

LOOKING AHEAD

2000

PC CONNECTION, INC.
ANNUAL REPORT



**FOR NEARLY TWENTY YEARS
WE'VE BEEN PREDICTING**

FUTU

AND PROFITING





THE RE FROM IT

To stay on top in the information technology industry, it's not enough to keep pace. A company must have vision. A company must anticipate the future. That's what PC Connection has done since we opened our doors nearly twenty years ago when the personal computer industry was still in its infancy. It was a new world, and we were there—ready to listen, learn, and lend our customers a helping hand. Whether it was selling solutions, offering world-class service, or delivering the goods, we made it happen.

By establishing and building close one-on-one relationships with our customers, we gained a unique insight into the industry. These relationships helped us to understand what was in demand, and also what would be needed *next*. We became a key source of information to both our customers and manufacturers. And they were eager to hear what we knew.

The results speak for themselves. From an original investment of \$8,000, PC Connection has grown into one of the country's top direct marketing resellers, with sales in 2000 of more than \$1.4 billion. And over the last five years alone, our net income increased more than 60% on a compounded annual basis.

Along the way, PC Connection has received numerous awards. *PC Magazine* recognized us three years in a row as the top reseller in its list of the "100 Most Influential Companies" in the computer industry, most recently in its issue titled "100 Technology Companies That Are Changing The World." *PC World* has honored us with its coveted "World Class Award" an unprecedented nine times. In June 2000, *Business Week* ranked PC Connection #7 among the world's top 100 information technology companies. And due to our record 2000 revenue, PC Connection is now included on the "Fortune 1000."

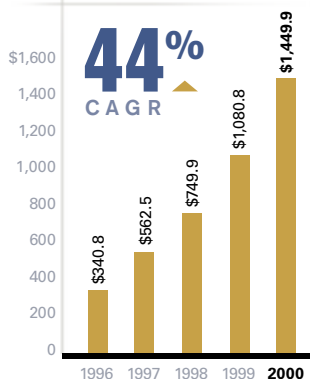
Today, as we enter our third decade of providing information technology solutions, we remain focused on understanding the IT needs of small- and medium-sized businesses, government agencies and educational institutions. By listening to our customers, we are better able to provide what they need today and predict what they'll want tomorrow.

So what's ahead? Keep your eye on us.

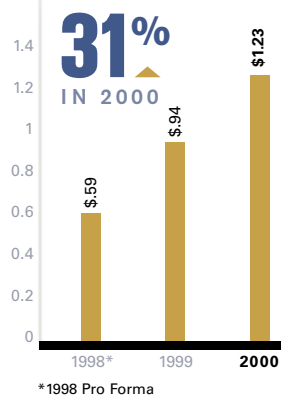
dear fellow shareholders

NET SALES

(\$ MILLIONS)



EARNINGS PER SHARE (EPS)



*1998 Pro Forma

2000 was a year of significant advancement for PC Connection, Inc.

We continued to build our company's strong brand name by providing our traditional exemplary customer service. At the same time, we continued to enhance our already outstanding reputation as a rapid-response provider of information technology solutions. Through these efforts, we were able to meet our stated financial goals of 30% or more year-over-year revenue and earnings growth. We were also able to invest in key areas that we believe will serve the best long-term interests of the Company and our Shareholders.

Our 2000 Financial Results Continued to Improve

PC Connection's 2000 annual financial results showed significant improvement year over year. For the full year, net sales grew by 34% to a new record level of \$1.45 billion. Earnings per share increased by 31% to \$1.23 a share, as compared to \$.94 for the prior year. Gross margins and operating margins increased slightly to 12.2% and 3.6%, respectively. Significantly, our average order size increased 43% to \$1,115 for the full year.

In April 2000, the Company announced its first stock split since going public in 1998. The three-for-two common stock split increased the number of outstanding shares from approximately 16 million to 24 million.

