

making the right moves

PC CONNECTION, INC. ANNUAL REPORT 2002



Members of senior management meet to discuss current results and future opportunities. Pictured here from the left are Bob Wilkins, Pat Gallup, Mark Gavin and Bob Gregerson.



PC Connection does more than just sell the latest technology. We connect with people and develop lasting relationships.



preparing for tomorrow,
by making the right moves
 today

2002 brought PC Connection the opportunity to refocus our business and revise our game plan. Throughout the year, we concentrated on anticipating trends in the rapidly changing market for information technology (IT) products and solutions, and made efforts to refine our business strategy accordingly. These changes helped us stay competitive in today's challenging business environment, and also helped us position ourselves to take advantage of future opportunities.

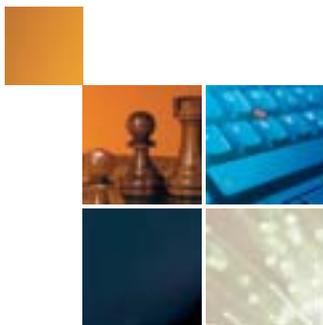
During the year, we took steps to enable PC Connection to better meet the evolving needs of our customers. In January 2002, we broadened the scope of our ComTeq Federal subsidiary to serve the specialized IT needs of state and local government agencies and educational institutions, and renamed it GovConnection, Inc. In April 2002, we acquired MoreDirect, Inc., a leading supplier of IT equipment to large corporations that offers in-depth supply chain expertise and comprehensive e-procurement capabilities.

Operationally, we continued to emphasize efficiency at all levels, from account manager productivity to careful inventory management. In addition, we upgraded our business-to-business e-commerce Web site to provide customers the tools they need to perform more transactions online—easy navigation, faster searches, and additional user-friendly features. These moves will not only help our business run more efficiently, they are also designed to help us capture a larger share of the market.

Even in a time of economic change, we continue to remain true to our founding and guiding principle—to always strive to exceed the expectations of customers, employees, and the many manufacturing partners we represent. Because PC Connection does more than just sell the latest technology, We connect with people and develop lasting relationships.

Trusted relationships take time to create, build, and nurture. And although we cannot predict what specific opportunities tomorrow will bring, we remain certain that creating long-term value for customers, shareholders, and employees alike will be the foundation of our future growth and prosperity.





Dear Fellow Shareholders

Making the right moves is more important than ever in the information technology (IT) marketplace. In order to win, you must think strategically. At PC Connection, we believe we have the right pieces in place to succeed—our management team is experienced and knowledgeable, our business is sound, and our balance sheet is healthy.

PC Connection remains a strong and highly respected player in our core markets, which continue to demand the IT products and services we provide—knowledgeable account managers, a wide selection of brand-name products, competitive prices, and remarkably fast delivery.

Key moves during the past year include:

- Focusing our GovConnection subsidiary on the state and local government and education segment as well as federal agencies.
- Acquiring MoreDirect, Inc., a leader in the sale of IT products to medium- to large-size corporations.
- Launching new business-to-business Web tools with advanced e-commerce features.
- Maintaining profitability during a prolonged economic downturn.
- Improving account manager productivity, retention, and overall sales success.

Our 2002 Results

Total sales for 2002 were \$1.19 billion, including \$194.1 million in MoreDirect sales, equaling our previous year's \$1.19 billion in sales. Earnings per share for 2002 were 13 cents, compared with 30 cents in 2001. Sales to our core small- to medium-size (SMB) customers, handled by our PC Connection Sales Corporation subsidiary, were \$703.5 million in 2002, compared to \$896.2 million in 2001. Net sales for our GovConnection subsidiary, which handles government and education customers, were \$293.9 million in 2002, compared to \$290.1 million in 2001.

PC Connection has responded to the dynamic IT market by continually analyzing and making changes we believe are appropriate. Our managed account program continued to be the largest driver of revenue, responsible for 78% of all sales in 2002; inbound catalog telesales accounted for 7% of sales, with the remainder derived from sales over the Internet. At the end of 2002, we employed 512 sales representatives, compared to 513 the year before. The 2002 figure includes 72 MoreDirect account managers.

