products	52,904	11	51,126	12	3
Storage Devices	37,061	8	37,940	9	(2)
Printers & Printer Supplies	36,403	8	36,713	8	(1)
Memory & System Enhancements	22,326	5	16,741	4	33
Accessories/Other	50,610	11	52,088	12	(3)
Total	<u>\$ 463,121</u>	<u>100%</u>	<u>\$ 439,113</u>	<u>100%</u>	<u>5%</u>

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

	<u>\$ 186,767</u>	40%	<u>\$ 164,140</u>	37%	14%
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Stock Performance Indicators:

Actual shares outstanding	26,848		26,829		
Total book value per share	\$ 8.76		\$ 8.77		
Tangible book value per share	\$ 6.93		\$ 6.90		
Closing price	\$ 6.75		\$ 5.12		
Market capitalization	\$ 181,224		\$ 137,364		
Pro forma trailing price/earnings ratio ⁽³⁾	27		8		

(1) Annualized

(2) Does not reflect cancellations or returns

(3) Earnings per share is based on the last four quarters and excludes special charges

SELECTED SEGMENT INFORMATION

For the Three Months Ended December 31,

	2009		2008	
(amounts in thousands)	Net Sales	Gross Margin (%)	Net Sales	Gross Margin (%)
PC Connection Sales Corporation (SMB)	\$ 220,799	12.6%	\$ 225,069	13.6%
MoreDirect (Large Account)	123,573	9.7%	113,422	10.4
GovConnection (Public Sector)	118,749	10.6	100,622	9.5
Total	<u>\$ 463,121</u>	<u>11.3%</u>	<u>\$ 439,113</u>	<u>11.8%</u>

CONSOLIDATED STATEMENTS OF OPERATIONS
Three Months Ended December 31,
(amounts in thousands, except per share data)

	2009		2008	
	Amount	% of Net Sales	Amount	% of Net Sales
Net sales	\$ 463,121	100.0%	\$ 439,113	100.0%
Cost of sales	410,622	88.7	387,176	88.2
Gross profit	52,499	11.3	51,937	11.8
Selling, general and administrative expenses	45,984	9.9	46,290	10.5
Special charges	(129)	-	-	-
Goodwill impairment	-	-	8,807	2.0
Income (loss) from operations	6,644	1.4	(3,160)	(0.7)
Interest expense	(132)	-	(133)	-
Other, net	72	-	201	-
Income tax (provision) benefit	(2,617)	(0.5)	383	0.1
Net income (loss)	\$ 3,967	0.9%	(\$2,709)	(0.6%)
Earnings (loss) per common share:				
Basic	\$ 0.15		\$ (0.10)	
Diluted	\$ 0.15		\$ (0.10)	
Weighted average common shares outstanding:				
Basic	27,158		26,808	
Diluted	27,183		26,808	

CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31,
(amounts in thousands, except per share data)

	2009		2008	
	Amount	% of Net Sales	Amount	% of Net Sales
Net sales	\$ 1,569,656	100.0%	\$ 1,753,680	100.0%
Cost of sales	1,384,860	88.2	1,538,836	87.7
Gross profit	184,796	11.8	214,844	12.3
Selling, general and administrative expenses	172,654	11.0	186,728	10.7
Special charges	12,826	0.8	1,431	0.1
Goodwill impairment	-	-	8,807	0.5
(Loss) income from operations	(684)	-	17,878	1.0
Interest expense	(517)	-	(681)	-
Other, net	524	-	811	-
Income tax provision	(545)	(0.1)	(7,642)	(0.4)
Net (loss) income	(\$1,222)	(0.1)%	\$ 10,366	0.6%
(Loss) earnings per common share:				
Basic	\$ (0.05)		\$ 0.39	
Diluted	\$ (0.05)		\$ 0.39	
Weighted average common shares outstanding:				
Basic	26,833		26,828	
Diluted	26,833		26,896	

A RECONCILIATION BETWEEN GAAP AND PRO FORMA RESULTS
This information is being provided so as to allow for a comparison of our operating results without special charges.