A Year That Brought Opportunities and Challenges

The robust economy during the first three quarters of 2000 helped propel PC Connection's growth, as we posted very strong results in both net sales and earnings per share. However, as the year drew to a close, slowing economic conditions created uncertainties in the marketplace that adversely affected both manufacturers and distributors across the information technology sector. As a result, PC Connection experienced a corresponding decline in sales growth, negatively affecting our fourth quarter revenue and earnings. This trend has continued through the first quarter of 2001.

By emphasizing service and value, however, PC Connection has created a loyal and growing customer base of businesses, government agencies, and educational institutions that rely on us for IT solutions. We believe we are experienced and resourceful enough to weather the present economic conditions, and quick enough on our feet to seek new opportunities brought by changing times.

Progress Made in Core Growth Strategies

2000 was also a year in which we made significant progress in executing our core business growth strategies:

- Accelerating the growth of our Outbound Sales Managed Account Program;
- Serving the small- and medium-sized business sector;
- Expanding our high-end product and service offerings;
- Focusing on high-growth customer segments;
- Capitalizing on and leveraging the power of Internet technology; and
- Exploring strategic acquisitions and alliances.



Patricia Gallup
Chairman and
Chief Executive Officer



Wayne L. Wilson
President and
Chief Operating Officer

Outbound Sales Increased 56%

The success of our Outbound Sales Managed Account Program is a key component of our plans for achieving continued growth. In fact, outbound sales represented more than 75% of our total net sales in 2000, up 56% from 1999.

In our letter to shareholders last year, we set a goal to increase the number of Account Managers from 345 to at least 500. We surpassed that goal by 15%, raising the number to 575 by the end of 2000, a 67% increase. Almost 50% of the growth occurred in the fourth quarter. Our goal for 2001 is to increase the number of Account Managers to at least 700.

In addition, we are continuing to make significant investments in training, marketing, and lead-generation programs to further improve the overall productivity of our Outbound Sales Account Managers. During 2000, Account Manager productivity, as measured by average order size, grew by more than 34%.

Opportunity in the Small- to Medium-Sized Business Sector

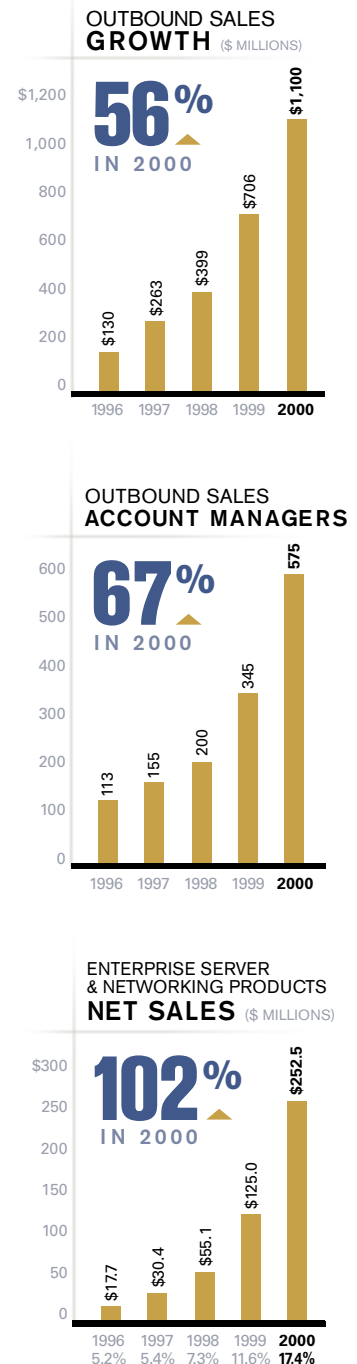
We believe expanding the number of Account Managers is critical to increasing our penetration of the small- and medium-sized business (SMB) sector in the United States. Comprised of more than 7.5 million potential customers, SMBs constitute two of the largest markets for information technology products and services.

