



2001

P C C O N N E C T I O N , I N C . A N N U A L R E P O R T

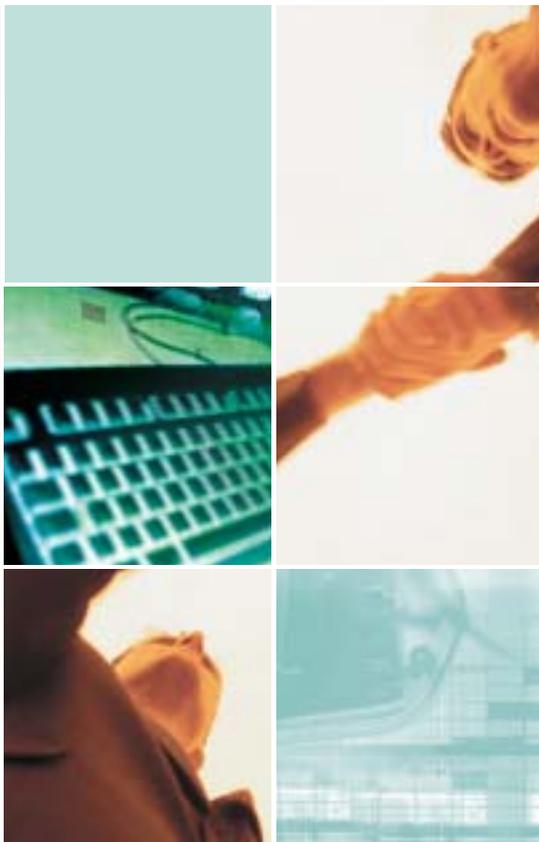


knowledge
service
focus



FOR 20 YEARS WE'VE BEEN
making the
connection

Providing our customers with information technology solutions
and services that save them time and money.



"In addition to being a PC Connection customer, I am also a stockholder. It was refreshing to call a vendor and be able to speak with a representative who was knowledgeable, service-oriented, and focused on the matter at hand. This reinforced my decision to become a PC Connection stockholder years ago as well as my decision to continue to be a PC Connection customer."

Matt Beynon
President, TelExcel Partners Inc.
PC Connection customer since 1989



PC Connection, Inc., a Fortune 1000 company, is one of the largest and most respected direct marketers of brand-name information technology products and solutions. Over the past 20 years, our raccoon trademark has become a familiar face to technology users all over the world. For millions of 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—that have made us one of the best and most influential companies in the information technology industry today.



It's been two decades since we decided to create a better way for people to buy computer products. To bring our vision to life, we started PC Connection not just to sell technology, but to help customers make the most of its potential. Our goal

knowledge was to guide people through the new IT wilderness—to be a trusted source of information and to offer the fastest and most reliable delivery in the industry. These founding and guiding principles became the driving force behind **service**

all the innovations that followed— processing customer orders as late as 2 a.m. ET for next-day delivery; developing new applications using Caller ID technology to expedite the ordering process; providing custom-configured computer systems ordered up until midnight for overnight delivery; and offering Smart Selectors™, Internet-based service tools to help customers find the right products to fit their specific needs.

focus Technology has changed a lot in the past two decades, but our priorities have not. Our customers still want a trusted source for IT products and solutions. And they still appreciate doing business with a company that offers knowledge, service, and focus.

Good words to guide us for the next 20 years.

	Net Sales	Outbound Net Sales	Net Sales Enterprise Server & Networking Products	Earnings per Share
1997	\$563	\$263	\$30	\$.17 ⁽¹⁾
1998	750	399	55	.59 ⁽¹⁾
1999	1,081	706	125	.94
2000	1,450	1,100	253	1.23
2001	1,181	938	234	.29

In millions, except earnings per share.

⁽¹⁾Pro Forma



Patricia Gallup
Chairman



Kenneth Koppel
Chief Executive Officer

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DEAR FELLOW SHAREHOLDERS

2001 was one of the most challenging years we have ever seen in the information technology industry. The state of the economy affected our customers and it affected us. However, by staying focused on the core elements of our long-term strategy, we were able to make important progress.

We continued to concentrate on sales and marketing efforts, which were sharpened and targeted in response to current economic conditions. Among the highlights: we consolidated government and education sales efforts into our new GovConnection subsidiary in early 2002; recruited and promoted additional high talent sales managers; reorganized our sales force into teams and redefined our sales territories by geography; increased the proportion of high value enterprise-class products that we sell; emphasized complete IT solutions; and boosted efforts to market third-party value-added service offerings.

In addition, we aggressively analyzed our operations in an effort to bring costs in line with near-term sales expectations. At the same time, we redeployed resources as needed to allow us to continue investing in the sales, marketing, and technology programs needed to enable our future growth and prosperity. Finally, we commenced negotiations that led to the acquisition in 2002 of MoreDirect, Inc. an

Internet-based IT reseller servicing medium to large corporate and government customers. We strongly believe MoreDirect will augment our core strengths and add to our ability to meet future customer needs.

Our 20 years of experience gives us confidence that PC Connection is well positioned to capitalize on new growth opportunities we see in the market. We remain singularly focused on maintaining our strong ties with our customers and suppliers, and building on our position as a market leader.