We continue to target larger and more profitable accounts. Average order size increased to \$1,135 in 2002 from \$1,116 in 2001. Also, the average tenure of account managers in

our SMB segment rose from 21 months in the fourth quarter of 2001 to 25 months in the fourth quarter of 2002, helping us realize significant productivity gains. Annualized average net sales per SMB account manager were \$2.0 million for the fourth quarter of 2002, compared to \$1.8 million for the corresponding quarter of 2001.

Our sales continue to migrate toward larger accounts. In 2001, 76% of sales were to the SMB market, while 24% were to the government and education sector. We did not track large accounts separately in 2001. In 2002, with the addition of MoreDirect, the makeup of our business shifted to 59% SMB, 25% government and education, and 16% large account. Unlike other years, no single product line dominated sales in 2002; the most popular categories were IT accessories (16% of sales) followed by notebooks (15%), desktops and servers (15%), and software (14%).

Reaching New Markets

In January 2002, ComTeq Federal was renamed GovConnection. The change underscored rapid growth in the subsidiary's sales and customer base, which in addition to federal agencies now includes state and local government agencies as well as schools and colleges. The new name also better reflected the emphasis on customer service, as well as rapid response in the delivery of complex IT solutions to all public sectors.

To further broaden our customer base, we identified underserved market segments with strong growth opportunities. As a result, in April we acquired MoreDirect, Inc. of Boca Raton, Fla., a company that focuses on selling to medium- to large-sized corporations. This acquisition enabled us to target the large account segment and improve our overall performance during 2002.

Working Smarter

Through the efforts of employees throughout the Company, we continued to improve our efficiency. During the year, we made significant investments in profitability initiatives, including technology and system enhancements. While we continue to embrace our commitment to outstanding customer service, we are also finding ways to deliver more products to more buyers at less overall cost.

The Internet remains a key growth area. Sales made through our Web sites comprised 15% of our total business in 2002, up from 9% in 2001. (Part of this increase was due to our acquisition of MoreDirect.) This trend benefits our profitability because higher online sales lead to decreased selling costs and greater overall efficiency throughout our Company.

To encourage the trend toward e-commerce, we continued to make strategic investments in 2002 to improve our capabilities. In May, we launched an entirely



new business-to-business Web site for our Internet Business Account (IBA) program. The new site, which handles everything from online price quotes to sophisticated contextual product searches, is built on a flexible platform designed to put PC Connection in the forefront of IT e-procurement.

Overall, we were encouraged by our continued and steady improvement in business efficiency during 2002. Our selling, general, and administrative costs declined from 11.6% of sales in the first quarter to 9.7% in the fourth quarter. Inventory turns increased from 18 in 2001 to 22 in 2002. The average number of days product remains in inventory was reduced from 20 in 2001 to 17 in 2002. Days sales outstanding in customer receivables decreased from 53 days in 2001 to 49 in 2002.

Strategies for the Future

Today's IT marketplace continues to hold many opportunities. It takes industry experience and knowledge to make the right strategic moves today and to anticipate tomorrow's trends.

Our plans for 2003 include:

- Improving sales productivity and gross profit margins.
- Continuing to leverage the power of the Internet.
- Focusing on existing markets with the greatest growth potential.
- Pursuing strategic alliances and acquisitions.

We intend to continue to expand the range of IT products and services we offer.

Recent moves in this area include:

- Emphasizing our new Point of Sale Solutions product category. Since our decision to emphasize this category in July 2002, it has already shown year-to-year quarterly sales growth of 220%.
- Adding the Micron product line to bolster our offerings in the desktop, mobile, and server area.
- Entering an agreement to sell Sun Microsystems' entry-level Fire line of UNIX servers.

As we look ahead, we reiterate our Company's key objectives to shareholders, customers, and employees alike. We will continue to build on our reputation for offering valuable information and solid advice, an array of great products, competitive pricing, and excellent customer service—a combination that has made PC Connection a recognized leader in the IT industry for more than 20 years.