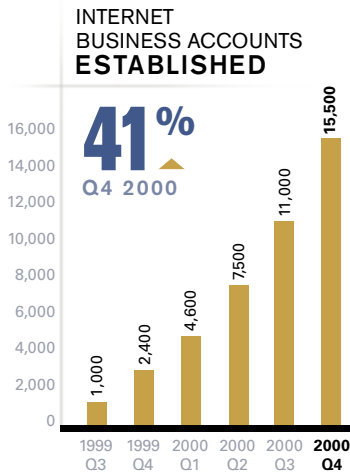
These SMB customers, along with the government agencies and educational organizations we serve, need suppliers who can keep them informed about the latest technological innovations. They also need suppliers who can reliably deliver a wide range of IT products and services quickly and efficiently to all of their locations. The combination of our telesales-based Outbound Sales Managed Account Program, and our rapid-response delivery capabilities (such as our Everything Overnight service), make PC Connection an ideal choice to meet the growing IT needs of SMB customers.

Enterprise-Class Products Up 102%

Networking infrastructure products, including PC-based servers, routers, and switches, were among our fastest growing product categories in 2000. Sales of these enterprise-class products increased almost 55% in the fourth quarter of 2000 and 102% for the year. They accounted for 17.4% of total net sales in 2000, up from 11.6% of total net sales in 1999, a 50% increase.

Data storage solutions are clearly “the next big thing” in terms of networking infrastructure product sales. As companies become more adept at generating and capturing data in electronic formats, data storage systems take on increasing importance. In the past year, PC Connection became the first direct marketing reseller to be authorized by EMC Corporation to sell its CLARiiON mid-range storage systems, including the new IP4700 network attached storage (NAS) product. The “plug and play” ease of NAS products makes them ideal for SMB





customers. Storage product authorizations from numerous other vendors including Compaq, Hewlett-Packard, nStor and StorageTek were also added to our product offerings during 2000.

In addition, we added other important high-end products, including Hewlett-Packard's VISUALIZE NT and UNIX workstations and Kodak's professional digital imaging products. All of these new products position us to provide the very latest technology to our SMB, government and education customers.

Identifying the Most Promising Market Segments

The build-out of networks and e-commerce technologies by companies in the SMB space continues. The most technologically advanced small- and medium-sized businesses are adding wide area networks (WANs) and enterprise applications to their IT infrastructures, and integrating them with Web-enabled front-end applications.

A key focus of our marketing programs is the identification of the SMB market segments most likely to purchase significant volumes of IT products. For example, market research reveals that the top 25% of small businesses, based on spending profiles, account for over 60% of all small business IT spending. Among medium-sized businesses, the top 36% account for 57% of medium-sized business IT spending. We are continually analyzing market trends and IT spending patterns to ensure that we are focused on the best prospects. For 2001, we see promising opportunities in a number of industries, including energy and healthcare. Efficiently servicing the large numbers and dispersed locations of small-and medium-sized businesses plays well to PC Connection's strengths as a telesales-based direct marketing reseller.

86% Online Business Growth Driven by IBA Program

Another of our key business strategies is to capitalize on the power of Internet technology. PC Connection's online business grew 86% in 2000 to \$113 million for the year, or 7.8% of total net sales. During 2000, we made significant progress in broadening our Internet sales capabilities to meet the needs of our SMB customers. In particular, we saw rapid acceptance and adoption of our Internet Business Account™ (IBA) program, which gives customers the ability to view their accounts 24 hours a day, request price quotes, and place electronic purchase orders.

By the end of 2000, the number of corporate buyers using their Internet Business Accounts grew to more than 15,500 – an increase of 41% in Q4 over Q3 of 2000. This also represented an increase of more than 500% over the number at the end of 1999. Our IBA customers have embraced the opportunity to leverage the speed, convenience and flexibility of the Internet to simplify their procurement process. In addition, we expanded our award-winning suite of Smart Selector™ online comparison tools, adding selectors for monitors,



Robert F. Wilkins
Executive Vice President



Mark A. Gavin
Senior Vice President of
Finance and CFO



John L. Bomba
Vice President of
Information Services
and CIO



Bradley G. Mousseau
Vice President of
Human Resources

networking products, printers and digital cameras. We will continue to invest in our PC Connection and MacConnection Web sites with particular emphasis on enhancing the ease of use and speed of the online ordering process.