December 31, <i>(amounts in thousands)</i>	Three Months Ended		Years Ended	
	2009	2008	2009	2008
GAAP net income (loss)	\$3,967	(\$2,709)	(\$1,222)	\$10,366
Special charges (after tax):				
Software development write-off and related charges	-	-	7,378	-
Management restructuring	(78)	-	693	906
Goodwill impairment	-	5,383	-	5,383
Total special charges (after tax)	<u>(78)</u>	<u>5,383</u>	<u>8,071</u>	<u>6,289</u>
Pro forma net income	<u>\$3,889</u>	<u>\$2,674</u>	<u>\$6,849</u>	<u>\$16,655</u>

CONSOLIDATED BALANCE SHEETS	December 31,		December 31,	
(amounts in thousands)	2009		2008	
ASSETS				
Current Assets:				
Cash and cash equivalents	\$	46,297	\$	47,003
Accounts receivable, net		218,095		185,885
Inventories		67,391		60,813
Deferred income taxes		3,386		4,244
Income taxes receivable		935		1,448
Prepaid expenses and other current assets		2,750		3,626
Total current assets		338,854		303,019
Property and equipment, net		12,420		24,483
Goodwill		48,060		48,060
Other intangibles, net		1,279		2,220
Other assets		482		385
Total Assets	\$	401,095	\$	378,167
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities:				
Current maturities of capital lease obligation to affiliate	\$	780	\$	699
Accounts payable		125,120		101,783
Accrued expenses and other liabilities		20,441		19,993
Accrued payroll		8,843		6,337
Total current liabilities		155,184		128,812
Capital lease obligation to affiliate, less current maturities		2,830		3,610
Deferred income taxes		3,849		6,183
Other liabilities		3,966		4,238
Total Liabilities		165,829		142,843
Stockholders' Equity:				
Common stock		274		273
Additional paid-in capital		97,213		95,997
Retained earnings		141,114		142,336
Treasury stock at cost		(3,335)		(3,282)
Total Stockholders' Equity		235,266		235,324
Total Liabilities and Stockholders' Equity	\$	401,095	\$	378,167

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Year Ended December 31, 2009 (amounts in thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Shares		Total
	Shares	Amount			Shares	Amount	
Balance – January 1, 2009	27,326	\$ 273	\$ 95,997	\$ 142,336	(492)	\$ (3,282)	\$ 235,324
Stock-based compensation expense	-	-	1,420	-	-	-	1,420
Issuance of common stock under Employee Stock Purchase Plan	49	1	274	-	-	-	275
Nonvested stock awards	-	-	(372)	-	58	372	-
Repurchase of common stock for treasury	-	-	-	-	(93)	(425)	(425)
Tax shortfall from stock-based compensation	-	-	(106)	-	-	-	(106)
Net loss	-	-	-	(1,222)	-	-	(1,222)
Balance – December 31, 2009	27,375	\$ 274	\$ 97,213	\$ 141,114	(527)	\$ (3,335)	\$ 235,266

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, (amounts in thousands)

	2009	2008
Cash Flows from Operating Activities:		
Net (loss) income	\$ (1,222)	\$ 10,366
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Non-cash portion of special charges	11,625	-
Goodwill impairment	-	8,807
Depreciation and amortization	6,796	6,965
Provision for doubtful accounts	2,354	2,277
Deferred income taxes	(1,476)	(639)
Stock-based compensation expense	1,420	1,823
Loss on disposal of fixed assets	16	614
Tax shortfall from stock-based compensation	(106)	(98)
Excess tax benefit from exercise of stock options	-	(3)
Changes in assets and liabilities:		
Accounts receivable	(34,564)	14,054
Inventories	(6,578)	15,277
Prepaid expenses and other current assets	1,389	(407)
Other non-current assets	(97)	(67)
Accounts payable	23,471	(9,191)
Accrued expenses and other liabilities	2,682	(4,623)
Net cash provided by operating activities	<u>5,710</u>	<u>45,155</u>
Cash Flows from Investing Activities:		
Purchases of property and equipment	(5,569)	(10,370)
Proceeds from sale of property and equipment	2	44
Net cash used for investing activities	<u>(5,567)</u>	<u>(10,326)</u>
Cash Flows from Financing Activities:		
Proceeds from short-term borrowings	22,401	37,343
Repayment of short-term borrowings	(22,401)	(37,343)
Repayment of capital lease obligation	(699)	(527)
Purchase of treasury shares	(425)	(1,537)
Issuance of stock under Employee Stock Purchase Plan	275	257
Exercise of stock options	-	203
Net share settlement obligation	-	34
Excess tax benefit from exercise of stock options	-	3
Net cash used for financing activities	<u>(849)</u>	<u>(1,567)</u>
(Decrease) increase in cash and cash equivalents	(706)	33,262
Cash and cash equivalents, beginning of period	47,003	13,741
Cash and cash equivalents, end of period	<u>\$ 46,297</u>	<u>\$ 47,003</u>

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CONTACT:

PC Connection, Inc.

Stephen Baldrige, 603-683-2322

Sr. Vice President of Finance & Corporate Controller