Patricia Gallup

Patricia Gallup
President and CEO,
and Chairman of the Board

Market Information

The Company's Common Stock commenced trading on March 3, 1998 on the Nasdaq National Market under the "PCCC" symbol. As of March 20, 2003, there were 24,659,997 shares outstanding of the Common Stock of the Company held by approximately 100 stockholders of record.

The following table shows the range of high and low bid prices for the Company's Common Stock on the Nasdaq National Market for 2001 and 2002.

2002

Quarter Ended:

	December 31	September 30	June 30	March 31
HIGH	\$7.49	\$6.27	\$10.90	\$15.36
LOW	3.72	3.86	3.83	8.33

2001

Quarter Ended:

	December 31	September 30	June 30	March 31
HIGH	\$17.79	\$16.30	\$16.77	\$20.56
LOW	6.85	6.00	8.50	8.13

The Company has never declared or paid cash dividends on its capital stock. The Company currently anticipates that it will retain all future earnings, if any, to fund the development and growth of its business and does not anticipate paying any cash dividends on its Common Stock in the foreseeable future.

Shareholder Information

PC Connection's Corporate Communications Department is responsible for shareholder communications and welcomes shareholder inquiries about PC Connection, either by telephone, or in writing. The Annual Report, filings with the U.S. Securities and Exchange Commission, and general information can be obtained upon written request to:

Corporate Communications
PC Connection, Inc.
730 Milford Road
Merrimack, NH 03054-4631
(603) 683-2163

Or by visiting the PC Connection
Web site at www.pconnection.com

Annual Meeting

The annual meeting of shareholders will be held at 10 a.m. on June 3, 2003 at the Crowne Plaza Hotel, Somerset Parkway, Nashua, NH.

Transfer Agent

American Stock Transfer & Trust Co.
40 Wall Street, 46th Floor,
New York, NY 10005
(800) 937-5449

Board of Directors

Patricia Gallup
Chairman

David Hall
Vice Chairman

David Beffa-Negrini
Vice President
Corporate Communications

Bruce Barone
Audit and Compensation
Committees

Peter Baxter
Audit and Compensation
Committees

Joseph Baute
Audit and Compensation
Committees

Executive Officers

Patricia Gallup
President and
Chief Executive Officer

Robert Wilkins
Executive Vice President

Mark Gavin
Senior Vice President Finance
and CFO

Bradley Mousseau
Vice President
Human Resources

This Annual Report contains a number of forward-looking statements. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "plans," "expects," "intends," and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these words. There are a number of important factors that could cause actual events or the Company's actual results to differ materially from those indicated by such forward-looking statements. These factors include, without limitation, those set forth under "Factors That May Affect Future Results and Financial Condition" included under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in ITEM 7 of the Company's Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2002. The Company does not assume any obligation to update any forward-looking statements made herein.

Locations

PC Connection, Inc.

Corporate Headquarters
730 Milford Road
Merrimack, NH 03054-4631

PC Connection Sales Corporation

730 Milford Road
Merrimack, NH 03054-4631

With additional offices in:
Dover, NH
Keene, NH

PC Connection Sales of Massachusetts, Inc.

293 Boston Post Road
Marlborough, MA 01752

GovConnection, Inc.

formerly ComTeq Federal, Inc.
7503 Standish Place
Rockville, MD 20855

With additional offices in:
Merrimack, NH
Fairfield, CT

MoreDirect, Inc.

7300 N. Federal Hwy. Suite 200
Boca Raton, FL 33487

Merrimack Services Corporation

730 Milford Road
Merrimack, NH 03054-4631

Distribution Center:
Wilmington, OH

PC Connection, Inc.

**730 Milford Road
Merrimack, NH 03054-4631**

www.pconnection.com

Over the past 20 years, our raccoon trademark has become a familiar face to technology users all over the world. For our customers, it is a promise of great selection, competitive prices, reliable information, and remarkably fast delivery. For us, it is a reminder of our founding and guiding principles—to offer exemplary service and competitive prices, and to serve as a trusted source of information about technology and computing.

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