ComTeq Federal, Inc. Successfully Integrated and Growing

Our business goal to pursue strategic acquisitions and alliances is exemplified in the successful integration of ComTeq Federal, Inc. which has met or exceeded our revenue and earnings expectations in each of the six quarters since becoming part of the PC Connection family. During 2000, we merged our PC Connection Federal Government sales operation into the ComTeq organization to position us for accelerating growth in the Federal Government sector.

Marketplace consolidation is increasing across all information technology product and distribution channels. This consolidation may provide unique opportunities for us to achieve our business objectives by means of strategic acquisitions. We will continue to seek opportunities that strengthen and enhance our market position through the addition of new customers, product offerings, and management talent. Our management team has significant acquisition-related experience, and we will be disciplined in focusing our resources on opportunities that we believe will augment our other key business objectives.

PC Connection Continued to Receive National Recognition

2000 was another year of accolades for PC Connection. We began the year by winning IBM's Personal Systems Group Business Partner Award as the top North American SMB reseller. In June, *Business Week* ranked PC Connection #7 among the world's top 100 technology companies. *Smart Business* selected PC Connection as the "Editors Choice" for the best place to buy computer equipment online for 11 straight months. Also, in 2000, PC Connection won its 9th *PC World* World Class Award, taking honors for "Best Online Computer Store."

An Optimistic Long-Term Outlook

While the near-term outlook remains somewhat uncertain, we continue to be optimistic about the long-term market demand for IT products and solutions. We are confident that our core business strategies position us well for effectively satisfying this demand. In addition, we will continue to make investments in high value opportunities we believe will enhance the overall performance of the Company.

We are thankful to all who have helped PC Connection work toward our goals to grow revenue, improve our financial results, and exceed customer expectations. As we look ahead, we also want to thank our shareholders for their continuing support of PC Connection.

Sincerely,

Patricia Gallup
Chairman & Chief Executive Officer

Wayne Wilson
President & Chief Operating Officer

SELLING SOLUTIONS

BY LISTENING

If you want to know what customers are going to need next in terms of information technology, the best place to go is to the source.

That's how we've always worked to prepare for the next trend in sales. For example, because of our close relationship with our customers, we were able to anticipate the growing need for competitively-priced and intelligently-supported networking products and expertise. So, we added a wide range of high-end network components and enterprise storage systems to our product offerings. We also assembled one of the best teams of certified network engineers, integration specialists, and technical advisors in the industry so we could support our network customers as well as

we've always supported our standalone system customers. The result? Networking is our fastest growing product category.

We're always looking for new partnerships and cutting-edge products to offer. We were the very first computer direct market reseller to sign distribution agreements for products such as EMC's CLARiiON midrange storage systems, Hewlett-Packard's VISUALIZE NT and UNIX Workstations, and Kodak's high-end digital imaging products. All are products that had never before been available through our channel.

These investments of time and energy to building customer and vendor relationships have certainly paid off. Our secret is simple. We listen.



WHAT'S NEXT?

Comparison Shopping

We've always provided customers with comparison charts in our catalogs and talked them through product selection on the phone. Now they can do it themselves interactively on the Web with our new Smart Selectors™.

The Selectors let customers easily search, find, and compare products from our vast inventory. It's like having a virtual salesperson guiding you through the range of available products and options that fit your needs. In an instant, customers can view side-by-side comparisons and features for cameras, memory, monitors, networks, printers, and systems based on the criteria they feel are most important. According to *PC Magazine*, "the site's System Selector is a real time-saver..."

PC Connection is ideal for the comparison shopper who hates to leave home."



Customized e-Commerce for Major Accounts

Corporate, government, and education customers can now use the power of the Web to oversee their ordering process from start to finish. By utilizing

PC Connection's Internet Business Account™ program, online customers can place and track orders anytime, plus retrieve online quotes and specific account pricing.



DEFINING SERVICE

BY INNOVATING

Customer Relationship Management is now a buzzword. But, putting the customer first has always been second nature to us. After all, we started this business because we needed better support for our own PCs! And we've never forgotten it.

More than 18 years ago, we were rewarding our customers with unlimited toll-free service and support before, during, and after the sale. And we made sure they had all the information they needed to buy the right equipment and software, and to use it effectively.