2001 FINANCIAL PERFORMANCE REFLECTS CHALLENGING ENVIRONMENT

Net sales for 2001 were \$1.18 billion, compared to \$1.45 billion for the prior year. Total net income for 2001 was \$7.2 million, or \$0.29 per share, compared to \$31.5 million, or \$1.23 per share for 2000. Excluding the effects of restructuring costs and other special charges of \$2.2 million (pre-tax), or \$0.05 per share, we reported net income of \$8.5 million, or \$0.34 per share, for 2001. During 2001, we reduced our non-sales staff by 20% (194 people), and restricted certain discretionary spending and non-sales hiring to create annualized cost savings of approximately \$10 million. Gross margins and operating margins decreased to 11.1% and 1.0%, respectively. Our balance sheet remained strong for 2001, reflecting our ability to efficiently manage our core business in a poor market



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environment. At year-end, we had cash balances in excess of \$35.6 million, compared to \$7.4 million the previous year, and inventories were \$48.0 million compared to \$54.7 million at the end of 2000. Inventory turns for the fourth quarter of 2001 were 21 times per year, compared to 17 in the same quarter a year ago. Our working capital rose to \$120.9 million from \$111.7 million the previous year, and accounts receivables fell to \$117.5 million at the end of 2001, compared to \$139.6 million at year-end 2000.

FOCUSED ON EXECUTING OUR GROWTH STRATEGY

We are focused on delivering more comprehensive solutions to more sophisticated customers within our target small- and medium-sized business (SMB) market. We have been a leader in meeting the changing needs of the SMB market for nearly two decades. This sector includes approximately 7.4 million small businesses (fewer than 100 employees) and nearly 160,000 medium businesses with between 100 and 999 employees. As these businesses require more sophisticated IT solutions, we are responding with a growing range of products and services.

Revenues from our public sector clients—including federal and state governments and educational institutions—was another bright spot, growing 19% over 2000 levels to \$289.7 million. This market

accounted for 25% of our 2001 revenues. A key contributor to our success in this sector was our ComTeq Federal subsidiary. During 2000, we merged our PC Connection Federal Government sales operation into ComTeq Federal. In its first full year of operation this organization has proved effective in meeting the unique needs and practices of the federal marketplace. Early in 2002, our sales division responsible for state and local government and educational institutions was merged with ComTeq Federal to form GovConnection.

Once again, our fastest growing product line in 2001 was enterprise servers and networking solutions. Over the last three years we have had a four-fold increase in such sales. This product line accounted for approximately 20% of the overall sales of PC Connection in 2001.

During 2001, we reorganized and refocused our sales teams to accelerate the growth of our successful Outbound Sales Managed Account Program. This highly successful team approach to selling and servicing customers generated more than 79% of our total net sales in 2001. We also aligned our marketing programs with refocused sales strategies, established training programs to get our sales teams up to speed on the latest products and services available, and implemented a series of e-commerce strategies to better support overall sales efforts.

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In 2001, PC Connection ranked among the top 20 online marketers by *Catalog Age* magazine, which cited us for “crafting an outstanding online catalog.” PC Connection was the only computer direct marketer to be named in the second annual I-Merchant Awards, which are designed to recognize online marketers, “that are helping establish — and surpass — the standards of this still fledgling medium.” As part of its recognition, PC Connection also won accolades for its innovative Internet Business Account Program, which allows customers to order online, obtain account information 24 hours a day, request price quotes online, and maintain frequent purchases lists for easy reordering. The Internet sales channel is an important facet of our sales program that now accounts for approximately 9% of our revenue.

In 2001, Hewlett-Packard’s (HP) Technical Computing division selected PC Connection to directly service small- and medium-sized business customers. In making the announcement, HP called PC Connection a “valued partner” and cited our “consistently high-quality customer service and support” as key reasons for selecting us for their program. To meet the needs of this customer set we’ve established a dedicated team of corporate telesales account managers to handle HP Technical

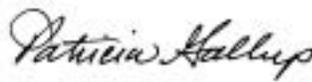
Computing products. Our relationships with manufacturers such as HP are one of our core strengths. These relationships are vital to our success and to our ability to meet the needs of our customers.

WELL POSITIONED TO CAPITALIZE ON GROWTH OPPORTUNITIES

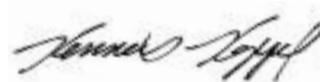
While 2001 was challenging, we remained focused on the needs of our customers and on pursuing our long-term strategies for growth. This allowed us to weather a difficult year and to position PC Connection to capitalize on new opportunities. We’re confident that the intrinsic efficiency of PC Connection’s direct-distribution, multi-vendor business model, as well as our ability to adapt to market changes, will enable us to build on our leadership position.

Throughout 2002 and beyond, our goal is to increase shareholder value by keeping our emphasis squarely on meeting the evolving needs of our customers and fine-tuning our sales, delivery and service capabilities.

In closing, we would like to thank our employees for their hard work, dedication and focus on our customers, and you — our shareholders — for your continuing support.



Patricia Gallup
Chairman



Kenneth Koppel
Chief Executive Officer

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, 2002, there were 24,555,145 shares outstanding of the Common Stock of the Company held by approximately 90 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 2000 and 2001. These prices reflect the 3-for-2 stock split distributed on May 23, 2000.

2000

Quarter Ended:

	December 31	September 30	June 30	March 31
HIGH	\$56.38	\$70.25	\$58.50	\$23.33
LOW	8.63	42.44	17.67	14.17

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.pccconnection.com

annual meeting

The annual meeting of shareholders will be held at 10 a.m. on June 18, 2002 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

Martin Murrer
Merrill Lynch
Audit and Compensation
Committees

Peter Baxter
Audit and Compensation
Committees

Joseph Baute
Audit and Compensation
Committees

EXECUTIVE Officers

Patricia Gallup
Chairman

Kenneth Koppel
Chief Executive Officer

Wayne Wilson
President and
Chief Operating 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, as amended, filed with the SEC for the year ended December 31, 2001. 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

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.pcconnection.com