Over the years, we've supported our customers throughout the simplest product evolutions and the most complex revolutions, building the kind of repeat business that's essential to any sales effort. We employ teams of pre- and post-sale technicians, plus a dedicated networking team that works with account managers to offer design consulting, configuration, and trouble-shooting services. Plus, our Web sites feature tools that help customers to get answers and information about their orders

anytime. This not only empowers them, but saves time and offers flexibility.

Of course, you can now read about "customer friendly" Web sites in just about any annual report. But, in this case, you don't have to take our word for it. *Smart Business* repeatedly placed us on their Editor's Choice A-List as the best online source for computer equipment. *Yahoo Internet Life* named us the "best place to buy computers" in their annual list of 100 best sites. And we also earned our ninth "World Class Award" from *PC World*, which named us "Best Online Computer Store."

As we develop high-level product categories such as networking and enterprise storage solutions, customers will need our expertise more than ever. And that already has us envisioning whole new avenues of service. Live interactive customer support on the Web? Virtual remote software installation? If it helps us keep our commitment to our customers, we'll go the extra mile. Because when it comes to defining service, we don't see doing it any other way.

WHAT'S NEXT?

The Leader & Still Champion!

In the early 1990s, we were among the first direct marketing resellers in the world to use Caller-ID technology to improve



One-Minute Mail Order

service. Our One-Minute Mail Order service enabled customer information to appear instantly on a salesperson's screen when the call connected, and allowed an order to be taken in as little as one minute.

From the very beginning, we've been recognized as a service leader in our industry and that tradition has continued.

2000 Awards

PC Connection received substantial industry recognition in 2000.

Business Week

#7 Among World's Top 100 Technology Companies

PC World

World Class Award: "Best Online Computer Store" (PC Connection has received a World Class Award an unprecedented 9 times!)

Smart Business

A-List: Online Source for Computer Equipment (11 months in a row!)

Yahoo Internet Life

"Best Place to Buy Computers"

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EXCEEDING EXPECTATIONS

→ BY DELIVERING

When PC Connection opened for business nearly 20 years ago, we wanted to provide customers with more than just intelligent information and low prices – we wanted the whole shopping experience to be easier than fighting traffic jams and crowds to get to the nearest mall. And that meant shipping Everything Overnight.

When we finally reached that goal in 1987, customers thought it was amazing. And us? We just kept looking for ways to improve it – until we were able to offer next-day delivery for orders placed as late (or as early) as 2 a.m.

Shipping software and peripherals overnight was one thing. But what about customers who wanted those products installed in a brand new computer?

Could they get Everything Overnight too? Well, by 1990 we were the first, *and are still the only*, company that lets customers order a custom-configured system with the software and peripherals they want, *as late as midnight*, and still have it arrive the very next day.

What's next in delivering the goods? We've recently enhanced our Web sites to allow all orders to be tracked, whether placed by phone, fax, or online. And we've implemented Phase I of FAST (Fast Accurate Shipping Technology), a program designed and developed in-house that will enable us to achieve more than a 99.9% shipping accuracy. This program reduces labor costs, and will help us move toward a completely automated and paperless picking system.

How fast is fast delivery? Just wait and see...



WHAT'S NEXT?

Everything Overnight

Customers can place in-stock orders as late as 2:00 a.m. ET Monday through Friday for next day delivery anywhere in the continental United States. Orders placed on Saturday, or by 11 a.m. Sunday, are delivered Monday. Eleven years after introducing this service, no one in the industry has been able to compete with PC Connection when it comes to delivering the goods.

Custom-Configured Systems

PC Connection is the *only* company that will ship a custom-configured system loaded with the software and peripherals the customer wants, *ordered up until midnight*, for next day delivery.



We Keep Upgrading Ourselves, too!

We don't just sell IT equipment. Behind the scenes, we make major IT investments ensuring continued improvement in all areas, and to take advantage of WHAT'S NEXT!

IONS

financial review

CONSOLIDATED FINANCIAL AND OPERATING HIGHLIGHTS

(amounts in thousands, except per share and selected operating data)

	Years Ended December 31,				
	2000	1999	1998	1997	1996
STATEMENT OF OPERATIONS DATA:					
Net sales ⁽¹⁾	\$ 1,449,908	\$ 1,080,835	\$ 749,905	\$ 562,511	\$ 340,811
Cost of sales ⁽¹⁾	<u>1,273,687</u>	<u>951,489</u>	<u>656,631</u>	<u>486,545</u>	<u>289,606</u>
Gross profit	176,221	129,346	93,274	75,966	51,205
Selling, general and administrative expenses	123,972	91,405	68,521	56,596	43,739
Additional stockholder/officer compensation ⁽²⁾	<u>—</u>	<u>—</u>	<u>2,354</u>	<u>12,130</u>	<u>1,259</u>
Income from operations	52,249	37,941	22,399	7,240	6,207
Interest expense	(2,086)	(1,392)	(415)	(1,355)	(1,269)
Other, net	<u>589</u>	<u>116</u>	<u>565</u>	<u>(42)</u>	<u>70</u>
Income before income taxes	50,752	36,665	22,549	5,843	5,008
Income tax provision ⁽³⁾	<u>(19,289)</u>	<u>(13,935)</u>	<u>(3,905)</u>	<u>(639)</u>	<u>(252)</u>
Net Income	<u>\$ 31,463</u>	<u>\$ 22,730</u>	<u>\$ 18,644</u>	<u>\$ 5,204</u>	<u>\$ 4,756</u>
			Pro Forma Data ⁽⁴⁾		
Basic net income per share ⁽⁵⁾	<u>\$ 1.31</u>	<u>\$ 0.97</u>	<u>\$ 0.61</u>	<u>\$ 0.17</u>	
Diluted net income per share ⁽⁵⁾	<u>\$ 1.23</u>	<u>\$ 0.94</u>	<u>\$ 0.59</u>	<u>\$ 0.17</u>	

SELECTED OPERATING DATA:

Active customers ⁽⁶⁾	626,000	732,000	684,000	510,000	424,000
Catalogs distributed	45,028,000	47,325,000	42,150,000	33,800,000	18,600,000
Orders entered ⁽⁷⁾	1,521,000	1,622,000	1,510,000	1,252,000	910,000
Average order size ⁽⁷⁾	\$ 1,115	\$ 781	\$ 580	\$ 524	\$ 453

	December 31,				
	2000	1999	1998	1997	1996
BALANCE SHEET DATA:					
Working capital	\$ 111,669	\$ 72,250	\$ 53,768	\$ 18,907	\$ 14,622
Total assets	250,413	223,537	164,510	105,442	77,358
Short-term debt	1,153	1,137	123	29,568	13,057
Long-term debt (less current maturities):					
Capital lease obligations	6,792	6,945	7,081	—	—
Notes payable	1,000	2,000	—	—	—
Term loan	—	—	—	3,250	4,250
Total stockholders' equity	138,687	94,223	69,676	24,120	18,043

(1) All net sales amounts reflect the reclassification of amounts billed to customers in sales transactions related to shipping and handling as revenue, in accordance with the Emerging Issues Task Force (EITF) consensus on Issue 00-10, "Accounting for Shipping and Handling Fees and Costs." Previously, the Company recorded such charges as a reduction of cost of goods sold.

(2) Represents amounts accrued or distributed in excess of aggregate annual base salaries approved by the Board of Directors prior to the Company's Initial Public Offering and generally represented Company-related federal income tax obligations payable by the stockholders.

(3) For all periods prior to March 6, 1998, the Company had been an S Corporation and, accordingly, had not been subject to federal income taxes.

(4) Pro forma adjustments have been made to the historical results of operations to make the pro forma presentation comparable to what would have been reported had the Company operated as a C Corporation for 1998 and 1997. The computation of income tax expense was made assuming an effective tax rate of approximately 39%.

(5) All per share data has been adjusted for a 3-for-2 stock split distributed on May 23, 2000.

(6) Represents estimates of all customers included in the Company's mailing list who have made a purchase within the last twelve month period.

(7) Does not reflect cancellations or returns.

CONSOLIDATED BALANCE SHEET DATA

(amounts in thousands)

December 31,

	2000	1999
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$ 7,363	\$ 20,416
Accounts receivable, net	139,644	99,405
Inventories—merchandise	54,679	64,348
Deferred income taxes	2,175	1,991
Income taxes receivable	4,882	1,403
Prepaid expenses and other current assets	3,064	3,248
<i>Total current assets</i>	<u>211,807</u>	<u>190,811</u>
Property and equipment, net	28,665	23,126
Goodwill	9,509	9,431
Other assets	432	169
<i>Total assets</i>	<u>\$ 250,413</u>	<u>\$ 223,537</u>
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Current liabilities:		
Current maturities of capital lease obligation to affiliate	\$ 153	\$ 137
Current maturities of long-term debt	1,000	1,000
Accounts payable	86,216	105,547
Accrued expenses and other liabilities	12,769	11,877
<i>Total current liabilities</i>	<u>100,138</u>	<u>118,561</u>
Long-term debt, less current maturities	1,000	2,000
Capital lease obligation to affiliate, less current maturities	6,792	6,945
Deferred taxes	3,555	1,579
Other liabilities	241	229
<i>Total liabilities</i>	<u>111,726</u>	<u>129,314</u>
Stockholders' equity:		
Common stock	244	237
Additional paid-in capital	71,542	58,548
Retained earnings	66,901	35,438
<i>Total stockholders' equity</i>	<u>138,687</u>	<u>94,223</u>
<i>Total liabilities and stockholders' equity</i>	<u>\$ 250,413</u>	<u>\$ 223,537</u>

CONSOLIDATED SUMMARY FINANCIAL DATA

(amounts in thousands, except per share data)

	Years Ended December 31,			
	2000		1999	
		% of Net Sales		% of Net Sales
INCOME STATEMENT DATA:				
Net sales	\$ 1,449,908	100.00 %	\$ 1,080,835	100.00 %
Cost of sales	1,273,687	87.85	951,489	88.03
<i>Gross profit</i>	176,221	12.15	129,346	11.97
Selling, general and administrative expenses	123,972	8.55	91,405	8.46
<i>Income from operations</i>	52,249	3.60	37,941	3.51
Interest expense	(2,086)	(0.14)	(1,392)	(0.13)
Other, net	589	.04	116	.01
Income before income taxes	50,752	3.50	36,665	3.39
Income tax provision	(19,289)	1.33	(13,935)	1.29
<i>Net Income</i>	<u>\$ 31,463</u>	<u>2.17 %</u>	<u>\$ 22,730</u>	<u>2.10 %</u>
Weighted average common shares outstanding:				
Basic	24,054		23,475	
Diluted	25,572		24,167	
Earnings per common share:				
Basic	\$ 1.31		\$ 0.97	
Diluted	\$ 1.23		\$ 0.94	

CONSOLIDATED CHANGES IN STOCKHOLDERS' EQUITY

(amounts in thousands)

	Year Ended December 31,				
	2000				
	Common Stock		Additional Paid in Capital	Retained Earnings	Total
Shares	Amount				
<i>Balance, December 31, 1999</i>	23,653	\$ 237	\$ 58,548	\$ 35,438	\$ 94,223
Exercise of stock options, including income tax benefits	687	6	12,012	-	12,018
Issuance of stock under employee stock purchase plan	76	1	931	-	932
Compensation under nonstatutory stock option agreements	-	-	51	-	51
Net income	-	-	-	31,463	31,463
<i>Balance, December 31, 2000</i>	<u>24,416</u>	<u>\$ 244</u>	<u>\$ 71,542</u>	<u>\$ 66,901</u>	<u>\$ 138,687</u>

CONSOLIDATED CASH FLOW DATA

(amounts in thousands)

	Years Ended December 31,	
	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 31,463	\$ 22,730
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation and amortization	6,566	5,334
Deferred income taxes	1,540	2,153
Compensation under nonstatutory stock option agreements	51	162
Provisions for doubtful accounts	9,868	6,821
(Gain)/loss on disposal of fixed assets	(13)	159
Changes in assets and liabilities:		
Accounts receivable	(49,607)	(42,795)
Inventories	9,669	(305)
Prepaid expenses and other current assets	(3,295)	(504)
Other non-current assets	(263)	-
Accounts payable	(19,077)	19,945
Income tax benefits from exercise of stock options	8,193	370
Accrued expenses and other liabilities	897	1,969
Net cash provided by (used for) operation activities	<u>(4,008)</u>	<u>16,039</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(12,581)	(7,653)
Proceeds from sale of property and equipment	2,074	2,155
Payments for acquisitions, net of cash acquired	(2,158)	(3,198)
Net cash used for investing activities	<u>(12,665)</u>	<u>(8,696)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term borrowings	583,042	442,731
Repayment of short-term borrowings	(583,042)	(442,731)
Repayment of notes-payable	(1,000)	-
Repayment of capital lease obligation to affiliate	(137)	(122)
Issuance of stock upon exercise of nonstatutory stock options	3,825	814
Issuance of stock under employee stock purchase plan	932	471
Net cash provided by financing activities	<u>3,620</u>	<u>1,163</u>
Increase (decrease) in cash and cash equivalents	(13,053)	8,506
Cash and cash equivalents, beginning of period	20,416	11,910
Cash and cash equivalents, end of period	<u>\$ 7,363</u>	<u>\$ 20,416</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	\$ 1,923	\$ 1,398
Income taxes paid	13,242	9,374
NON-CASH ACTIVITIES:		
Issuance of notes payable in connection with acquisition of subsidiary	\$ -	\$ 3,000

Back in the early 1980s, shortly after the IBM-PC was introduced, a solitary raccoon with a keyboard over his shoulder made his debut on the pages of PC magazines everywhere. The raccoon symbolizes innovation, adaptability and tenacity—traits that underlie PC Connection’s remarkable success. As the Company’s now-legendary mascot walked peacefully through the snow towards the welcoming light of our then-headquarters at the Christmas Trees Inn, he began a quiet revolution in the way people shop for personal computers—by proving that even the most advanced high-tech products can be successfully sold and supported from any location directly over the phone.



PC Connection is now one of the largest and most respected direct marketers of brand-name information technology products. As we have grown, 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 that has made us one of the best and most influential companies in the information technology industry today.



Board of Directors

Patricia Gallup
Chairman and
Chief Executive Officer

David Hall
Vice Chairman

David B. Beffa-Negrini
Vice President of
Media Development

Martin C. Murrer
Managing Director of
AEA Investors Inc.
Audit and Compensation
Committees

Peter J. Baxter
Audit and Compensation
Committees

Executive Officers

Patricia Gallup
Chairman and
Chief Executive Officer

Wayne L. Wilson
President and
Chief Operating Officer

Robert F. Wilkins
Executive Vice President

Mark A. Gavin
Senior Vice President
of Finance and
Chief Financial Officer

John L. Bomba
Vice President of
Information Services and
Chief Information Officer

Bradley G. Mousseau
Vice President of
Human Resources

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 22, 2001, there were 24,418,860 shares outstanding of the Common Stock of the Company held by approximately 80 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 1999 and 2000. These prices reflect the 3-for-2 stock split distributed on May 23, 2000.

2000	High	Low
Quarter Ended:		
December 31	\$56.38	\$ 8.63
September 30	70.25	42.44
June 30	58.50	17.67
March 31	23.33	14.17
1999	High	Low
Quarter Ended:		
December 31	\$23.25	\$ 9.11
September 30	11.58	8.00
June 30	12.67	8.00
March 31	18.08	7.42

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 PC Connection's Web site at www.pconnection.com

Annual Meeting

The annual meeting of shareholders will be held at 10 a.m. on May 24, 2001 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

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, 2000. 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

ComTeq Federal, Inc.

7503 Standish Place
Rockville, MD 20855

ComTeq Federal of New Hampshire, Inc.

7 Route 101A, Colonial Park
Amherst, NH 03031

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.pccconnection.com